

1997 98

Victorian Auditor-General's Office

annual report



Auditing in the Public Interest

VISION OF THE OFFICE

Through the achievements of our staff, to be recognised as a world leader in the provision of public sector audit services.

MISSION OF THE OFFICE

To strive for excellence in the provision of independent audit services in order to enhance accountability to the Parliament and efficient and effective use of public resources in Victoria.

OUR VALUES

In pursuit of its Mission, the Victorian Auditor-General's Office, through the initiative and enterprise of its staff, is committed to:

- maintaining its independence and integrity in serving the public interest;
working as a team to achieve quality outcomes;
- adopting a professional approach to the provision of audit services; and
- reporting in a fair and objective manner.

STRATEGIC DIRECTIONS

Under the Office's Corporate Plan, the following 4 strategic directions have guided its corporate activities:

- 1 Ensuring that the services provided by the Office satisfy the expectations of the Parliament, the community and audited agencies;
- 2 Maintaining a strong focus on financial auditing and delivering such services in a manner consistent with best professional practice;
Building on the Office's substantial achievements to preserve its position at the leading edge of performance auditing by world standards; and
Providing a work environment which recognises the importance of a professional, highly motivated and skilled workforce as the Office's most valuable resource.

THE OFFICE AT A GLANCE

OUR PURPOSE

The primary corporate purpose of the Office is to provide independent and professional audit services to its key clients, the Parliament and the Victorian community, as well as to the various audited agencies within government.

PRINCIPAL LEGISLATION

The *Audit Act* 1994 is the main legislation governing the work of the Office. The *Audit (Amendment) Act* 1997, passed by the Parliament in December 1997, introduced significant changes to the operations of the Office.

AUDIT RESPONSIBILITIES

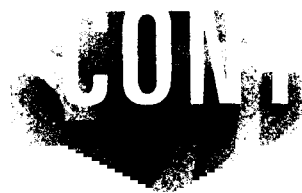
The Office had responsibility, as at 30 June 1998, for the audit of the Government's Annual Financial Statement and 540 public sector organisations within Victoria including the Parliament, government departments, public authorities and municipal councils.

RESOURCES

- 136 in-house personnel as at 30 June 1998
- 76 private sector contractors (engaged throughout the year)

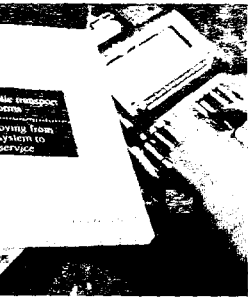
FINANCIAL RESULT

Net cost of operations: \$793 000 for 1997-98
(\$934 000, 1996-97)



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THE AUDITOR-GENERAL'S REVIEW OF THE YEAR



In last year's Annual Report, I described the circumstances associated with the Government's review of the *Audit Act* 1994 under the National Competition Policy and the unprecedented level of external attention directed to the role of the Auditor-General and the Office. I indicated that, for more than half of 1996-97, the day-to-day functioning of the Office proceeded against a background of significant uncertainty on the Office's future, or its very existence.

This uncertainty continued through to December 1997 when amendments to the *Audit Act* arising from the Government's competition policy review were passed by the Parliament.

REVISED LEGISLATIVE FRAMEWORK FOR THE OFFICE

Under these amendments, the Auditor-General is required to appoint "authorised persons", following a process of contestability, to assist in the carrying out of financial and performance audits. A new government statutory body, Audit Victoria, initially staffed by personnel transferred from my Office, and operating under a Board of Directors appointed by the Government, was established within the legislation to participate in this contestability process along with private sector service providers.

While the work associated with the implementation of audits falling within the responsibility of the Auditor-General must now be contracted to external service providers, the Auditor-General remains solely responsible and accountable for the reporting to the Parliament of issues and recommendations arising from audits.

The contestability regime is to be progressively implemented from 1 July 1998.

The amendments to the audit legislation also provided for the designation of the Auditor-General as an independent officer of the Parliament. In addition, the Government determined that the funding of the Office would in future be via moneys appropriated to the Parliament. In past years, funding for performance audits has been determined by the Parliament but financial audits were, for administrative purposes only, financed from the Consolidated Fund via a line item within the Department of Premier and Cabinet.

EXCEPTIONAL PERFORMANCE BY MY STAFF

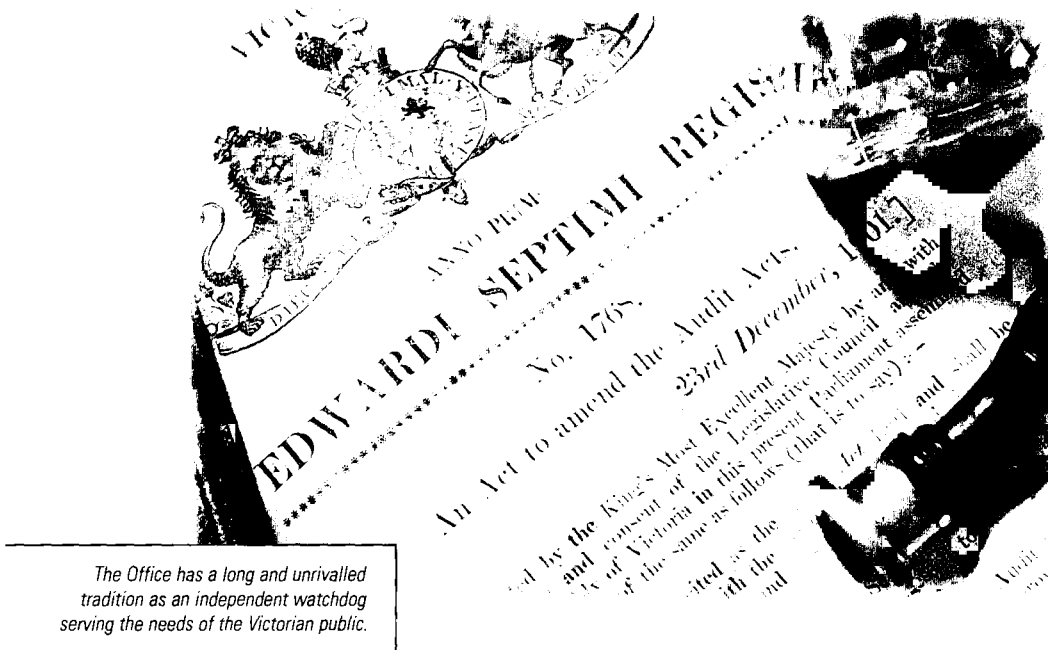
With the passing by the Parliament in December 1997 of the revised legislative framework for public sector audits, the nature of the Office's future strategic and operational environment, encompassing a full contestability regime for all audits, became clearer. However, from the viewpoint of my staff, the significant uncertainty relating to their future employment position lingered until the end of the financial year. This situation was attributable to a delay in finalisation of the establishment of the executive management structure for Audit Victoria (the organisation's Chief Executive was not appointed until late April 1998). As a result, final details of those staff who were to transfer to Audit Victoria were not known until the very last day of the year, 30 June 1998.

Given these trying circumstances, I cannot speak highly enough of the professionalism and commitment exhibited by my staff in contributing to the Office's output during 1997-98. Over the 12 months period and working within an extremely difficult environment which was outside their control, my staff produced 8 performance audit reports and 2 major reports on financial audit matters, the May 1998 *Report on Ministerial Portfolios* and the October 1997 *Report on the Government's Annual Financial Statement* for 1996-97, for my tabling within the Parliament. This magnitude of audit output, traversing a wide range of complex and sensitive topics of direct relevance to the public interest, continued the staff's proven track record of high quality performance. It also provided further testimony to their skills, dedication and expertise in public sector auditing which have earned both national and international respect.

COMMITMENT TO PROTECT THE PUBLIC INTEREST

Irrespective of differing views concerning the justification or otherwise for the amendments to the State's audit legislation, the Parliament has spoken and my Office is therefore firmly committed to managing the new legislative framework on behalf of the Parliament in the most efficient and effective way.

The ultimate effectiveness of the new audit regime will be largely dependent on the quality of input received from the various audit service providers, including Audit Victoria. Whether such input is assessed as mirroring or exceeding the standard consistently set by my Office under the framework which has existed to date is a matter for the future and for others to judge.



The Victorian Auditor-General's Office has been auditing in the public interest since as far back as 1851. It, therefore, has a long and unrivalled tradition as an independent watchdog serving the needs of the Victorian public. The Office's principal future challenge will be to manage audits contracted to external service providers in a manner which ensures that the public interest continues to be protected through provision of high quality reports on significant issues to the Parliament and community.

C.A. Baragwanath
Auditor-General of Victoria

HIGHLIGHTS, 1997-98

SIGNIFICANT CHANGES TO AUDIT LEGISLATION

- Amendments to the *Audit Act* 1994 passed by Parliament under which all audit functions falling within the responsibility of the Auditor-General must be contracted to external service providers who will assist the Auditor-General in the audit process.
- Creation of a new government statutory body, Audit Victoria, to participate in the contestability process for public sector audits along with private sector service providers.
- Designation of the Auditor-General as an independent officer of the Parliament.

AUDIT OPERATIONS

- 531 financial audit opinions issued.
- 91 per cent of audit opinions on financial statements issued within time targets agreed with agencies.
- 2 major reports on a diverse range of significant issues arising from financial audits prepared and presented to the Parliament.
- Surveys of Members of Parliament and the community of services provided by the Office reflected satisfaction levels of over 90 per cent.
- 8 performance audit reports covering a wide range of complex and sensitive topics of direct relevance to the public interest tabled in the Parliament.
- A satisfaction level of 90 per cent, up 9 per cent from 1996-97, expressed by audited agencies with the performance audit process.

OFFICE STAFF

- Exceptional output performance of Office in extremely difficult circumstances attributable entirely to the competence and commitment of all staff.
- Certification by the Australian Industrial Commission of an agreement covering non-executive staff, with a clear majority of staff supporting the agreement.

FINANCIAL MANAGEMENT

- A further fall, around 15 per cent, in the net cost of operating the Office.

OFFICE AWARDS

The granting of a Silver Award for the 1996-97 *Annual Report*, and recognition of the Office exhibit at the September 1997 Royal Melbourne Show of Best Display, Government or Semi-Government Instrumentality.

ACHIEVING CORPORATE OBJECTIVES

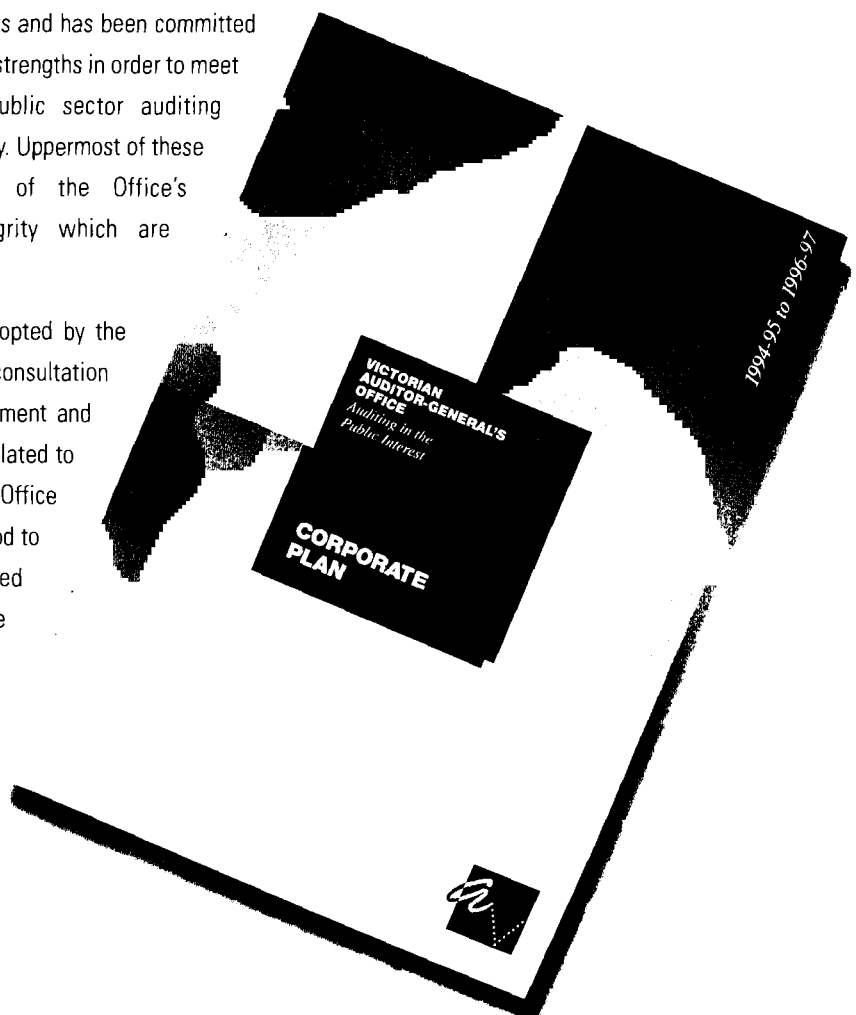
OUR MISSION

To strive for excellence in the provision of independent audit services in order to enhance accountability to the Parliament and efficient and effective use of public resources in Victoria.

PRINCIPLES UNDERPINNING

The Office takes pride in its past achievements and has been committed under its Corporate Plan to build further on its strengths in order to meet confidently the challenges confronting public sector auditing throughout the 1990s and into the 21st Century. Uppermost of these challenges has been the preservation of the Office's independence, professionalism and integrity which are fundamental to its mission.

The Corporate Plan, which was the third adopted by the Office, was developed following extensive consultation with, and contributions from staff, the Parliament and audited agencies. While the Corporate Plan related to the 3 year period 1994-95 to 1996-97, the Office decided to extend the corporate planning period to encompass 1997-98 due to the prolonged uncertainty concerning its future pending the outcome of the Government's review of the Audit Act. The period covered by this Annual Report, therefore, represents the fourth year of the Corporate Plan.



The Office has also been committed to excellence over the corporate planning period in order to ensure that its auditing services, as well as its Reports to the Parliament, not only enhanced accountability but, through constructive value-added input, contributed to more efficient and effective management of Victoria's public resources.

In the final analysis, the continuing integrity, professionalism and hard-working qualities of its staff are the most significant means through which the Office can confidently approach the challenges ahead.

PARLIAMENT'S ASSESSMENT OF PERFORMANCE

The final arbiter in assessing whether the Office has been effective in achieving its corporate outcomes is the Parliament itself. To this end, the *Audit Act* 1994 provides that an independent performance audit of the Office be conducted at 3 yearly intervals by an auditor appointed by the Parliament on the recommendation of the Public Accounts and Estimates Committee. The performance auditor is required to determine whether the Auditor-General is achieving his or her objectives effectively, and is doing so efficiently and economically, and in compliance with the *Audit Act* 1994.

As mentioned in last year's Annual Report, the results of the previous performance audit of the Office commissioned by the Parliament which was undertaken during 1995 by Mr A. Talbot of Price Waterhouse, were presented to the Parliament in October 1995. The key conclusion made in the auditor's report was that "... the Auditor-General has achieved his objectives effectively and done so economically and efficiently and in compliance with the *Audit Act* 1958 (as amended) and 1994, respectively". A similar positive conclusion had been reached by Mr F. Ryan of Arthur Andersen in his performance audit of the Office undertaken in 1992.

In May 1998, the Parliament appointed Mr S. Alford of Ernst and Young to conduct the third performance audit of the Office. Mr Alford's audit was in course at the time of preparation of this Annual Report.

ASSESSMENT OF OFFICE PERFORMANCE AGAINST ITS CORPORATE PLAN

The Office's Corporate Plan identifies 4 key strategic directions to guide corporate activity:

- 1** Ensure that the **services provided by the Office** satisfy the expectations of the Parliament, the community and audited agencies;
- 2** Maintain a strong focus on **financial auditing** and deliver such services in a manner consistent with best professional practice;
- 3** Build on the Office's substantial achievements to preserve its position at the leading edge of **performance auditing** by world standards; and
- 4** Provide a **work environment** which recognises the importance of a professional, highly motivated and skilled workforce as the Office's most valuable resource.

A summary of the main features of the Office's performance during 1997-98 against these strategic directions and of the Office's overall achievements under the Corporate Plan is presented on the following pages. A more detailed account of the performance against targets established under each strategic direction then follows.

1 PROVISION OF AUDIT SERVICES

<i>Principal tasks</i>	<i>Action target for 1997-98</i>
<ul style="list-style-type: none"> • Implement strategies aimed at promoting a professional relationship with external parties. 	<ul style="list-style-type: none"> • A satisfaction level from audited agencies of at least 70 per cent with financial audit services and 75 per cent with performance audit services provided by Office. • A satisfaction level of 70 per cent from Members of Parliament and the community with services provided by the Office.
<ul style="list-style-type: none"> • Explore opportunities for using the expertise developed within the Office to improve the standard of public administration. 	<ul style="list-style-type: none"> • Acceptance level of 90 per cent of audit recommendations in Reports of the Auditor-General to the Parliament.
<ul style="list-style-type: none"> • Introduce an expanded marketing strategy to enhance the community's awareness and confidence in the role and activities of the Office. 	<ul style="list-style-type: none"> • Progressive monitoring of action under the Office's Corporate Promotion Strategy.

2 FINANCIAL AUDIT OPERATIONS

<i>Principal tasks</i>	<i>Action target for 1997-98</i>
<ul style="list-style-type: none"> • Progressively enhance the Office's financial audit methodology so that it continues to reflect best practice. 	<ul style="list-style-type: none"> • Progressive revision of methodology as necessary during year.
<ul style="list-style-type: none"> • Effectively apply the financial audit methodology and improve the cost-effectiveness and timeliness of the audit process. 	<ul style="list-style-type: none"> • At least 95 per cent of opinions issued on financial statements to be within targets agreed with agencies. • At least 85 per cent of financial audits to be completed within approved cost budgets.

Strategic Direction 1: Ensure that the services provided by the Office satisfy the expectations of the Parliament, the community and audited agencies.

Performance against 1997-98 target

- Survey of audited agencies in relation to financial audit services identified an overall average satisfaction level of 73 per cent.
- Survey of audited agencies in relation to the performance audit process indicated an overall satisfaction level of 90 per cent.
- Surveys of Members of Parliament and of the community were conducted late in 1997-98, with both surveys reflecting satisfaction levels of over 90 per cent.
- Based on the December 1997 *Response by the Minister for Finance to the Auditor-General's Reports*, positive action has been taken by audited agencies in respect of 75 per cent of those matters commented upon by audit in parliamentary Reports in 1996-97.
- Ongoing application during the year of principles underpinning the Corporate Promotion Strategy.

Overall achievement under Corporate Plan

- Strong corporate focus on promoting external professional relationships evidenced by a high level of satisfaction expressed by the Parliament, the community and audited agencies with services provided by the Office.
- Specific recognition by the Executive Government and individual audited agencies of the value-added contributions by the Office to improved resource management through acceptance, over the Corporate Plan period, of an average of 78 per cent of audit recommendations.
- Organisational priority is now directed towards the importance of the Office maintaining a positive corporate image and reputation.

Strategic Direction 2: Maintain a strong focus on financial auditing and deliver such services in a manner consistent with best professional practice.

Performance against 1997-98 target

- The methodology was reviewed during the year resulting in the development of new electronic workpapers.
- 91 per cent of audit opinions issued on 1996-97 financial statements of audited agencies within agreed time targets.
- 97 per cent of financial audits on 1996-97 financial statements completed within initially-set cost budgets.

Overall achievement under Corporate Plan

- Progressive enhancement of the financial audit methodology which is based on a largely paperless financial audit approach focused on the public interest which is regarded as best professional practice.
- A consistently sound performance for financial audits when compared with established targets.

3 PERFORMANCE AUDIT OPERATIONS

Principal tasks	Action target for 1997-98
<ul style="list-style-type: none"> Continually enhance and effectively apply the Office's performance audit methodology to reflect cost-effective business principles, value-added concepts and international developments. 	<ul style="list-style-type: none"> Progressive refinements to the methodology to be carried out during the year.
<ul style="list-style-type: none"> Improve the cost-effectiveness and timeliness of the audit reporting phase through enhanced project management. 	<ul style="list-style-type: none"> Initially-set time and cost budgets to be met, or not exceeded by 10 per cent, for 85 per cent of performance audits, irrespective of conditions or factors subsequently impacting on audits. Positive external assessments received for at least 75 per cent of performance audit reports.
<ul style="list-style-type: none"> Establish a framework for effective consultations with the Parliament's Public Accounts and Estimates Committee for the selection and funding of performance audits. 	<ul style="list-style-type: none"> Meetings with the parliamentary Committee to be arranged as part of 1998-99 planning process in accordance with agreed framework. Progressive updating of performance audit topic databases covering all ministerial portfolios.

4 OFFICE STAFF

Principal tasks	Action target for 1997-98
<ul style="list-style-type: none"> Implement strategies to ensure that the ongoing skill mix and resourcing needs of the Office are adequately addressed. 	<ul style="list-style-type: none"> Re-assessment of Office's future skill mix and resourcing needs under new legislative framework to be finalised by 31 March 1998.
<ul style="list-style-type: none"> Introduce an incentive-based performance appraisal scheme which recognises and rewards achievement. 	<ul style="list-style-type: none"> Timely implementation of action plans arising from 1997 qualitative research on results of staff satisfaction survey when new organisational framework for Office under revised audit legislation has been established.
<ul style="list-style-type: none"> Promote a sense of teamwork in the Office and a culture which values professionalism, integrity, commitment and achievement. 	<ul style="list-style-type: none"> Position as per above item.
<ul style="list-style-type: none"> Optimise productivity through the implementation of strategies which will enable all staff to develop and achieve the highest level of job satisfaction. 	<ul style="list-style-type: none"> Position as per above item.

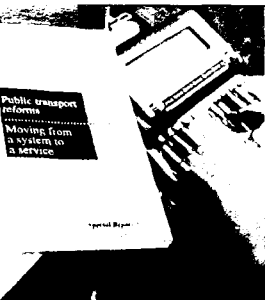
Strategic Direction 3: Build on the Office's substantial achievements to preserve its position at the leading edge of performance auditing by world standards.

Performance against 1997-98 target	Overall achievement under Corporate Plan
<ul style="list-style-type: none"> Automation of methodology utilising Lotus Notes under pilot exercise with the Automated Ticketing Fare Collection System (Metcard) performance audit in course since December 1997. 	<ul style="list-style-type: none"> Maintenance of the methodology at the leading edge of performance auditing practice by world standards.
<ul style="list-style-type: none"> On average, across 75 per cent of performance audits completed during the year, initially-set time and cost budgets were exceeded by 0.4 per cent and 5.4 per cent, respectively. All external assessments of performance audit reports received during 1997-98 were positive with an overall satisfaction level of 83 per cent from audited agencies and 82 per cent from external organisations. 	<ul style="list-style-type: none"> A consistently sound performance against time and cost targets set for performance audits with a high level of satisfaction expressed by both audited agencies and external organisations.
<ul style="list-style-type: none"> Discussions held with, and feedback obtained from, the parliamentary Committee on the Office's proposed 1998-99 performance audit program. Topic selection databases covering the various portfolios progressively updated during the year. 	<ul style="list-style-type: none"> Framework established and implemented for ongoing consultation with the parliamentary Committee concerning the annual performance audit program.

Strategic Direction 4: Provide a work environment which recognises the importance of a professional, highly motivated and skilled workforce as the Office's most valuable resource.

Performance against 1997-98 target	Overall achievement under Corporate Plan
<ul style="list-style-type: none"> Proposed organisational structure, incorporating skill mix and resourcing requirements under the Office's new operational environment, completed and circulated to staff on 5 March 1998. 	<ul style="list-style-type: none"> Skill mix and resourcing needs systematically addressed as part of the development of annual business plans.
<ul style="list-style-type: none"> Specialist research converted into a series of strategies and action plans by September 1997, but implementation deferred because of prolonged uncertainty associated with the Office's future direction. 	<ul style="list-style-type: none"> Performance Management and Review Scheme introduced and level of staff satisfaction determined in terms of the early implementation of the scheme. The Victorian Auditor-General's Office Certified Agreement 1997-2000 aligns salary increases directly with performance, thereby recognising the contribution of high performing employees to the corporate and business goals of the Office.
<ul style="list-style-type: none"> Position as per above item. 	<ul style="list-style-type: none"> Office strategies reinforce the importance of teamwork and recognition of professionalism, integrity, commitment and achievement of staff.
<ul style="list-style-type: none"> Position as per above item. 	<ul style="list-style-type: none"> Strong focus on the soundness of annual professional development strategies and assessing related level of staff satisfaction.

PROVISION OF AUDIT SERVICES



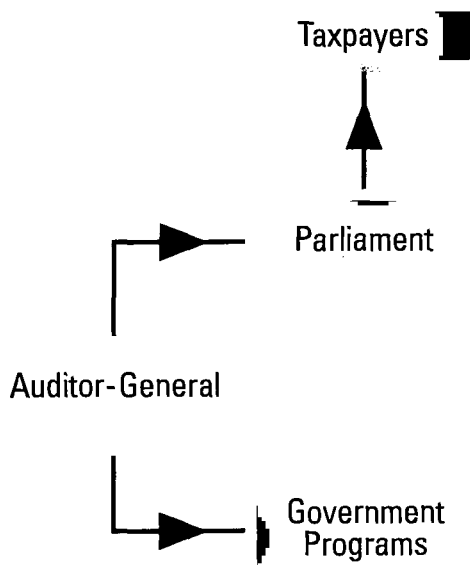
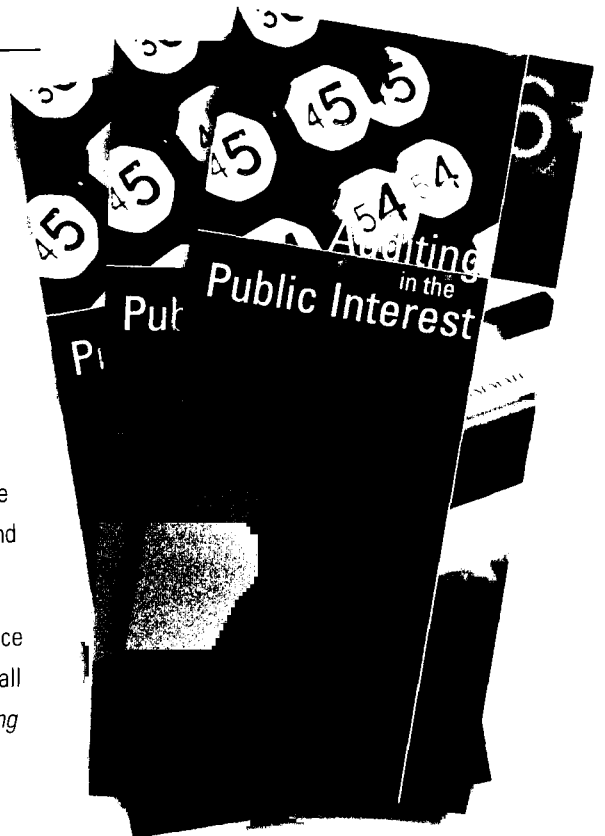
Strategic Direction 1 : Ensure that the services provided by the Office satisfy the expectations of the Parliament, the community and audited agencies

AUDITING IN THE PI

The primary corporate purpose of the Victorian Auditor-General's Office is to provide independent and professional audit services to its principal clients, namely, the Parliament and the community, as well as to the various audited agencies within government.

The Office's responsibilities comprise 2 principal elements: the external audit of the financial affairs of the Victorian public sector, and periodic performance audits which assess the economy, efficiency and effectiveness of the management of public sector resources in the State. The Office, therefore, plays a key role in the accountability process of the Government to the Parliament, and ultimately to the taxpayers of Victoria.

As a consequence, a strong commitment to ensuring that Office operations are directed towards achieving maximum benefit for all Victorians is a key element of the Office's corporate theme "Auditing in the Public Interest".



OPERATIONAL ENVIRONMENT

The current public sector environment in Victoria continues to undergo major change on several fronts, including significant restructuring of agencies, corporatisation of business enterprises, implementation of privatisation strategies, outsourcing of functions on a significant scale, downsizing of internal resources and an emerging emphasis on output management and the quality of performance measurement and reporting. These changes serve to further reinforce, from the viewpoint of the Parliament and taxpayers, the importance of the Office's key independent role in the public accountability process.

AUDIT RESPONSIBILITIES

At 30 June 1998, the Auditor-General had specific responsibility for the audit of the Government's Annual Financial Statement, and for both financial and performance audits of 540 public sector organisations comprising:

- Parliament;
- the State's financial statements;
- 8 departments and 8 independent budget sector agencies;
- 115 public bodies, such as government business undertakings, commissions and committees of management;
- 29 educational institutions including universities;
- 97 public hospitals and ambulance services;
- 9 superannuation funds;
- 118 companies and joint ventures;
- 16 regional waste management groups;
- 78 municipal councils;
- 14 cemeteries trusts;
- 16 libraries; and
- 30 water authorities.

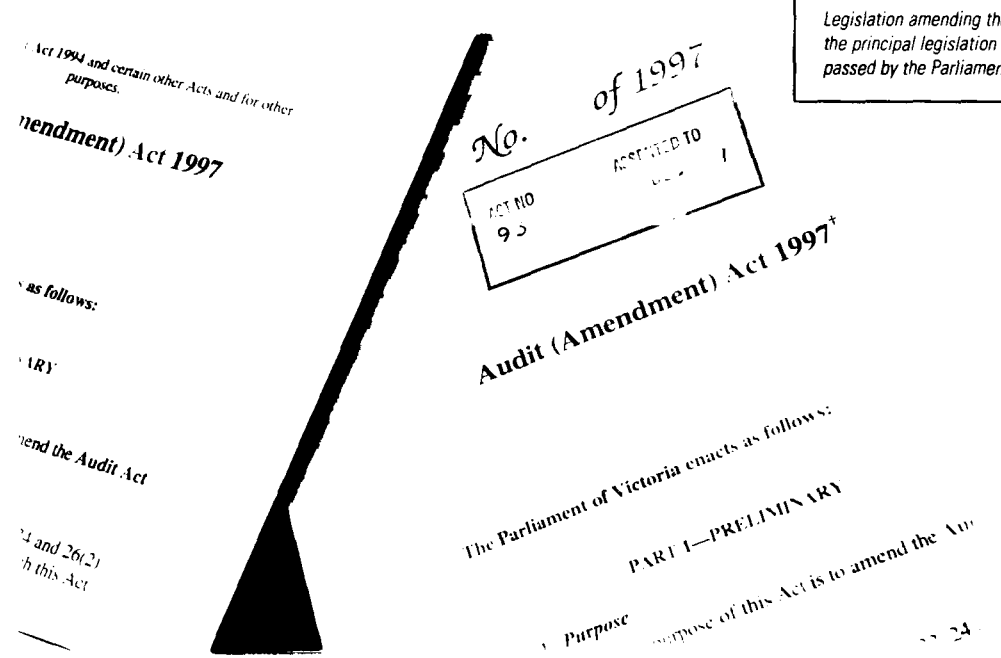
A complete listing of the Office's audit responsibilities at 30 June 1998 is provided in Appendix 3.

LEGISLATION AMENDING THE AUDIT ACT FOR THE OFFICE

Last year's Annual Report described the circumstances relating to the Government's review of the *Audit Act* 1994 under the National Competition Policy. These circumstances had prompted a significant reaction within the media and across the community. The review had been announced by the Premier in November 1996. At the time of finalisation of last year's Annual Report, the Government had not released details of the nature of legislative changes it proposed to present to the Parliament as a consequence of its competition policy review.

A Bill outlining changes to the *Audit Act* was introduced by the Government in the Parliament on 30 October 1997. Parliament's deliberations on the Bill were completed early in December 1997 when amendments to the audit legislation were passed by both Houses. The amending legislation, the *Audit (Amendment) Act* 1997, received Royal Assent on 16 December 1997.

Legislation amending the Audit Act 1994 - the principal legislation of the Office - was passed by the Parliament in December 1997.



During the period that the Bill was before the Parliament, the Auditor-General:

- i provided comments to the Premier on the proposed amendments;
- ii responded to requests from Members of the Opposition for briefings on the likely ramifications of the amendments; and
- iii wrote to individual Members of Parliament outlining his views on the Bill.

After the amendments were passed by the Parliament, the Auditor-General obtained legal advice from the Victorian Government Solicitor in order to clarify the ambit of the Auditor-General's powers and functions under the new legislation, and to facilitate future decisions on the resourcing and structure of the Office.

KEY FEATURES OF THE AMENDED AUDIT LEGISLATION

The December 1997 amendments to the audit legislation involve significant changes to the role and responsibilities of the Auditor-General and the Victorian Auditor-General's Office. The key features of the amendments are summarised below:

- i designation of the Auditor-General as an independent officer of the Parliament;
- ii removal of the Auditor-General's power to directly conduct financial and performance audits in his or her own right;
 - iii introduction of a requirement for the Auditor-General to appoint external contractors, following a process of contestability, to assist in the carrying out of financial and performance audits;
- iii establishment of a new government statutory body, Audit Victoria, which is to operate under a Board of Directors appointed by the Government with an unlimited charter and, after initial staffing by personnel transferred from the Office, is to participate in the audit contestability process along with private sector service providers;
- iv progressive implementation of the contestability regime from 1 July 1998; and
- v responsibility assigned to the Public Service Commissioner (now titled the Commissioner for Public Employment) to determine those employees in the Victorian Auditor-General's Office who would transfer to Audit Victoria.

Because of a delay in finalisation of the establishment of the executive management structure for Audit Victoria (the organisation's Chief Executive was not appointed until late April 1998), the formal staffing determination by the Public Service Commissioner did not occur until the very last day of the financial year, 30 June 1998. As stated by the Auditor-General in his commentary in his "Review of the Year" earlier in this Annual Report, the period of uncertainty experienced by staff relating to their future employment position was very prolonged. In the circumstances, the magnitude of the output of the Office, as measured by the wide range of complex and sensitive issues addressed in Reports of the Auditor-General to Parliament during the year, can only be described as exceptional. This position was directly attributable to the competence and commitment of all Office staff.

In addition to the above factors, a further outworking of the revised legislation is that the funding of the Auditor-General's Office is now fully provided from moneys appropriated to the Parliament. In past years, funding for performance audits has been determined by the Parliament but financial audits were, for administrative purposes only, financed from the Consolidated Fund via a line item within the Department of Premier and Cabinet.

For financial and performance audits in progress at 30 June 1998, the legislation provides the Auditor-General with the option of continuing to conduct the audits or assigning the remaining tasks to Audit Victoria. For both audit categories, the Auditor-General has appointed Audit Victoria to complete remaining field work for all audits in progress at year-end.

It needs to be stressed that, although external contractors will in future be engaged to assist in the audit functions, the Auditor-General as the principal auditor remains solely responsible to Parliament for all audits and for the quality of the final audit product.



THE FUTURE

After a long period of extensive discussions and debate within the Parliamentary arena, the media and the community (involving many members of the public across the State) on the justification or otherwise of the amendments to the audit legislation, the ultimate authority, i.e. the Parliament, determined to approve of the amendments. As such, the Office is now firmly committed to managing the new legislative framework in the most efficient and effective manner.

The Victorian Auditor-General's Office has been auditing in the public interest since as far back as 1851. It has earned both national and international respect for its expertise in public sector auditing. The Office is now carefully formulating a new strategic and operational structure in order to ensure that it continues its long and unrivalled tradition as an independent watchdog serving with pride the needs of the Victorian public.

ASSESSING

A key measure of the effectiveness of the Office is the extent to which it is meeting the professional needs of the Parliament, the community and audited agencies. In this regard, an important action target set out in the Office's Corporate Plan for 1997-98 was the achievement of targeted satisfaction levels expressed by Members of Parliament, the community and audited agencies with the Office's services and products.

SURVEYS OF MEMBERS OF PARLIAMENT AND OF COMMUNITY AWARENESS

During the latter half of 1997-98, the Office conducted a survey of all Members of Parliament to gauge the level of satisfaction with the Office's Reports to the Parliament. Generally, Members expressed an exceptionally high degree of satisfaction (averaging 93 per cent satisfaction) with the Office's Reports - well above the Corporate Plan target of 70 per cent.

In addition, in June 1998, the Office engaged a private sector market research firm to assist with a community awareness and appreciation survey. The survey covered issues such as the community's awareness of the Office, as well as seeking information on the community's assessment of the importance of the work of the Office and the effectiveness of the Office in acting as an independent watchdog on behalf of the community. The Corporate Plan target of 70 per cent awareness and confidence in the Office was well exceeded with almost 80 per cent of respondees indicating an awareness of the Office and 93 per cent considering the Office to be effective in its role.

Further details of the above surveys may be found later in this Section of the *Annual Report*.

SATISFACTION WITH FINANCIAL AUDIT SERVICES

For financial audits, a periodic survey across all audited agencies was undertaken towards the end of the 1997-98 financial year. This survey dealt with financial audit services and indicated an overall average satisfaction level of 73 per cent, ahead of the target of 70 per cent set for the year.

Further details on the results of the survey are provided in the "Financial Audit Operations" section of this *Annual Report*.

SATISFACTION WITH PERFORMANCE AUDIT SERVICES

For performance audits, specific feedback from audited agencies on their assessment of the audit process was sought after the completion of each audit.

Nine surveys of the performance audit process were received from audited agencies. It was very pleasing to find that all responses were positive and exceeded the Office's performance target of a 70 per cent satisfaction level. The feedback provided by audited agencies expressed satisfaction levels ranging from 82 per cent to 100 per cent, with an overall average of 90 per cent satisfaction. This represented a significant improvement from the average of 81 per cent satisfaction achieved for the 1996-97 year.

Further details on the results of the surveys are provided in the "Performance Audit Operations" section of this *Annual Report*.

REPORTS OF THE AUDITOR-GENERAL

The presentation of periodic Reports of the Auditor-General to the Parliament is the principal means by which the Office fulfils its accountability obligations.

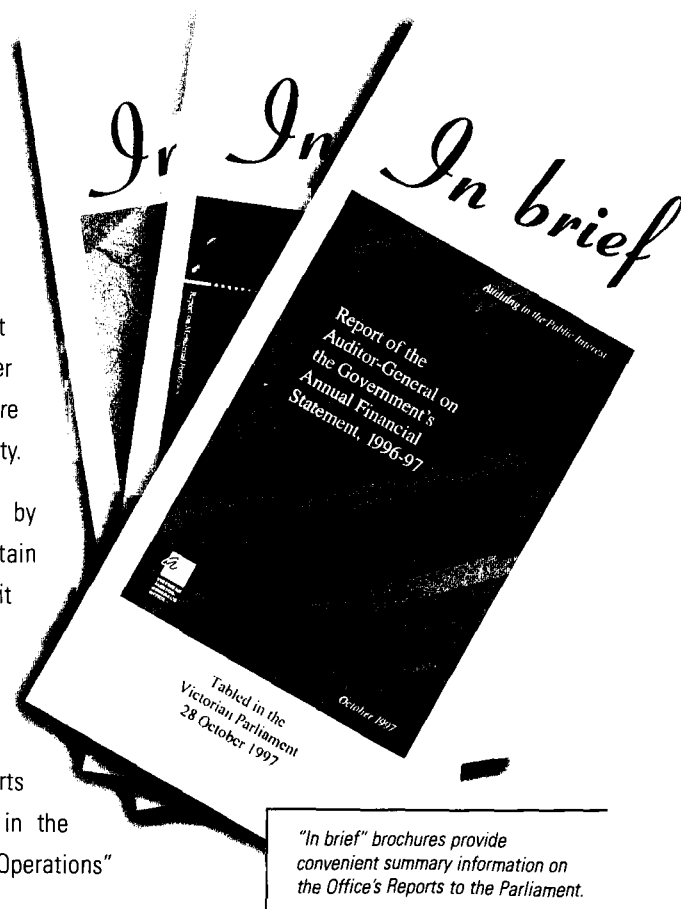
Each year, the Office presents 4 types of Reports to the Parliament:

- A *Report on the Government's Annual Financial Statement* during the Spring Session;
- A *Report on Ministerial Portfolios* (which addresses, on a portfolio basis, matters mainly arising from financial audits) during the Autumn Session;
- *Special Reports* (tabled throughout the year) on the results of individual performance audits; and
- The *Annual Report* of the Office (tabled during the Spring Session) covering its operations and performance.

The Office places a major priority on the quality of its Reports to the Parliament in terms of both content and format. While fundamental matters such as the analysis of financial operations and compliance with legislative requirements are addressed in Reports, the scope of subjects contained in the Reports has, for some years, encompassed wider performance audit issues dealing with assessments of economy, efficiency and effectiveness in resource management within the Victorian public sector. In this regard, Reports over recent years have featured financial, health, education, welfare and environmental issues of high significance to the community.

Reports presented to the Parliament are accompanied by "In brief" information brochures. These brochures contain background notes on the particular audit topic, overall audit conclusions and key findings, and are designed to assist Members of Parliament and other readers in their analysis of the matters addressed by audit.

Full details on all financial and performance audit reports tabled in the Parliament during 1997-98 are contained in the sections of this Annual Report dealing with "Financial Audit Operations" and "Performance Audit Operations".



"In brief" brochures provide convenient summary information on the Office's Reports to the Parliament.

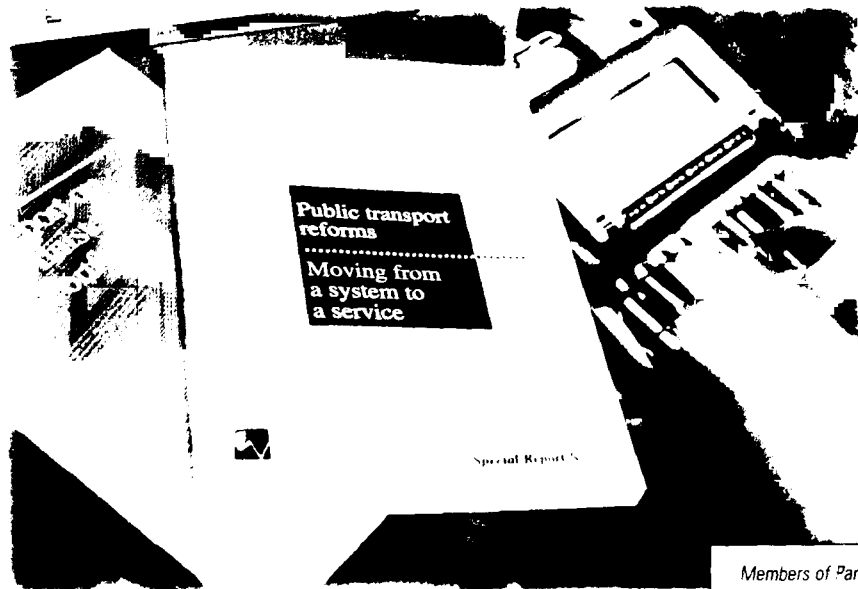
ASSESSMENT OF REPORTS BY MEMBERS OF PARLIAMENT

An Office Corporate Plan target for 1997-98 identified a need to ensure that the services provided to the Parliament satisfy the expectations of Members. The Corporate Plan established a target satisfaction rate by Members of 70 per cent.

A survey of Members was conducted during May and June 1998. The Office's 3 main Reports, namely, the *Report on Ministerial Portfolios*, the *Report of the Government's Annual Financial Statement* and *Special Reports* (containing the results of individual performance audits) were used as the key measure of satisfaction.

A questionnaire was sent to all Members of the Parliament to which over 50 per cent of Members responded. Members were asked to assess:

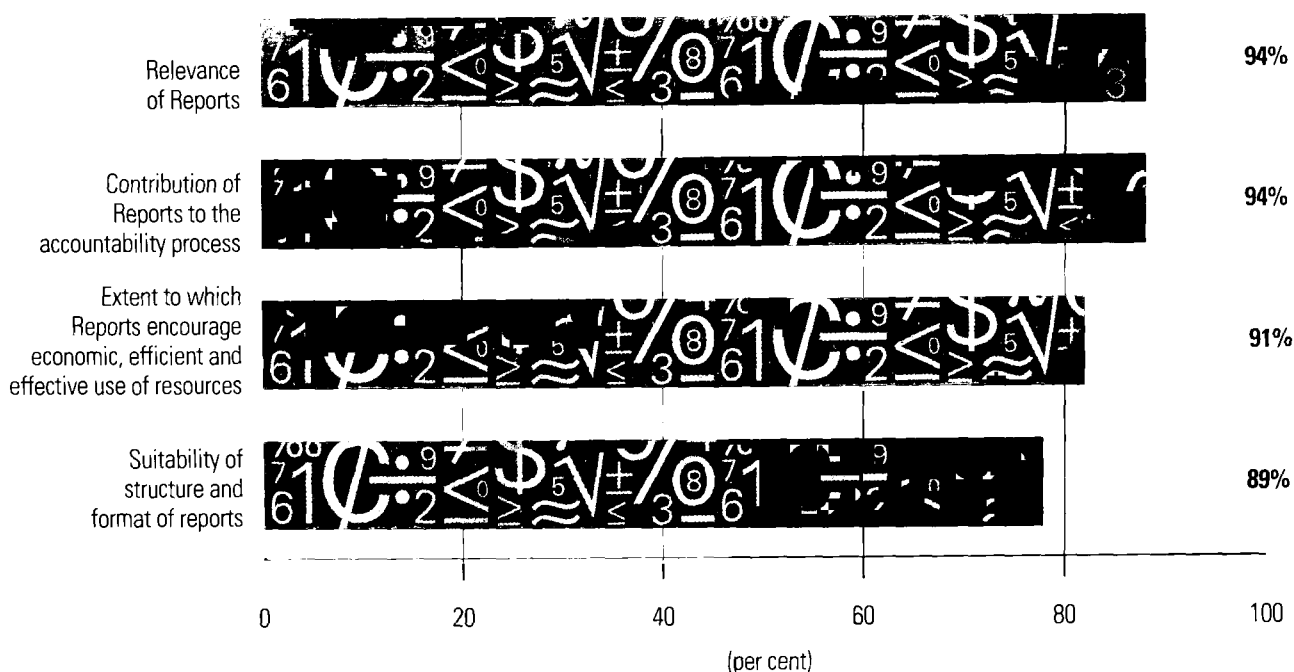
- the relevance of the Reports to their needs;
- the contributions the Reports made to the Parliamentary accountability process;
- the extent to which the Reports encourage economic, efficient and effective use of resources; and
- the suitability of the structure and format of the Reports.



Members of Parliament were highly satisfied with the Reports of the Office.

Generally, Members expressed an exceptionally high degree of satisfaction (averaging 93 per cent satisfaction) with the Office's Reports. The main areas of satisfaction were the role played by the Auditor-General and the Office in informing Members of financial and performance audit issues, as well as the role the Auditor-General and the Office play in reinforcing the accountability of the government of the day to the Parliament.

**MEMBERS OF PARLIAMENT,
SATISFACTION RANKING WITH OFFICE REPORTS, JUNE 1998**



Notwithstanding the high overall satisfaction rate, a small number of Members commented on the Office's performance audit reports in areas relating to the expertise of staff, a perceived lack of balance in reporting and an absence of recognition of past events.

Mindful of the above views (which were minority views), the Office will examine avenues, particularly through its Corporate Promotion Strategy, to ensure more effective communication with Members. Consideration will be given to providing special briefings which could assist Members in their understanding of issues raised by the Auditor-General in Reports, and of the range of in-house and external expertise used by the Office in its performance audits.

ADDING VALUE TO PUBLIC SECTOR RESOURCE MANAGEMENT

Reports of the Auditor-General to the Parliament are designed to provide value-added audit suggestions for reinforcing accountability and enhancing resource management within the public sector.

A measure of the value-adding qualities of Reports by the Auditor-General can be determined from:

- the level of acceptance of audit recommendations by the Executive Government or individual audited agencies;
- opportunities identified in Reports for potential additional revenue or cost savings; and
- the identification of actual revenue generated or cost savings realised.

Follow-up of audit comments and recommendations by Minister for Finance

Since 1992, the Minister for Finance has continued the practice of tabling an annual report in the Parliament detailing action taken by public sector agencies in addressing audit recommendations and other matters contained in Reports of the Auditor-General. The reports of the Minister continue to demonstrate that public sector agencies have addressed a high percentage of audit recommendations resulting in improved resource management and accountability within the public sector.

In the Foreword to his December 1997 report, the Minister for Finance said, "The purpose of this report is to inform the Parliament of action taken or to be taken by Departments in response to the Auditor-General's reports issued during the 1996-97 financial year ... The Department of Treasury and Finance has co-ordinated the departmental responses contained in this report in order to demonstrate the broad based commitment to continuous improvement ... The positive responses from Departments again show their willingness to resolve outstanding issues and to accommodate necessary changes".

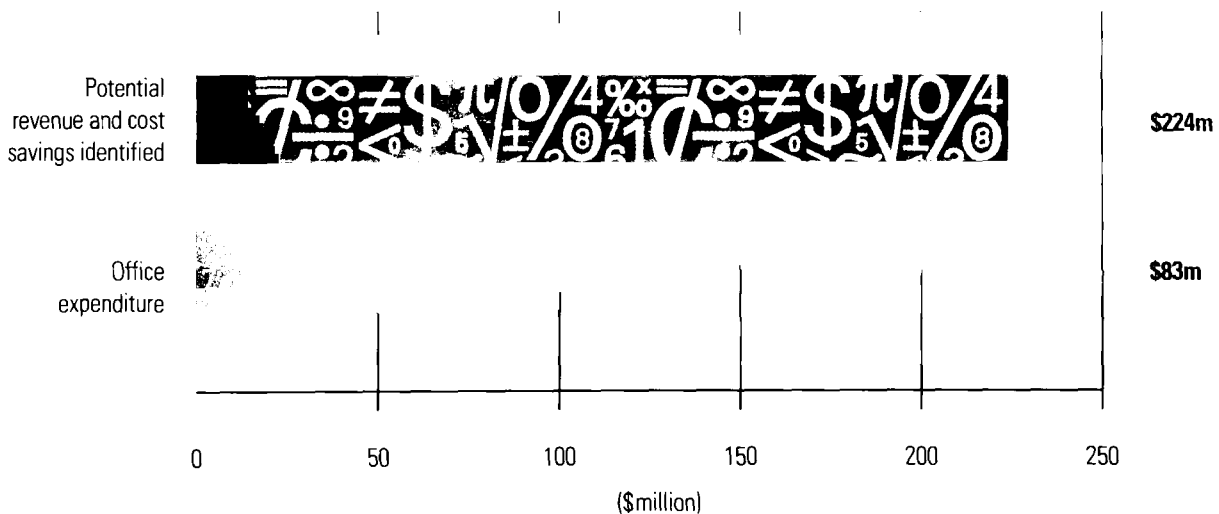
Analysis by audit of the report issued by the Minister for Finance indicates that positive action or a positive response has been taken or made by audited agencies in respect of approximately 75 per cent of those matters commented upon by audit in parliamentary Reports issued during the 1997-98 financial year.

The continuation of this important initiative by the Government is commendable and helps to ensure the implementation of audit recommendations and that appropriate action is taken in response to audit comments. The initiative contributes to improving public sector resource management and accountability.

Identification of potential revenue or cost savings

The following chart clearly demonstrates the substantial value and cost-effectiveness of the parliamentary Reports prepared by the Office. The chart compares the total potential revenue or cost savings identified in the Office's Reports over the past 5 years with the cost of Office operations over that same period.

**POTENTIAL REVENUE OR COST SAVINGS
RELATIVE TO OFFICE EXPENDITURE, 1993-94 TO 1997-98**

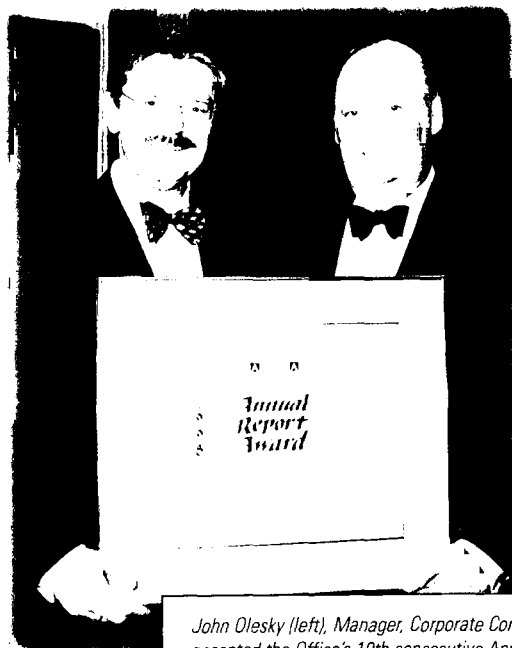


The chart shows that, over the 5 year period 1993-94 to 1997-98, the Office's Reports to Parliament have identified a total of \$224 million in potential revenue and cost savings, equivalent to 2.7 times the Office's total expenditure of \$83 million over the same period.

SILVER AWARD FOR 1996-97 ANNUAL REPORT OF THE OFFICE

During 1997-98, Annual Report Awards Australia Inc. continued with its sponsorship of an Australia-wide Annual Report Awards Scheme designed to encourage the meaningful presentation of information in annual reports. Over 400 organisations entered their annual report for the Awards. The Office entered its 1996-97 Annual Report in the Scheme and was assessed as having achieved a high standard of excellence in annual reporting and received a Silver Award. This was the tenth consecutive Award received by the Office and was presented at an awards ceremony in Sydney in May 1998.

A representative from the Office participated as a divisional coordinator on the judging panel of reports of other public sector organisations. The Office's involvement with the adjudication process of the Awards Scheme is viewed as a positive contribution to raising the overall standard of annual reporting in public sectors across Australia.



John Olesky (left), Manager, Corporate Communications, accepted the Office's 10th consecutive Annual Report Award from Mr A. Delbridge, Chairman, Annual Report Awards Australia Inc.

AVAILABILITY OF REPORTS

Copies of all Reports of the Auditor-General and of the Annual Report of the Office, are widely distributed to Audit Offices within Australia and equivalent overseas bodies, to audited agencies, and to many professional organisations and interested parties.

The Reports are available to the public for purchase through the Office, which is located at Level 14, 222 Exhibition Street, Melbourne, or through the Government's Information Victoria bookshop at 356 Collins Street, Melbourne. Information on all Auditor-General's Reports is also available on the Office's Internet homepage at: <http://www.vicnet.net.au/vicaud1/aghome.htm>

Requests for copies of Reports may also be made by e-mail at the Office's e-mail address of vicaud1@vicnet.net.au

RELATIONSHIP WITH PARLIAMENTARY COMMITTEES

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

The satisfactory resolution of issues raised by the Auditor-General is a significant measure of the Office's effectiveness in the performance of its audit function on behalf of the Parliament and the community. Parliamentary committees play an important role in this process in addressing specific matters raised in Reports by the Auditor-General.

It is through liaison with the Parliament's all-party Public Accounts and Estimates Committee that the Auditor-General's relationship with the Parliament is principally put into effect. The Auditor-General and senior representatives of the Office are regularly called upon to assist the Committee with its inquiries and investigations to:

- give evidence on the work of the Office;
- elaborate on the findings contained in Auditor-General's Reports tabled in the Parliament; and
- provide information on improvements that could be made to the management of public sector resources in Victoria.

Parliament's Public Accounts and Estimates Committee plays an important accountability role in relation to issues raised by the Auditor-General.



During 1997-98, the Auditor-General and the Office Executive met formally with the Committee on 2 occasions:

- In August 1997, to discuss finalisation of the performance audit program for 1997-98 with the Committee. At this meeting, the Auditor-General also raised concerns on the development of proposed legislation following the Government's Audit Act review; and
- In May 1998, to consider potential audit topics for the performance audit program for 1998-99.

The Office continued to provide research assistance to the Committee through the secondment of officers during the year.

New legislative arrangements

The *Audit (Amendment) Act 1997* passed by the Parliament in December 1997 introduced significant changes to the role of the Committee and its relationship with the Auditor-General. Section 4B requires that, *"In performing or exercising his or her functions or powers, the Auditor-General must confer with, and have regard to any audit priorities determined by, the Parliamentary Committee"*. In addition, section 7A stipulates that, *"The Auditor-General must as soon as practicable after 30 June and 31 December in each year, submit a report to the Parliamentary Committee on the appointment of authorised persons during the 6 months preceding 30 June or 31 December, as the case requires"*.

In relation to performance audits of authorities, section 16(2) of the Act states, *"A specification must be prepared by the Auditor-General in consultation with the Parliamentary Committee and the relevant authority and must set out the particular objectives of the performance audit and any particular issues to be addressed"*.

It can be seen that under the recent changes to the audit legislation, the accountability framework between the Auditor-General and Parliament has been strengthened and there is now a pro-active role for the Committee in the scoping of performance audits.

VISIT BY QUEENSLAND PUBLIC ACCOUNTS COMMITTEE

As part of the Queensland Public Accounts and Estimates Committee's review into the issues and recommendations raised in the *Report of the Strategic Review of the Queensland Audit Office*, that Committee met with the Auditor-General in December 1997 to canvass the views of the Victorian Office. The Auditor-General and members of the Office Executive briefed the Committee members on several aspects of performance auditing and other strategic issues pertinent to that Committee's review.

AGENCY CONSULTATIVE PROCESS

Regular and professionally conducted communication between the Office and agencies is an essential ingredient of an efficient and effective audit process. Significant attention is directed within the Office to ensure that this aspect of audit operations is given a high priority.

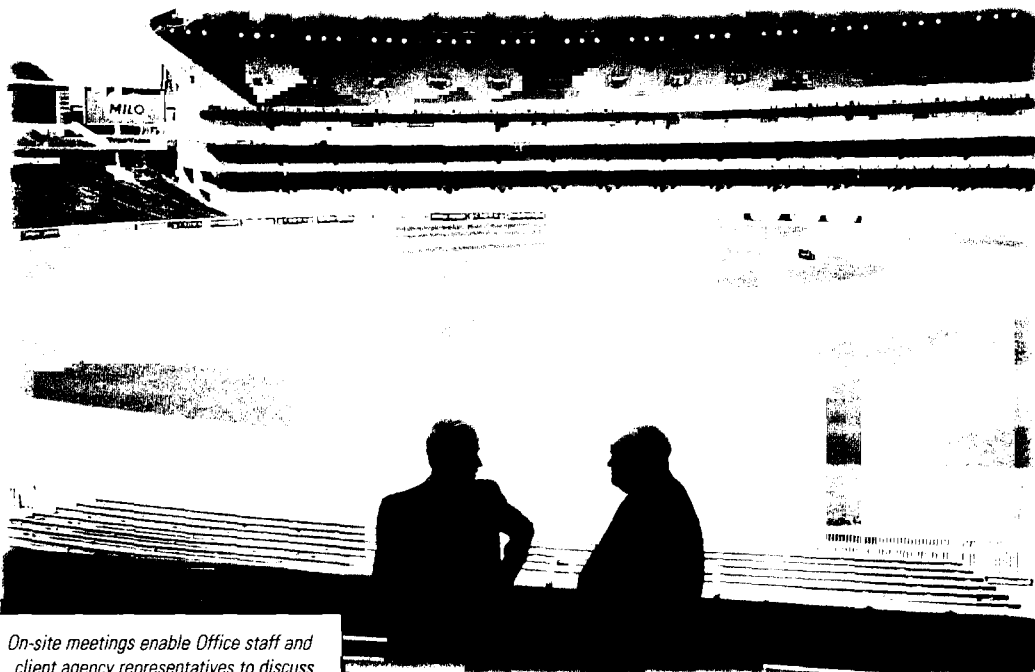
Meetings are held at the commencement of an audit with Chairpersons, Chief Executive Officers, departmental Secretaries and/or audit committees of agencies to discuss areas which may be of concern to management, the proposed audit coverage and timetable, and the audit fee. In addition, these meetings provide an opportunity for discussion of other internal or external organisational reviews, including internal audit activity, so as to avoid unnecessary duplication of audit work and to ensure a cost-efficient audit.

Regular liaison with agencies also occurs during the course of each audit. Such liaison ensures improved communication and co-operation with management, pro-active input by audit in identifying matters of risk and timely improvement in public sector resource management. At the conclusion of each audit, discussions are held with executive management, or the Board (as appropriate) on matters that have arisen from the audit.

Senior representatives of the Office also meet regularly with executive management of agencies to invite their suggestions for areas suitable for audit examination and to seek their comments on the performance of Office audit teams. These discussions are aimed at canvassing input from executive representatives of agencies on issues such as:

- major government policies and related developments;
- key features, goals and strategies of current corporate and business planning; and
- any major risk exposures and other factors influencing the strategic or operational environment of their organisations.

These discussions continue to prove to be extremely valuable to the Office in forging positive and constructive relationships with agencies.



On-site meetings enable Office staff and client agency representatives to discuss audit activities and findings.

In addition, the Auditor-General and Deputy Auditor-General meet periodically with government Ministers to discuss matters of emerging significance within ministerial portfolios and to enhance the working relationship of the Office at ministerial level.

Senior representatives of the Office attend meetings of a number of consultative groups and other committees which provides the Office with valuable forums for regular interaction and discussion on matters of mutual interest in order to:

- enhance the exchange of information and views;
- achieve early resolution of contentious accounting and financial reporting issues;
- improve the standard of financial reporting within the public sector; and
- strengthen the quality of resource management and the accountability of public sector agencies to the Parliament.

FREEDOM OF INFORMATION

The Victorian Auditor-General's Office has a professional relationship with its audited agencies and is bound by confidentiality provisions in terms of providing information obtained during an audit to a third party. The *Audit Act* 1994 exempts the Office from compliance with freedom of information requirements.

COMMUNITY AWARENESS OF THE OFFICE'S ACTIVITIES

The Office considers it essential that there is continuing community awareness and confidence in its independent watchdog role carried out on behalf of Parliament and taxpayers.

Community awareness of the Office's activities is primarily generated through the tabling of Reports of the Auditor-General in the Parliament, and associated parliamentary debates and questions. Key findings contained in the Office's Reports to the Parliament are often highlighted in the media which facilitates community discussion on those issues of importance to taxpayers.

SURVEY OF COMMUNITY AWARENESS AND CONFIDENCE

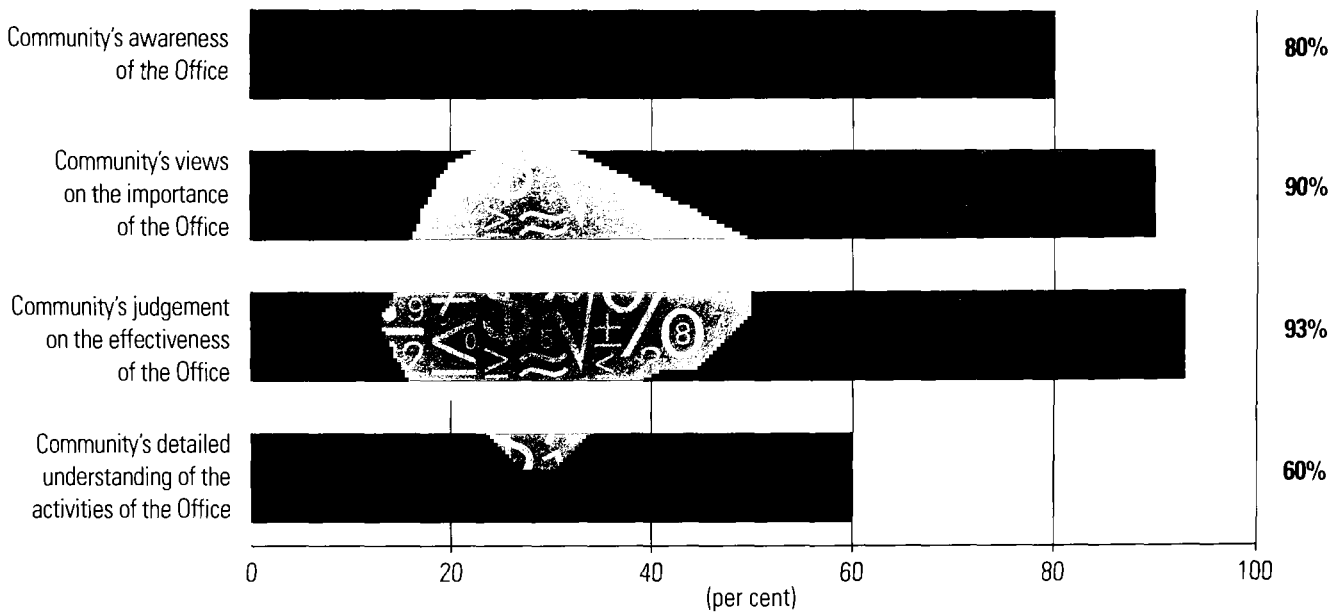
During June 1998, the Office undertook, as a key strategic target for the year, a community awareness and appreciation survey. The survey, which was conducted with the assistance of a market research company, encompassed a population of 450 persons, drawn from the Melbourne metropolitan area (300 persons) and the remaining area of Victoria (150 persons).

The survey sought to establish the level of community awareness of the Office and measure the community's understanding and appreciation of the accountability work performed by the Office on behalf of the Parliament and the Victorian community.

The Office's Corporate Plan set a target of 70 per cent awareness and appreciation. The survey found that:

- community awareness of the Victorian Auditor-General's Office was almost 80 per cent (well exceeding the target);
- over 90 per cent of respondents considered the job of the Office as "important";
- just over 93 per cent of respondents considered the Office to be effective in its role of acting as a watchdog on government departments and authorities; and
- while the level of community awareness and overall respect for the Office are high, scope existed for developing a more detailed understanding within the community of specific elements of the Office's role.

FEEDBACK FROM THE COMMUNITY ON THE OFFICE



While it is satisfying to know that the Office and its work are well respected and appreciated by the community, the Office will continue to place emphasis on ensuring that the quality of its output is conducive to enhancing the community's awareness and confidence in its role and functions.

CORPORATE PROMOTION STRATEGY

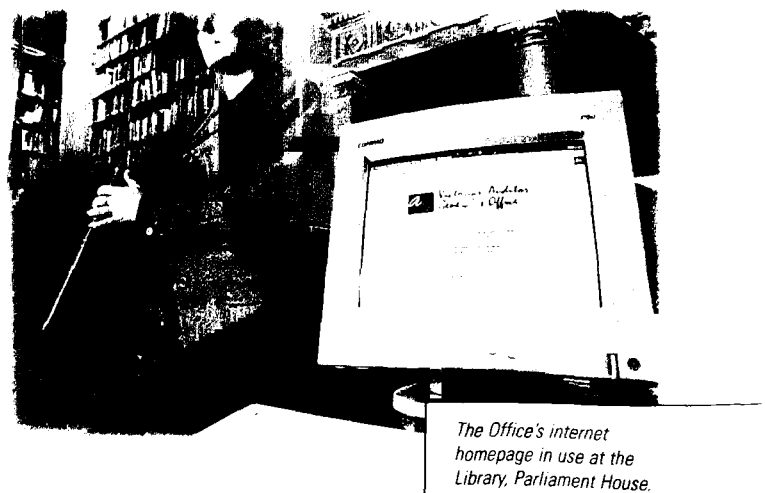
The Office has in place a Corporate Promotion Strategy which aims to enhance the community's awareness and confidence in the role and activities of the Office. The Strategy addresses corporate promotion under 5 key headings, namely:

- the Parliament;
- audited agencies;
- the community;
- other Auditors-General's Offices, the accounting profession and educational institutions; and
- Office staff and facilities.

The Strategy also emphasises that effective corporate promotion requires a sharing of responsibility in that all staff have a key role to play in promoting the Office through their interaction with the Parliament, audited agencies and the community.

During the year, the Office played an important part in furthering community understanding of its role and functions. Activities included:

- Ongoing enhancement to the Office's homepage on the Internet which contains comprehensive corporate information about the Office, including the full text of selected Office Reports to the Parliament. The homepage also provides a facility for visitors to the site to electronically e-mail comments and requests for information directly to the Office;



The Office's internet homepage in use at the Library, Parliament House.

- An extensive program of professional activities such as interstate visits, participation in major conferences and external presentation of papers (further details are provided in Appendix 2). Selected staff also gave presentations to a number of professional and educational institutions, and community and special interest groups;
- The widespread distribution of an "information package" to audited agencies and interested organisations. The package includes a copy of the Office's Corporate Plan, an Annual Report and the Office's information brochure entitled "*Auditing in the Public Interest*"; and
- Participation in the Government Exhibition at the September 1997 Royal Melbourne Show through an Office information stand. The Exhibition attracted over 300 000 visitors, many of whom visited the Office's information stand. The main purpose of the Office's display was to inform the community of the wide-ranging auditing services provided to the Parliament, government and taxpayers of Victoria. The Exhibition provided an ideal venue for Office staff to interact with the public, and strengthen relationships between the Office and the community. The quality of the Office's exhibit was recognised with an award of "Best Display, Government or Semi-Government Instrumentality".



Part of the Award-winning Office display at the 1997 Royal Melbourne Show.

INVOLVEMENT WITH THE

ACCOUNTING AND AUDIT POLICIES AND PRACTICES

ACCOUNTING AND AUDIT POLICIES AND PRACTICES

The ability to keep abreast of developments in financial reporting and financial and performance auditing issues is important for the Office if it is to maintain an authoritative and expert position in accounting and auditing policy and practice matters.

The Office's Technical Group is responsible for providing staff with up-to-date developments in financial reporting, financial management and auditing practice. As well as providing advice to staff on current and emerging technical issues, the Group is frequently involved in liaison with the Department of Treasury and Finance and the accounting profession in relation to a number of significant financial reporting reforms.

During the year, the Office made numerous submissions to the Australian Accounting Research Foundation, the professional accounting bodies, and the Department of Treasury and Finance in relation to exposure drafts and discussion papers issued by these organisations.

RELATIONSHIP WITH INTERSTATE AND OVERSEAS AUDIT OFFICES

The sharing of information and professional expertise on auditing issues is a valuable means of improving the efficiency and cost-effectiveness of the Office. In addition to the regular meetings of Australasian Auditors-General, links have been established with Audit Offices across Australia through annual conferences, circulation of information on developments in accounting and auditing, and exchange visits of key audit and management personnel.

In addition, regular liaison is made with several overseas audit organisations on emerging issues in the accounting and auditing fields.

AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

The aim of the Australasian Council of Auditors-General (ACAG) is to foster and promote the development of public sector auditing in the Australasian region through the following key functions:

- developing and issuing authoritative pronouncements on the nature, scope, independence and role of the Auditors-General in the context of the Australasian scene;
- facilitating the setting of core strategic directions for Audit Offices;
- co-ordinating the development of a professional quality assurance program for participating Audit Offices; and
- contributing to the enhancement of parliamentary liaison functions across the areas of responsibility of Auditors-General.

Membership of the Council is open to Auditors-General within Australia, New Zealand, Fiji and Papua New Guinea. Associate membership of the Council is available to any other interested jurisdiction.

During 1997-98, ACAG met on 2 occasions (October 1997 in Melbourne, and June 1998 in Sydney). These meetings addressed a range of strategic and development issues, including:

- continued development and exchange of information on best practice and contemporary developments in public accountability;
- enhancement of inter-Office communications through the use of the Internet facility; and
- representation on the Consultative Group to the Public Sector Accounting Standards Board and the accounting profession's Urgent Issues Group.

The June 1998 meeting in Sydney followed a conference of the Australasian Council of Public Accounts Committees which unanimously endorsed a set of principles covering the personal and operational independence of an Auditor-General.

ACAG also made a further submission to the Government's Audit Act Review Committee's review of the Victorian *Audit Act* 1994 under the National Competition Policy.

As part of its contribution to the operations of ACAG, the Office prepared a technical paper which examined the concept of "Commercial Confidentiality" and its applicability within the public sector. The Office also prepared guiding principles on how peer reviews by ACAG member Audit Offices could be conducted, and is currently co-ordinating the development of a professional peer review program for participating Audit Offices.

21st Biennial Conference of Australasian Council of Auditors-General

The 21st Biennial Conference of the Australasian Council of Auditors-General titled "The Public Sector Revolution - Challenges or Problems?" was hosted by the Office in October 1997. A number of distinguished academics and professionals addressed the conference and presented papers on a range of topics on contemporary, business, auditing and ethical issues, which included:

- *The "Right to Know" in a Corporatised Public Sector* (Professor Arie Freiberg, Head of the Department of Criminology, University of Melbourne);
- *Risk and Systems-Based Audits in Government: A Need for Balance* (Professor Max Aiken, Professor of Commerce, La Trobe University);
- *Valuation of Government Assets* (Professor Bob Officer, Professor of Finance/Deputy Director at the Melbourne Business School, University of Melbourne);
- *Impact of the National Competition Policy on the Public Sector* (Dr David Cousins, Associate Director, KPMG Management Consulting);
- *Understanding the Millennium Threat* (Professor Brian Garner, Professor of Computing, Deakin University of Technology);
- *Audit Independence* (Professor Warrick Funnell, Associate Professor, Department of Accounting and Finance, University of Wollongong);
- *Frank and Fearless Advice* (Professor Bill Russell, Director of the Graduate School of Government Monash University); and
- *Public Sector Auditing in Hong Kong and its Challenges in the 21st Century* (Mr Dominic Y. T. Chan, Director of Audit, Audit Commission of Hong Kong).

Conference sessions were open to the public and were attended by private sector accounting professionals and representatives from government departments and academia.

Auditors General from Australia, New Zealand, Fiji and Papua New Guinea attended the 21st Biennial Conference of ACAG, hosted by the Victorian Auditor General's Office in October 1997.



SENIOR AUDIT EXECUTIVES CONFERENCE

A delegation of 4 senior executives from the Victorian Auditor-General's Office attended a Senior Executive's Conference, hosted by the New South Wales Audit Office in Sydney in May 1998. The conference was also attended by 23 delegates from overseas and interstate Audit Offices.

Conference topics included both Australasian Council of Auditors-General (ACAG) sponsored topics and topics nominated by individual Offices covering a range of issues other than audit exclusive matters (either financial or performance). Staff of the Office presented 2 papers at the conference on the following topics:

- Contestability - The Victorian experience; and
- Future audit services.

The conference program also included the following ACAG-nominated topics:

- Audit Office performance indicator use;
- Means of motivating and rewarding staff within public sector structures;
- Raising the profile of public sector auditing; and
- Approaches to managing contracted auditors.

OFFICE PROFESSIONAL ACTIVITIES

The Office is engaged in a wide range of activities connected with the Australian accounting and auditing profession, and public sector management. These activities include involvement with international audit organisations, attendance at international meetings, and hosting international and interstate visitors, all of which enable the Office to keep abreast of current issues in auditing and accounting.

In addition, a number of the Office's senior staff hold important positions and memberships in a variety of professional bodies, committees and societies. These include membership with Centres of Excellence of the Australian Society of Certified Practising Accountants (ASCPA), the ASCPA Program Advisory Panel (CPA Auditing Programs), Public Sector Accountants Committee of the ASCPA and Public Sector Accounting Standards Board Consultative Group.

Many Office staff are at the forefront of their profession and are valued as speakers on public sector auditing and related issues. A number of staff made external presentations throughout the year (further details are provided in Appendix 2).

INTERNATIONAL VISITORS

During 1997-98, the Office hosted several international visitors from China and other Asian countries on the following occasions:

- In August 1997, a 7 member delegation from Vietnam, including the Auditor-General of the State of Vietnam, visited the Office as part of an overseas study tour;
- In November 1997, the Office hosted a delegation of 21 senior audit personnel from the Guangdong Provincial Government of China;
- In February 1998, an 8 member delegation, including the Vice-Director of the Fujian Provincial Audit Department, visited the Office from the Fujian Province of China, as part of a study tour to New Zealand and Australia. The visit to the Office was arranged through Mr Ross Smith, a Victorian Member of Parliament;
- In March 1998, the Office hosted a 14 member delegation from China, which was organised under the auspices of the Chinese Ministry of Electronics; and
- In May 1998, a delegation from The Foreign Economic Relations & Trade Commission of the Shanghai Municipality headed by Mr Hu Zonghua (Vice-Chairman of the Commission) met with the Auditor-General and members of the Office Executive. The purpose of the visit was to exchange information on public sector auditing issues and to develop bilateral business relationships.



Hosting visiting delegations such as the 7 members from a Vietnamese study tour in August 1997, strengthens co-operative professional associations between the Office and overseas audit organisations.

Presentations were made by various members of the Office staff to the above delegations on the role of the Auditor-General, the operations of the Office and public sector auditing issues in Victoria. The Office's involvement with hosting overseas delegations was specifically acknowledged by the Managing Director, Continuing Education and Training Services (a private sector organisation) who following the November 1997 visit said, "**... the presentations by your staff were positive and clear, and reflected, in a meaningful sense, the professionalism and integrity which no doubt underlies the rigour of the Victorian Auditor-General's Office**".

In addition to the abovementioned delegations, the Auditor-General and members of the Office Executive met with other international visitors on the following occasions:

- In December 1997, the Auditor-General and the Deputy Auditor-General met with Mr Tsagaan, Minister for Finance of the Republic of Mongolia. Discussion centred around the experiences of privatisation in Victoria and the operations of the Office;
- In February 1998, the Auditor-General hosted a visit by Mr L. Hughes, Assistant Auditor-General, National Audit Office (UK) for the purpose of progressing business relationships and discussing the operations of the Office; and
- In March 1998, Mr Pohiva Tu'i'onetoa, Auditor-General of Tonga, met with the Auditor-General and members of the Office Executive in order to discuss audit methodologies and public sector auditing

issues in Victoria. As a direct consequence of this meeting, arrangements are underway for the Office to conduct risk-based financial and performance audit training seminars for senior officers of the Tongan Audit Office.



Mr Pohiva Tu'i'onetoa, Auditor-General of Tonga, visited the Office in March 1998. As a result of the meeting, the Office is likely to provide a number of training seminars for Tongan Audit Office staff.

FINANCIAL AUDIT OPERATIONS



Strategic Direction 2 : Maintain a strong focus on financial auditing and deliver such services in a manner consistent with best practice

FINANCIAL AUDIT LEGISLATION

Financial auditing covers the audit of the Government's consolidated financial statements under the authority of the *Financial Management Act 1994* and the audit of 540 public sector agencies in accordance with the *Audit Act 1994*, including examinations of compliance with legislation and government regulation.

Any audit assignment which directly relates to the objective of forming an opinion on the annual financial statements of a public sector entity is regarded as a "financial audit". The conduct of these audits provides assurances to the Parliament and the community regarding the fair presentation of financial information contained in financial statements of public sector entities.

Under the provisions of section 15 of the *Audit Act 1994*, the Auditor-General may report to Parliament such information and recommendations arising from financial audits as deemed relevant for the more effective, efficient and economic operations of public sector agencies. Reports to Parliament under section 15 are included in the Auditor-General's *Report on Ministerial Portfolios*, normally tabled in the Autumn Session of the Parliament.

The *Financial Management Act 1994* requires public sector agencies to submit financial statements to the Auditor-General within 8 weeks of the end of each financial year. Under the *Audit Act 1994*, the audit opinion expressed by the Auditor-General on the financial statements of an agency must be provided within 4 weeks of receipt of the statements from the agency.

RECENT LEGISLATIVE DEVELOPMENTS

As a result of the enactment of the *Audit (Amendment) Act 1997* in December 1997, the Auditor-General is required to appoint "authorised persons", following a process of contestability, to assist the Auditor-General in the financial audit process. As the Auditor-General remains the principal auditor of all Victorian public sector agencies, the Office will be required to undertake quality assurance reviews of the work undertaken by appointed "authorised persons", in order to comply with Australian Auditing Standards, before the issue of audit opinions on agencies' financial statements and the issue of the related audit reports.

Under the new legislation, the Office will continue to be responsible for undertaking the additional audit work required to enable the preparation of the 2 annual major audit reports to the Parliament, namely, the *Report on Ministerial Portfolios* and the *Report on the Government's Annual Financial Statement*. A diverse range of public interest issues identified from the annual financial audit process of the numerous public sector agencies which come under the Auditor-General's responsibility are subjected to additional audit work culminating in the development of these Reports to the Parliament.

The effectiveness of the new audit regime will be largely dependent on the quality of the input received from the various audit service providers, including Audit Victoria. The challenge for the Office will be to ensure that the public interest continues to be protected through the ongoing issue of high quality Auditor-General's Reports to the Parliament and the community, and unassailable audit opinions on agencies' financial statements.

FINANCIAL AUDIT METHODOLOGY

During the 1997-98 financial year, the Office utilised its Victorian Financial Audit Methodology (VFAM) on financial audits. The methodology incorporates a rigorous audit planning process involving the use of comprehensive planning modules which effectively identify and address the relevant risk components on financial audit engagements.

Underpinning the methodology is an integrated state-of-the-art audit support software system, which was introduced in October 1995 on all audits undertaken by the Office. The methodology enables the full documentation of audit strategies, programs, findings and audit report issues to be collated, tracked and retained in electronic form, thereby reducing the need for hard copy information to an absolute minimum. A significant benefit of the use of the methodology is its ability to facilitate tracking of the status of both working papers and the audit. The result is a modern audit methodology which results in a largely paperless audit, with substantial inherent efficiencies built into the process.

As an integral element of the Office's financial audit methodology, preliminary assessments of information systems controls were carried out at audited agencies with significant computerised financial information systems. These assessments were undertaken in order to develop the Office's understanding of the information systems controls of audited agencies and to assist the Office in forming a view on the integrity and security of computer operations.

The Office's financial audit methodology utilises an integrated state-of-the-art audit support software system.



In addition, the Office continued to place emphasis on the development and application of computer-assisted audit techniques to provide improved audit coverage and to carry out efficient and effective audits. A variety of computer programs have been either developed in-house or purchased to interrogate and analyse information maintained by audited agencies on computer files.

As part of the Office's continuing improvement process, the electronic financial audit workpapers were reviewed in the year to determine whether they continued to meet the needs of the Office. Resulting from this assessment, new electronic workpapers were developed which placed an added emphasis on auditing in the public interest in a public sector environment.

FINANCIAL AUDIT RESOURCING STRATEGY

For many years, the Office has, at its own initiative, discharged its financial audit responsibilities through the use of a combination of in-house staff and private sector resources contracted to assist on audits.

The recent amendments to the *Audit Act* 1994 will result in a fundamental change in resourcing strategies for financial audits. At the time of preparation of this Annual Report, the Office was in the process of developing appropriate resourcing strategies, which incorporate the introduction of contestability to all audits, in consultation with the Parliament's Public Accounts and Estimates Committee.

These strategies will have an ongoing impact on the future operations of the Office, and will be outlined in subsequent *Annual Reports* to the Parliament.

STRATEGIC APPLICATION OF OFFICE IN-HOUSE RESOURCES

To maintain expertise and industry knowledge, Office resources were as a minimum involved in the audit of the agencies responsible for policy formulation and the purchase of services, together with agencies that interface across government and at least one government-owned service provider in each industry segment. In addition, the Office utilised in-house resources to undertake the audit of agencies which have had significant exposures ultimately for taxpayers (e.g. Public Transport Corporation, State Superannuation and WorkCover).

To ensure the provision of cost-effective audit services, the audits undertaken utilising in-house resources were benchmarked against audits undertaken by private sector contractors and against audits undertaken by other Audit Offices across Australia. This resourcing strategy had been previously assessed by Parliament's performance auditors as the most cost-effective means of delivering audit services (Mr F. Ryan, Arthur Andersen, in 1992, and Mr A. Talbot, Price Waterhouse, in 1995). These external reviews concluded that in-house financial audits were conducted using a risk-based, leading edge methodology and technology, and compare favourably with those of the major private sector accounting firms.

UTILISATION OF PRIVATE SECTOR RESOURCES

In recent years, in order to meet specific resourcing needs, including reporting responsibilities to the Parliament utilising in-house expertise, the Auditor-General has utilised resources from private sector accounting firms to assist on financial audits of public sector agencies. While these firms have been engaged following a competitive tendering process, tenders have not been submitted by in-house teams.

During the 1997-98 financial year, \$5.5 million was expended on the engagement of private sector firms to assist the Auditor-General in the conduct of financial audits. When engaging private sector firms as contractors, the Auditor-General ensures that the independence of the external audit is not called into question because of potential or actual conflicts of interest by precluding private sector firms which have involvement in the provision of non-audit services, a situation which, if allowed, would contravene the spirit of the Audit Act.

The following tables highlight the level of payments to contractors.

PAYMENTS FOR CONTRACTED AUDITING SERVICES
(\$'000)

<i>1993-94</i>	<i>1994-95</i>	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>
3 066	3 646	5 849	5 819	5 482

As indicated in the above table, the reduction in the level of payments to contractors in the 1997-98 financial year mainly reflects the strategic decision to utilise in-house resource which became available on account of in-house productivity improvements and the privatisation of certain public sector agencies, instead of the use of contractors.

CONTRACT PAYMENTS, 1997-98

<i>Firm</i>	<i>Amount</i>
Coopers and Lybrand	\$711 500
Deloitte Touche Tohmatsu	\$588 484
Day Neilson	\$437 000
Ernst & Young	\$386 835
Hall Chadwick	\$308 875
Armitage Downie & Co.	\$300 070
Arthur Anderson	\$288 440
KPMG	\$254 195
Price Waterhouse	\$274 441
Richmond Sinnott & Delahunty	\$191 500
Bentleys (Vic.) Pty Ltd	\$162 330
Danby, Bland, Provan & Co.	\$127 400
Coffey Hunt & Co.	\$126 870
Lockwood Partners	\$122 900
Thomsons	\$110 265
Other (a)	\$1 091 395
Total	\$5 482 500

(a) Comprises payments to contractors of less than \$100 000.

All private sector contractors engaged by the Office are required to perform in accordance with the Office's quality control standards with the Auditor-General remaining as the principal auditor.

REVIEW PROCESS FOR CONTRACTED AUDITS

As the Auditor-General is responsible to the Parliament for all public sector financial audits, the Office has established, as part of its contract management activities, high level reviews of work conducted by the private sector firms prior to the Auditor-General signing audit opinions and issuing audit reports. Based on past experience, without these high level reviews, the Office would not have been in a position to identify significant inconsistencies in financial reporting and accountability across government and ensure that:

- contractors maintain appropriate quality standards;
- reports address the key financial reporting and management issues;
- issues which arise from individual audits which impact on other government agencies are addressed by the Office; and
- significant and common financial management and accountability issues are brought to the attention of the Parliament, Ministers, central agencies and individual audited entities.

Office staff regularly undertake high level reviews of audit work undertaken by private sector contractors prior to the Auditor-General signing audit opinions.



An independent assessment of the manner in which the Office has managed high level reviews of contracted audits was provided by Mr A. Talbot in his September 1995 performance audit report on the Office. Mr Talbot stated that, *"I am aware of some criticism of this process but I did not find the time taken to fulfil this auditing standards requirement to be excessive"*.

These high level reviews reinforce the absolute necessity of a single audit and reporting voice to achieve complete accountability of the Government to the Parliament.

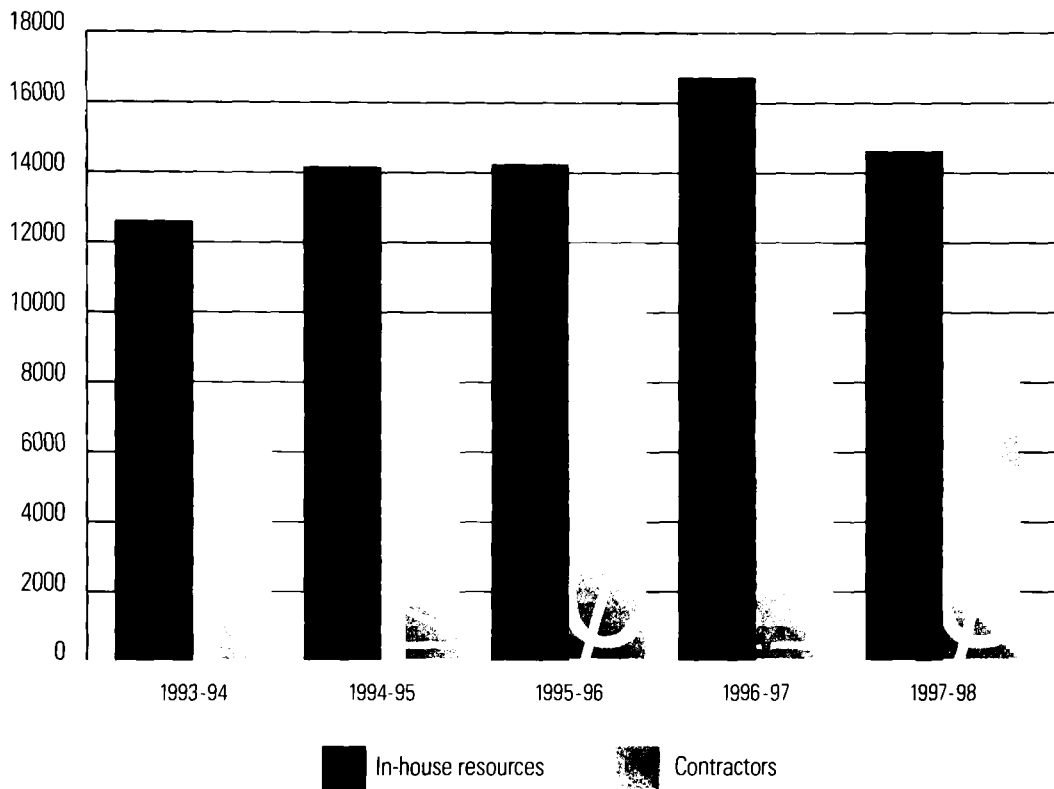


TIME SPENT ON FINANCIAL AUDITS

The following chart depicts the trends in audit time spent on financial audits including in-house resources and time spent by contractors over the past 5 years. "In-house resources" includes time spent by financial auditors on examining and reporting on issues of significance which are ultimately reported to the Parliament.

FINANCIAL AUDITS, TOTAL AUDIT TIME

(number of days)



FINANCIAL AUDIT REPORTS PRESENTED TO THE PARLIAMENT

A fundamental element of the Auditor-General's financial audit responsibilities involves the preparation and presentation of comprehensive Reports to the Parliament. These Reports provide a key means for ensuring that the Government is fully accountable for its financial operations and performance to the Parliament and to the Victorian community. The current Reports to the Parliament resulting from the financial audit process comprise the annual *Report on Ministerial Portfolios* and the *Report on the Government's Annual Financial Statement*.

The *Report on Ministerial Portfolios* provides information to the Parliament on a diverse range of issues which are identified during the financial audit process, while the *Report on the Government's Annual Financial Statement* provides a comprehensive analysis and assessment of the Statewide financial results achieved by the Government and related issues.

The identification of issues for inclusion within both Reports requires a detailed knowledge of public sector strategies and operations, and have been derived to date substantially from strategic financial audits which were undertaken using in-house resources.

REPORT OF THE AUDITOR-GENERAL ON THE GOVERNMENT'S ANNUAL FINANCIAL STATEMENT

This Report of the Auditor-General was tabled in the Parliament in October 1997 and outlined the results of the audit of the Government's Annual Financial Statement for the 1996-97 financial year. In particular, the Report:

- outlined the Auditor-General's opinion issued on the Government's Annual Financial Statement;
- provided a detailed analysis of the financial result achieved by the Government for the year ended 30 June 1997 and the State's financial position at that date; and
- provided an assessment of the significant financial arrangements and transactions (including asset sales and infrastructure development) undertaken by the Government.

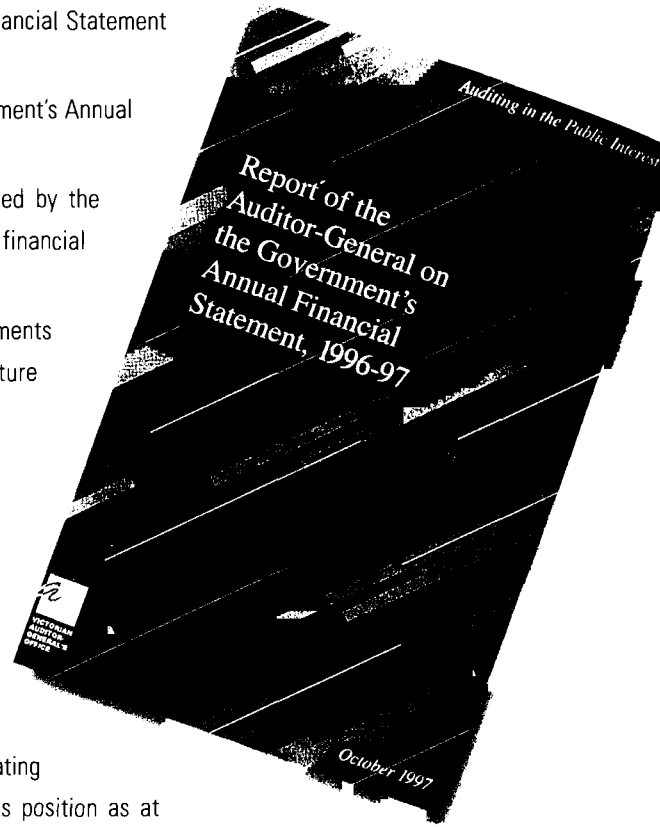
The Report highlighted that the Government's Annual Financial Statement represented the inaugural audited consolidated financial report for the State of Victoria. This positive Government initiative will contribute to more transparent reporting of the State's financial operations, and enable more informed decision-making relating to financial strategies and public resource allocation. Furthermore, the Report recognised that the State reported a substantial operating surplus for the 1996-97 financial year and a strong net assets position as at 30 June 1997, reflecting the positive impact of the Government's financial management reforms, including the privatisation program and the improved economic conditions within the State.

Some of the key findings of the Report were:

- Under the arrangements established by the Government in relation to the disposal of the State's remaining 49 per cent interest in the Loy Yang B power station, the State received an up-front payment of \$84 million for the disposal of an asset which was valued at around \$1.6 billion, and agreed to terminate or restructure certain unfavourable arrangements which were established in the 1980s that gave rise to substantial future financial obligations on the State;



The Report commented on the sale of significant State assets such as the Loy Yang B power station.



- A competitive process was not established for the disposal of the State's remaining interest in HRL Limited as, according to SECV management, the disposal was complicated by the pre-emptive rights to the shares of the other shareholders, which made it difficult to sell the shares to parties other than the company or a buyer approved by the other shareholders;
- An analysis of the sale of Melbourne Port Services Pty Ltd indicated that while the estimated proceeds to be received totalled \$8.8 million the State incurred costs associated with the port reform process relating to the sale of \$14 million, giving an overall negative cashflow of \$5.2 million;
- The Country Fire Authority established a joint venture arrangement through the sale of 90 per cent of its vehicle manufacturing business, however, it will continue to be a major customer of the joint venture and will therefore significantly contribute to the profitability of the business for at least 2 years;



The Report examined a joint venture arrangement for the manufacture of Country Fire Authority vehicles.

- An audit examination of an extensive sample of motor vehicle stamp duty transfer documents processed at VicRoads revealed that 58 per cent of declared market values were below the values listed in the dealers' guides for a vehicle purchased by a dealer in average condition, with up to \$10.8 million of revenue forgone per annum;
- Core departmental operating costs have increased in nominal terms by around 8 per cent over the past 5 years, however, in real terms the level of these costs has remained relatively constant since the 1992-93 financial year;
- Given that considerable work remains to be undertaken in regard to the development of robust output specifications and associated performance indicators, it is difficult to undertake a comprehensive and conclusive assessment of trends in the level, quality and cost-efficiency of service delivery by departments, and to assess the extent to which the Government is achieving one of its key objectives, namely, the provision of high quality services at least cost to taxpayers;
- The net operating cost incurred by the State on the Formula One Grand Prix relating to the 1996-97 financial year was \$6.7 million. Furthermore, since the inception of the Formula One Grand Prix event, the net aggregate operating costs incurred by the State totalled \$18.4 million, which included set-up and establishment costs of an operating nature of \$4.8 million, and depreciation and amortisation of \$6.6 million;

- ⦿ Payments primarily relating to electricity industry reform by the Department of Treasury and Finance to the 7 major external service providers, including consultants and contractors, totalled \$96.9 million in the 3 year period covering 1994-95 to 1996-97;

Notwithstanding the unique nature of the Government's electricity industry reform program and the limited expertise available from the private sector to assist in the reform process, audit nevertheless concluded that there was greater scope for more competitive processes to be adopted by the Department of Treasury and Finance in the engagement of consultants and contractors given the magnitude of taxpayers' resources involved in the reform process and paid to these external service providers;

- The aggregate value of the State's operating lease and capital commitments as at 30 June 1997 was \$2.6 billion, however, these do not include the State's commitments under outsourcing contracts entered into for the provision of services to the public sector;
- ⦿ In substance, the arrangements established by the Government for the sale and leaseback of motor vehicles within the budget sector constitute a financing facility, which should be included as part of the State's liabilities in the 1997-98 financial year;
- In February 1997, the State incurred costs totalling \$157.3 million associated with the World Congress Centre financing arrangements, which ultimately resulted in the legal ownership of the Centre reverting to the State;
- The total losses incurred by the State in relation to the inter-connector electricity trading activities with South Australia during the period July 1994 to May 1997 were \$147 million;
- ⦿ There had been no specific studies undertaken by the Department of Treasury and Finance relating to costs and efficiencies associated with the privatisation of public hospitals or the private provision of hospital services, such as the privatisation of health services in the Latrobe Valley;
- Technical problems continued to occur in relation to the pilot stage commissioning of the new automated ticketing system. Furthermore, as at the date of the preparation of the Report, the matters in dispute in relation to the automated ticketing system were awaiting expert determination and the Public Transport Corporation had issued the consortium with a contractual notice requiring performance under the service agreement in relation to the delivery of the pilot system; and
- Serious deficiencies were identified in the processes established within Gippsland Water for the letting of contracts in relation to the engagement of external service providers. Furthermore, the failure to specify clear measurable deliverables within certain contracts with external service providers precluded an audit assessment of whether Gippsland Water obtained value for money from such arrangements.

In recognition of the valuable contribution made by members of the Office to the production of the inaugural 1996-97 Government Annual Financial Statement, the Minister for Finance, the Hon. R. M. Hallam MLC, presented certificates of appreciation to the Auditor-General, Assistant Auditor-General (Statewide Financial Audit) and key members of the audit team.

REPORT ON MINISTERIAL PORTFOLIOS

The Auditor-General's *Report on Ministerial Portfolios* to the Parliament is a major financial audit output of the Office. The May 1998 Report featured the results of audit reviews of ministerial portfolios undertaken during the preceding 12 month period. Key matters raised in the Report are summarised below.

Maintenance backlog at schools

- The most recent assessment of the level of maintenance backlog in schools across the State indicates the need for expenditure of \$275.4 million over a 5 year period. Audit examination identified certain instances where maintenance requirements were underestimated, indicating a need to critically reassess the maintenance requirements of schools and the associated funding implications.
- Seventy-nine per cent of schools surveyed by audit supplemented the funding received from the Department with locally-raised funds or locally-provided labour to undertake urgent and ongoing maintenance.

Development of university IT systems

- Universities across Australia in 1991 agreed to develop administrative computing systems (CASMAC). However, in February 1997, a computer application forming part of the project developed by a third party repeatedly failed acceptance testing resulting in the termination of the associated contract and, as a consequence, the commencement of legal action.

Department of Human Services tendering procedures

- Departmental procedures do not require that a business case be developed when considering the outsourcing of functions or activities and, therefore, the Department is not in a position to determine whether the most cost-efficient and effective option has been selected for the provision of services.

Management of Residents' Amenities Funds for intellectual and disabled persons

- Audit identified that Residents' Amenities Funds were not only used to acquire goods and services for the use of residents but were also used to fund the normal operating activities of institutions.

Privatisation of bus services

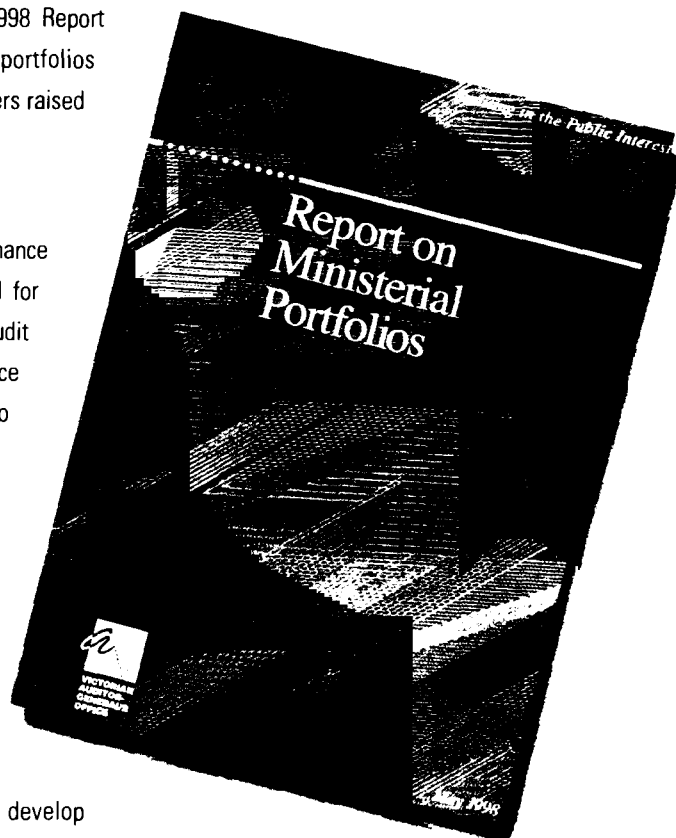
- The Government's Service Agreement with the National Bus Company was extended for more than 6 years without being subject to competitive tendering and is likely to result in a decrease in future savings to be achieved by the arrangement.

Public transport revenue and patronage levels

- An analysis of metropolitan rail patronage levels which assists in monitoring fare evasion was not possible due to the removal of passenger counters pending the installation and operation of the automated ticketing system.

Docklands redevelopment arrangements

- During December 1997, the Mirvac Group was announced as the successful developer for the Yarra Waters precinct of the Docklands redevelopment. However, the Mirvac Group has the option of not proceeding with individual stages of the Development where there is insufficient market demand, or it is not viable to do so.



Management of municipal business undertakings

- Of the \$1.4 billion of municipal services subjected to market testing, approximately one-third are provided by council in-house provider teams.
- In response to an audit survey, 12 councils with combined contract expenditure in excess of \$68 million were unable to identify the surpluses or losses generated during the 1996-97 financial year from their business unit operations. This management deficiency may expose ratepayers' funds to risk, particularly where such units provide services external to the council.

Charging for police services

- The Police (Charges) Regulations 1992 provide the legislative authority for Victoria Police to charge for services provided at sporting and other events, however, the Regulations currently inhibit the recovery of the full cost of providing these services.
- Audit found significant delays in the raising of accounts for Police services at a substantial number of events and identified delays in the approval of applications for the waiving of Police charges for certain events.



The Report examined the arrangements for the payment for police services at public events.

Poor tender specifications

- The Macedon Ranges Shire Council awarded a contract relating to road maintenance services valued at \$5.2 million to a third party, commencing from January 1997. However, the terms and conditions of the contract have been subjected to differing interpretations by the contractor and the Council due to a lack of clarity of the contractual obligations of both parties.
- During February 1998, a Deed of Amendment was entered into by the above parties clarifying various provisions of the initial contract and incorporating a variation to the contract totalling \$620 000 to enhance the level of service provided for unsealed roads.

Competitive tendering arrangements at the City of Greater Dandenong

- Notwithstanding the City of Greater Dandenong's tender evaluation panel's recommendation to award the contracts for maintenance of horticultural, parks and sports facilities to an external provider, councillors formally resolved to award the contracts to the in-house provider.
- In December 1997, a writ was lodged in the Victorian Supreme Court on behalf of the external provider seeking damages against the Council in excess of \$1.5 million.

Community-based orders by courts

- There were 6 000 community correction orders during 1996-97 representing a 3 per cent increase over the previous financial year. However, 27 per cent of these orders were revoked or breached.

Collection of fines and fees

- At 30 June 1997, \$324.5 million of fines, which were legally payable, were outstanding representing an increase of \$53.5 million (20 per cent) since the 1994-95 financial year.
- The *Magistrates Court (Amendment) Act* 1996 was passed by the Parliament which resulted in debts of \$112 million no longer being legally collectable.

Restructuring of water authorities

- Only 57 per cent of the population supplied by non-metropolitan water authorities received water that met the guidelines for microbiological quality. Of particular concern was that one-third of water that was treated did not meet the guidelines.
- The estimated cost associated with raising the quality of water to a standard consistent with the guidelines was in the order of \$288 million.
- Only 13 per cent of wastewater treatment plants operated by non-metropolitan water authorities fully met the Environment Protection Authority (EPA) Standards outlined in their licence agreements for the discharge of treated wastewater into waterways.
- The cost of upgrading non-metropolitan water authorities wastewater treatment plants to comply with their licensing agreements with the EPA has been estimated to be in the order of \$167 million.

Victorian Dairy Industry Authority Chinese joint venture

- The Victorian Dairy Industry Authority's share of the estimated losses in a joint venture in China to 30 June 1998 is expected to be \$564 000, with the joint venture costing the Authority in excess of \$1.2 million.
- The Authority did not incorporate a provision within the agreement to ensure that a pre-determined percentage of Victoria market milk and dairy products would be exported to China for utilisation by the joint venture. As a result, the Authority created the potential for its participation in the joint venture to be ultra vires.

Milk marketing

- The establishment of Australian Milk Marketing Pty Ltd (AMM) has created the situation where the Victorian Dairy Industry Authority has effectively relinquished control over its marketing function. The Authority's actions in forgoing its interest in AMM for nil consideration has resulted in a loss to the Authority of at least \$285 000.

The Year 2000 issue - The Millennium Bug

- None of the entities examined by audit are currently Year 2000 compliant. As certain entities examined were yet to begin replacing or converting non-compliant systems and other equipment, these entities face the risk that their businesses may be detrimentally affected by non-compliant systems.



The Report concluded that many public sector organisations may face potential risk due to their lack of preparedness for the Year 2000 issue.

Clearance of Yallourn Power Station site

- The potential cost to the State for the clearance of the Yallourn Power Station site is estimated at \$44.5 million, but the overall cost may increase by an additional amount of up to \$25.9 million as a result of a statement of claim lodged by the original contractor which was subject to litigation in the Supreme Court. However, a counter-claim amounting to \$10.7 million has been lodged by the SECV.

Trends in performance of public sector superannuation funds

- The State's unfunded superannuation liabilities which totalled \$15.6 billion as at 30 June 1997 represent the largest component of the State's liabilities after State debt.
- An important element of the government superannuation reforms was the modification of benefits available to employees with the closure of defined benefits schemes to new entrants and the establishment of accumulation schemes. Notwithstanding the government reforms, defined benefit schemes have been retained for operational emergency services employees, judges, senior law officers and parliamentarians.

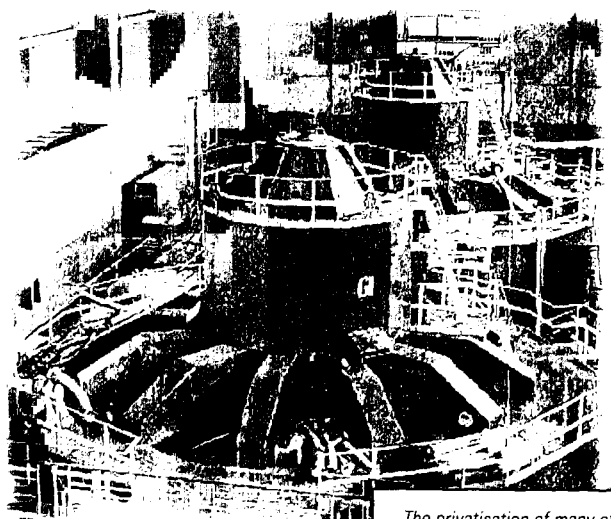
Financial standing of WorkCover

- The percentage of the WorkCover Scheme's net assets in relation to its outstanding claims liability has decreased from 102.9 per cent at 30 June 1995 to 92.4 per cent (deficit of \$292 million) at 31 December 1997.
- The key factors contributing to the reduced funding level of the WorkCover Scheme as at 31 December 1997 was a cumulative increase of \$1.2 billion, or 50 per cent, in the Scheme's outstanding claims liability since 30 June 1995 without the same corresponding increase in net assets.

Victorian electricity industry privatisation

- PowerNet Victoria's revenues are substantially secured, with the company currently deriving in excess of 95 per cent of its total revenues from its regulated transmission business.
- The total proceeds of \$2.7 billion received from the sale of PowerNet Victoria compared favourably with valuations obtained prior to the sale and was \$1.2 billion in excess of the book value of the business.
- The State obtained total proceeds of \$400 million in relation to the sale of Southern Hydro Ltd which compared favourably with valuations obtained prior to the sale and was \$115 million in excess of the book value of the business.
- It is estimated that the State will derive annual net savings of approximately \$760 million during the 1997-98 financial year from the electricity privatisations which have generated proceeds of \$21.7 billion to date.

The 1998 *Report of Ministerial Portfolios* continued the tradition of presenting quality reporting to the Parliament and Victorian taxpayers on the Office's annual auditing activities. The reaction to the Report also reinforced the strong and continued interest in the work of the Office by the Parliament, government and the public.



The privatisation of many of Victoria's power generating facilities were commented on in detail in the Report.

ASSESSMENT OF FINANCIAL AUDIT SERVICES

COST-EFFECTIVENESS AND TIMELINESS OF FINANCIAL AUDIT REPORTING PROCESS

The Office adopted the following 2 action targets in 1997-98 to assess its performance concerning the cost-effectiveness and timeliness of its financial audit process:

- 95 per cent of audit opinions on 1996-97 financial statements of audited agencies to be issued within statutory timelines; and
- at least 85 per cent of 1996-97 financial audits completed within approved cost budgets.

An analysis of the output of the Office in terms of financial audits which had met agreed timelines shows that 91 per cent of audit opinions were issued within established timeframes. In relation to the second target, a favourable outcome was achieved with 97 per cent of all financial audits completed within approved cost budgets.

SURVEY OF AGENCY SATISFACTION WITH FINANCIAL AUDIT SERVICES

As already discussed in this Annual Report, the Office undertakes a regular survey of agency satisfaction with the provision of financial audit services. The latest survey was undertaken during the 1997-98 financial year. Approximately 230 agencies responded to the survey.

The survey sought an indication of the importance agencies place on key attributes of the Office's financial audit services and their level of satisfaction with the Office's delivery of those same services.

The survey requested that agencies use the following rating scale to indicate the importance to them of each of the fourteen key attributes of financial audit services:

81 - 100	<i>Essential</i>
61 - 80	<i>Very important</i>
41 - 60	<i>Fairly important</i>
21 - 40	<i>Minor importance</i>
1 - 20	<i>Irrelevant</i>

The survey also requested that agencies use the following rating scale to indicate their assessed level of satisfaction with the delivery by the Office and contractors of the same set of financial audit service attributes:

81 - 100	<i>Exceeds my requirements</i>
61 - 80	<i>Exceeds some of my requirements</i>
41 - 60	<i>Meets my requirements</i>
21 - 40	<i>Fails to meet some of my requirements</i>
1 - 20	<i>Fails to meet any of my requirements</i>

It should be noted that, consistent with prior years, the survey of agencies did not seek comment on the Office's 2 key annual reports to the Parliament, namely, the Auditor-General's *Report on Ministerial Portfolios* and the *Report on the Government's Annual Financial Statement*.

The results of the survey showed a high standard of achievement, despite the fact that the survey dealt with a period which represented a time of substantial change and uncertainty for the Office. This reflects the commitment of the Office and its staff to the provision of high quality professional audit services and continuous improvement.

As part of the analysis of the results of the survey, a special focus was placed on those key service attributes where responses by agencies indicated that their requirements had not been completely met. In judging the significance of such rating outcomes, consideration was given to the level of importance placed on those same key service attributes by the agencies.

Agency assessment of financial audit process

As indicated in the following tables, the latest survey clearly demonstrates that agencies continue to place high expectations on financial audit services, and that the Office has been assessed by agencies as having delivered a high standard of service in respect of all key service attributes. On average, the provision by the Office of all key financial audit service attributes was assessed by agencies as having been met, with some of their requirements exceeded.

The overall average satisfaction level with financial audit services provided by the Office, as assessed by the agencies, was 73 per cent. This substantial achievement exceeds the Office target of 70 per cent and represents a consistently high standard of service by the Office.



Feedback from audited agencies indicated an overall satisfaction level of 73 per cent with financial audit services.

Nevertheless, specific feedback received from all individual agencies has been referred to the respective financial audit team within the Office to put in place an action plan to further explore ways of ensuring continuous improvement and, in particular, to address those areas where agency requirements have not been fully met.

The following table details agencies assessment of the importance of each individual key attribute of financial audit services.

**ASSESSMENT BY AUDITED AGENCIES OF
THE IMPORTANCE OF KEY FINANCIAL AUDIT SERVICE ATTRIBUTES**
(1997-98 survey)

Key service attribute	Importance of attribute to agency (average score)
Rated by agencies as an essential attribute -	
Knowledge and skill of audit staff	86
Timeliness of audit activity	86
Understanding your business and industry	84
Effective communication	84
Fairness of audit reports	84
Professionalism of audit staff	83
Responsiveness of audit staff	81
Rated by agencies as a very important attribute -	
Efficiency of audit activities	80
Quality and usefulness of audit reports	78
Attention from senior audit management	77
Treating you as an important client	76
Audit fees relative to audit activity	74
Continuity of audit staff	74
Provision of value added through audit process	72

Note: All key services attributes were, on average, rated by agencies within the above rating scales of essential and very important.

As indicated previously, the overall agency level of satisfaction with the delivery of financial audit services was 73 per cent. In addition, by way of a separate response, agencies provided an assessment of their level of satisfaction with each individual key attribute of financial audit services. Details of their level of satisfaction are outlined in the following table.

**AGENCIES' LEVEL OF SATISFACTION WITH
THE DELIVERY OF SPECIFIC ELEMENTS OF FINANCIAL AUDIT SERVICES**
(1997-98 survey)

Key service attribute	Agency satisfaction with audit services provided (average score)
Rated by agencies as having met all of their requirements, and exceeded some of their requirements -	
Professionalism of audit staff	72
Responsiveness of audit staff	71
Knowledge and skill of audit staff	70
Timeliness of audit activity	69
Attention from senior audit management	68
Fairness of audit reports	68
Treating you as an important client	68
Effective communication	68
Efficiency of audit activities	67
Understanding your business and industry	67
Continuity of audit staff	66
Quality and usefulness of audit reports	64
Rated by agencies as having met all of their requirements -	
Provision of value added through audit process	60
Audit fees relative to audit activity	56

Note: The delivery of all key services attributes were, on average, rated by agencies within the above rating scales of meeting all of their requirements and exceeded some of their requirements.

The Office's aim for the current 1997-98 audit cycle is to continue to strive for continuous improvement in financial audit services. However, as foreshadowed in the 1996-97 Annual Report of the Office, having previously reached such a high level of achievement in agency satisfaction, future improvement may not be as significant as that achieved in the prior survey period. In looking forward, this is particularly so given the continuing period of significant change confronting the Office and that the standards of service expected by agencies will continue to rise. However, the Office will always strive for continuous improvement in the provision of financial audit services.

AVERAGE COST OF AUDIT SERVICES

Some years ago, the Office introduced some specific performance indicators which provide, over time, an indication of the cost-effectiveness of its financial audit services. These performance indicators compare, for audits using in-house resources and those involving private sector contractors, the average annual audit cost to the Office per each million dollars of income and expenditure transactions, as well as assets held.

For 1997-98, the indicators disclose that in-house auditing costs are considerably less expensive than similar costs incurred by contractors. The following table illustrates the position for the year.

AVERAGE COST OF AUDIT SERVICES, 1997-98

(\$)

<i>Audits undertaken by -</i>	<i>Average cost per \$million of -</i>		
	<i>Income</i>	<i>Expenditure</i>	<i>Assets</i>
In-house staff	222	240	83
Contractors	636	584	182

Notwithstanding the above cost differentials, the Office is now obliged under legislation to contract-out all financial audits.

PERFORMANCE AUDIT OPERATIONS



Strategic Direction 3 : Build on the Office's substantial achievements to preserve its position at the leading edge of performance auditing by world standards

PERFORMANCE AUDIT LEGISLATION

A "performance audit" is broadly defined as an audit which evaluates whether an organisation uses its resources economically and efficiently in order to effectively meet its objectives. Such audits are undertaken in accordance with section 16 of the *Audit Act* 1994 and are funded from Parliament's appropriation, following consultation with the Public Accounts and Estimates Committee on the annual audit program developed by the Auditor-General.

In addition to the above audits, section 20 of the *Audit Act* provides the Auditor-General with powers of access to documents of private or public sector recipients of government financial assistance for the purpose of determining whether such assistance has been applied economically, efficiently and effectively, or of evaluating the performance of government programs.

As previously mentioned in this Annual Report the December 1997 amendments of the *Audit Act* 1994 required the Auditor-General to appoint external contractors, following a process of contestability to assist in the carrying out of all performance audits. This contestability regime is to be implemented progressively from 1 July 1998.

All performance audits in progress at 30 June 1998 have been assigned to Audit Victoria (a new Government statutory body) under the transitional provisions of the legislation.

PERFORMANCE AUDIT METHODOLOGY

VICTORIAN PERFORMANCE AUDIT METHODOLOGY

The Victorian Performance Audit Methodology (VPAM), originally developed by the Victorian Auditor-General's Office in 1991 and subsequently amended on a needs basis thereafter, provides a framework for the conduct of performance audits. It addresses both conceptual and policy issues, and establishes sound procedures to be followed during the planning, resourcing, implementation and reporting phases of an audit, as well as in communicating with audited agencies and engaging specialist assistance. In short, VPAM is designed to ensure that performance audits are conducted in an efficient manner and produce high quality Reports to the Parliament.

In line with the new audit arrangements that emerged from the recent Government review of the *Audit Act* 1994 under the National Competition Policy, VPAM is to undergo a major revision to reflect the changed role of the Victorian Auditor-General's Office in the performance audit process. Policy formulation will be directed at issues surrounding tender and contract procedures, the establishment of a database of approved contractors and the role of the Office in interacting with public sector agencies in terms of audit planning and reporting.

PERFORMANCE AUDIT OPERATIONS RESOURCING STRATEGY

EXTERNAL SPECIALIST ASSISTANCE ON PERFORMANCE AUDITS

As a consequence of the future application of contestability to performance audits under legislative changes effective from 1 July 1998, the 1997-98 financial year represented the final period during which all performance audits were conducted by in-house staff.

Performance audits were undertaken by Office staff with qualifications and practical experience in a range of areas such as program evaluation, social sciences, economics, science and finance. These staff possess unique expertise in external performance auditing and reporting, covering resource management issues within a public sector environment, including audits within individual agencies and extending across a range of agencies.

To complement the multi-disciplinary in-house staff, external specialists are engaged to provide specific advice and assistance to the Office. This process was adopted to add credibility to the outcome of those audits where skills and knowledge in the subject area were not available and it was not cost-effective for the Office to engage such skills on an ongoing basis. The cost-effective management of specialists participating in performance audits has been a prime responsibility of the in-house audit staff.

In most cases, specialists who assist on performance audits were engaged following a competitive tendering process.

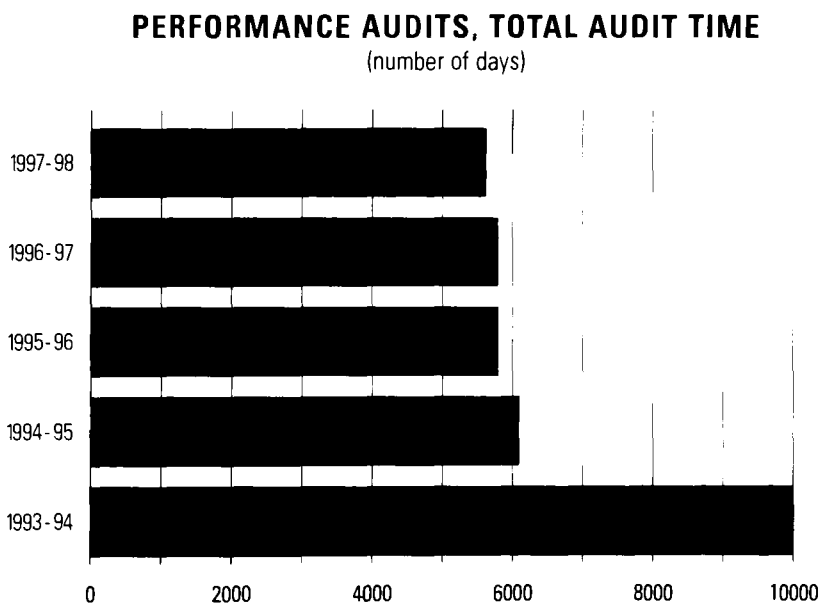
The use of external specialists to assist in the planning and reporting phases of performance audits under the legislative framework will continue as an integral part of the Office's performance audit resourcing strategy.



Consultation with community groups provides valuable input to the performance audit planning process.

ALLOCATION OF RESOURCES TO AUDITS

The following chart depicts the trends in audit time spent in terms of resources directed to performance audits over the past 5 years.



From and inclusive of 1994-95, the above chart excludes resources used on special audits reported to the Parliament in the Auditor-General's *Report on Ministerial Portfolios*.

CONSULTATION WITH THE PARLIAMENT'S PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Under the terms of the *Audit Act* 1994, the Office's annual performance audit program is determined by the Auditor-General in consultation with the Public Accounts and Estimates Committee of the Parliament. The legislation also provides for the cost of performance audits to be met from moneys appropriated to the Parliament.

A framework has been agreed by the Office with the Committee for periodic liaison concerning the annual performance audit program. In this regard, meetings were held during the year with the Committee on the audit program and the related funding needs for 1998-99.

PERFORMANCE AUDIT DATABASE

The Office maintains a performance audit database which consolidates information and knowledge on potential audit topics gathered by the Office from various sources each year. The periodic updating of this database provides an important basis for consultation with the Public Accounts and Estimates Committee on the Office's annual performance audit program.

PERFORMANCE AUDIT REPORTS PRESENTED TO THE PARLIAMENT

Performance audits undertaken by the Office are usually presented to the Parliament in Special Reports of the Auditor-General. Details of all Special Reports prepared by the Office and presented to the Parliament during 1997-98 are set out below.

SPECIAL REPORT NO. 50 METROPOLITAN AMBULANCE SERVICE: FULFILLING A VITAL COMMUNITY NEED

Special Report No. 50 was tabled in the Parliament in November 1997. The overall objective of the audit was to assess the extent to which the Metropolitan Ambulance Service was achieving its objectives, particularly in regard to its ability to respond rapidly to emergency situations, deliver skilled medical services in its role as a first point of contact for Victoria's health care network and provide non-emergency transport to persons requiring these services.

The Metropolitan Ambulance Service is responsible for providing emergency patient transport, pre-hospital care, and non-emergency stretcher and clinic car transport services for around 3.2 million people throughout the Melbourne metropolitan and Mornington Peninsula regions, an area of almost 10 000 square kilometres. Calltaking, dispatching and communications functions are undertaken by Intergraph (a private sector entity) under contract to the Service.

Specialist external advice was provided to the audit team in areas relating to:

- an examination of the standard of clinical care provided by the Service;
- a technical evaluation of the Service's communications system; and
- the statistical analysis of certain components of calltaking and dispatching functions.

The audit found that within existing financial and resource constraints, the Service was providing a high quality service to the community. The capacity to achieve further efficiency gains leading to internal savings was found to be very limited, particularly in view of the contractual arrangements for outsourced services which have been entered into in previous years in conjunction with the existing enterprise agreement with ambulance staff.

The key findings of the Report included:

- Intergraph's performance in relation to its calltaking and dispatching responsibilities, although gradually improving, is still below the performance measures required of it by the Service. As a result, the Service had withheld moneys from its monthly service charges payable to Intergraph under the terms of the contract;
- A major disagreement between the Service and Intergraph concerning the appropriateness and legality of performance measures needs to be resolved as quickly as possible;
- A very strong interrelationship was found between the percentage of daily calls directed to Intergraph that are abandoned and the average daily call answer time. Research to determine the reasons for the incidence of abandoned calls which are around 17 000 a year is warranted;
- The use of emergency resources for transport that could be undertaken by non-emergency transport operators is viewed by many ambulance crews as the most critical factor that reduces the availability of ambulances for emergency cases;
- In almost 6 per cent of all emergency cases during the period December 1996 to April 1997, Intergraph dispatchers were unable to locate nearby available ambulances to attend emergencies, especially in certain areas around Melbourne;
- The low level of the Service's emergency vehicle fleet is considered by the Service to represent a high risk in terms of its emergency response capability;
- The mapping facility underpinning Intergraph's system is not subject to continuous updating, thereby limiting its overall effectiveness in rapidly identifying the location of emergencies;
- For 1996-97, the Service's response times performance was mainly within its target of 16 minutes for 90 per cent of Code 1 emergencies, despite a significant increase in workloads; and
- By the year 2000, the Service expects to be meeting a more stringent response time target, 12 minutes for 90 per cent of Code 1 emergencies, which is broadly consistent with existing international benchmarks.



The calltaking and dispatch systems operated by a private sector contractor were assessed by audit as below the performance measures required by the Metropolitan Ambulance Service.

The Report was received positively by the Department of Human Services and Executive Management within the Metropolitan Ambulance Service. The Service, in conjunction with the Department of Human Services, has pursued most of the audit recommendations. A particularly pleasing result of the performance audit has been an undertaking by Service management to ensure that the Report is used as an opportunity for continuous improvement and future action. To this end, Service management have established a detailed program of action to ensure maximum value is obtained from audit findings and recommendations. The Service is providing the Auditor-General with periodic progress reports on the implementation of this action program.

The Government has recently announced plans to significantly increase the overall resource capability of the Service following its assessment of the audit findings dealing with this aspect of the Service.

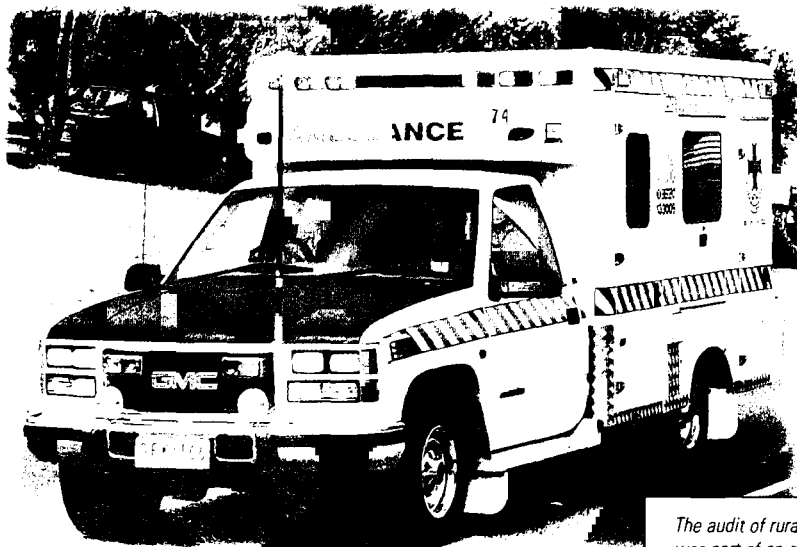
***SPECIAL REPORT NO. 51
VICTORIAN RURAL AMBULANCE SERVICES:
FULFILLING A VITAL COMMUNITY NEED***

Special Report No. 51, which was tabled in November 1997, related to a performance audit of the State's 6 rural ambulance services. Each of these services is responsible for the delivery of ambulance services within distinct geographical boundaries throughout the State.

The audit of rural ambulance services was completed as part of an overall review of the State's ambulance services and was issued in conjunction with Special Report No. 50 relating to the Metropolitan Ambulance Service. A separate audit of rural services was undertaken as, while many of the challenges facing rural services were common to those facing the metropolitan service, there was also a range of financial and operational matters of specific relevance to the delivery of ambulance services in less populated areas of the State.

Major findings of the audit were that:

- rural ambulance services need to attain an appropriate balance between the high cost of maintaining resources in areas with low and variable case loads and the risk to community health and safety of any reductions in the speed and quality of response by ambulance officers;
- without suitable performance benchmarks, the community was not in a position to assess the standard of services it could expect of its rural ambulance services;
- modernisation of communications systems, especially by greater use of state-of-the-art technology, would facilitate improvements in the timeliness and quality of response by rural ambulances; and
- with the exception of the South Western Service, all rural services were likely to incur financial problems in the foreseeable future in the absence of specific remedial action.



The audit of rural ambulance services was part of an overall review of the State's ambulance services

Overall, the audit concluded that the creation of a single ambulance service for the State would represent an effective means of delivering ambulance services to the community and provide opportunities to enhance efficiency in ambulance operations.

Since the tabling of the Special Report, the Government has announced its intention to amalgamate 5 rural services into a single rural ambulance service, a move designed to free up resources and streamline management. A specific audit recommendation along this line was included in the Special Report.

SPECIAL REPORT NO. 52
SCHOOLS OF THE FUTURE: VALUING ACCOUNTABILITY

In recognition of the need to put in place an accountability mechanism to complement the devolution of responsibility for school management from the centralised control of the Department of Education to the local school community occurring under the Schools of the Future program, an Accountability Framework was developed and, commencing in August 1994, adopted by schools.

Special Report No. 52, which was tabled in Parliament in December 1997, documented the results of an audit directed at assessing whether the Schools of the Future Accountability Framework was an effective mechanism for assisting in evaluating and improving school performance, including student learning outcomes. The Accountability Framework comprises a school charter, a school annual report and a triennial school review. As the framework constitutes a key component of the Schools of the Future program, it was important to undertake an audit of its effectiveness.

Specialist advice was provided to audit by the Australian Council for Educational Research and the University of Melbourne. A market research firm, Quadrant Research Services (Vic) Pty Ltd, was also engaged to conduct a survey of parents and provide an analysis of the results.

The key findings of the Report included:

- The introduction of the Accountability Framework constitutes a significant advancement in terms of measuring school performance and is, in the view of the Department, in line with world best practice and formalises a school's commitment to improving student learning outcomes;
- Schools were highly supportive of the new requirements for more formalised and objective reporting of school performance, reinforcing the direction taken by the Department;
- In terms of ultimately achieving the aims of the Framework, scope exists for the Department to build on past achievements in a range of areas including assessing the direct contribution a school has made to student learning by removing the effects attributable to factors external to the school environment and strengthening the evaluative role of the Framework;
- While it is appropriate that the Department has commenced with the academic aspects of learning in assessing school performance, attention should also be given to developing performance measures for the other equally important goals of school education, including welfare and social and cultural development; and
- At the time of the audit, neither the Department nor individual schools had established formal mechanisms to monitor the volume of financial and physical resources used by schools in meeting the new accountability requirements or formally assessed the cost-effectiveness of the Framework.

The Report was well received by the Secretary, Department of Education who generally accepted the audit findings and stated, *"You can be assured that the Department of Education, through the Office of Review, will take the recommendations contained in the Report seriously"*.

SPECIAL REPORT NO. 53
VICTORIA'S MULTI-AGENCY APPROACH TO EMERGENCY SERVICES:
A FOCUS ON PUBLIC SAFETY

Tabled in Parliament during December 1997, Special Report No. 53 documented the results of an audit examination of a major government project involving the development and implementation of a multi-agency computerised calltaking and dispatch system under an outsourcing arrangement with Intergraph, a private sector entity.

The delivery of emergency services is a key function of government and its agencies. A critical factor impacting on the delivery of these services is the effectiveness of communication systems operating to receive and respond to calls for emergency assistance. Accordingly, any major developments to these systems, such as implementation of the computerised calltaking and dispatch system, are of major importance to the Victorian community.

It was therefore considered desirable for a performance audit to be undertaken with particular emphasis to be placed on the strategic processes adopted by the Bureau of Emergency Services Telecommunications (BEST) to select a private sector service provider and on the operational impact of the new multi-agency system on the State's emergency service organisations.

Specialist advice was provided by representatives of Lanes Telecommunications Ltd. The advice covered the adequacy of processes to control telephone calls for emergency assistance received by Telstra and the forwarding of these calls to Intergraph, and the subsequent processing of these calls through the Intergraph system. Advice was also received from Bovis McLachlan Pty Ltd, Management Consultants, in relation to issues associated with the contract between the State and Intergraph.

The key findings of the Report included:

- Shortlisted bidders were not advised of the potential impact of BEST's emerging concerns at the contents of a separate contract between the Metropolitan Ambulance Service and Intergraph, and the difficulties likely to be experienced in integrating the Service's system with the multi-agency system;
- While audit did not suggest that the appointment of Intergraph, which submitted the lower bid of the 2 final bidders, was an inappropriate decision, a soundly documented management trail was clearly lacking in that detailed documentation supporting key aspects was prepared after the final decision was made and certain critical documentation could not be produced for audit examination;
- Substantial work is still required by BEST in order that the State can be in a position to fully capitalise on the benefits anticipated in 1994 from a multi-agency calltaking and dispatch system; and



Special Report No.53 examined the ability of Victoria's emergency services to be co-ordinated and dispatched effectively through a Statewide calltaking and dispatch system.

- While savings over a 7 year period of between \$46 million and \$111 million were identified by the former Public Bodies Review Committee, to date, the various participating emergency service organisations have not generated any significant cost savings from their involvement with the outsourced multi-agency system operated by Intergraph.

BEST's chief executive officer has described the Government's actions currently underway in Victoria involving the development and operation of a multi-agency computerised calltaking and dispatch system as "... probably the most significant public safety project in Australia at this point of time". This view is shared by audit.

There was no doubt, in audit opinion, that the system developed by Intergraph exhibited many technologically advanced features. This system would, if performing to its absolute potential, provide the State with a centralised emergency response capability clearly superior in terms of functionality and reliability to the individual systems previously operated by the emergency service organisations.

BEST, through its ongoing strategic liaison with the emergency service organisations and Intergraph, is progressively resolving a number of problems which have been experienced in the early years of this major project. Audit concluded that in time, under the direction of BEST, Victoria should have in place an emergency response infrastructure regarded nationally and internationally as clearly leading edge.

The high degree of public interest in the State's multi-agency calltaking and dispatch system, and the significance of the audit findings, resulted in extensive media coverage and community comment.

**SPECIAL REPORT NO. 54
VICTORIA'S GAMING INDUSTRY:
AN INSIGHT INTO THE ROLE OF THE REGULATOR**

Since the introduction of electronic gaming machines and the establishment of a casino adjacent to the business centre of Melbourne, the Victorian gaming industry has experienced significant growth. As an illustration, aggregate net revenue (after payment of player prizes) from electronic gaming machines (with the exception of the casino) reached \$1.4 billion in 1996-97. The Authority, which is an independent statutory body, has the major and challenging task of ensuring that the State's gambling activities are conducted honestly and remain free from criminal influence and exploitation.

Special Report No. 54 was presented to the Parliament in March 1998 and documented the results of a performance audit which evaluated the overall effectiveness of the manner in which the Victorian Casino and Gaming Authority discharged its regulatory responsibilities.

Specialist assistance relating to an examination of the Authority's technical and functional standards for gaming systems and equipment, and evaluation of the testing strategies employed by the Authority's contracted testing laboratories was provided to audit by representatives of the Department of Computer Sciences, Monash University.

The key conclusion reached in the Report was that an effective regulator was overseeing the day-to-day workings of a major Victorian industry. This conclusion reflected the overall professionalism and competence exhibited by the Authority in managing its vital regulatory role. Specific findings of the Report included:

- Several issues identified by audit concerning the limited level of information currently available to players of electronic gaming machines pointed to a need for the Authority to widen its official regulatory approach to the concept of player fairness. The Authority should drive the development and dissemination within the industry of a Players' Charter which articulates the whole range of information deemed as essential to players in order that their position in terms of fairness is totally assured;

- The standards developed by the Authority for testing and evaluation of gaming systems and equipment have been instrumental in assisting the establishment of technical integrity in the conduct of gambling activities within the State. Scope exists for the Authority to further enhance the effectiveness of its standards and testing processes in several important technical areas integral to game software within electronic gaming machines;
- The Authority's monitoring and inspectorial activities relating to approved gaming systems and operations are soundly managed;
- The collective efforts of several parties, namely, members of the Authority, the Authority's Director of Casino Surveillance, casino inspectors appointed by that Director, members of the Victoria Police Casino Crime Unit and the casino operator through the casino surveillance staff, contribute to ensuring that gaming in the casino is conducted honestly; and
- There have been significant shortcomings in the Authority's licensing methodology utilised by its staff in investigating licence and approval applications since the introduction in 1992-93 of electronic gaming machines. In response to this position, the Authority has been progressively developing new procedural guidelines for the assessment of licence applications with an initial focus on applications to operate a gaming venue.



The performance audit on the Victorian gaming industry evaluated the overall effectiveness of the Victorian Casino and Gaming Authority in discharging its regulatory role.

The Report was received positively by the Victorian Casino and Gaming Authority. In the lead-in to the organisation's response to the Report, the Director of Gaming and Betting stated that, *"The staff of the Victorian Auditor-General's Office have conducted this audit in a very professional and open manner. Their preparedness to consult and communicate was very much appreciated by me and my staff"*.

SPECIAL REPORT NO. 55**CHILD CARE AND KINDERGARTENS: CARING ABOUT QUALITY**

A performance audit of State and local government agencies and various service providers in relation to children's services was undertaken in 1997 and the findings were reported to the Parliament in April 1998. The audit was undertaken in recognition of the community's increased use of child care centres and kindergartens, and was timed to provide suggestions to proposed changes to the legislative framework and State and local government management arrangements.

During the audit, specialist assistance was provided to the Office by a Panel of Advisers comprising experts from the private and community-based child care sectors and the early childhood development field. Quality assessments of individual services were undertaken by contractors with qualifications and extensive experience in delivering quality children's services and teaching in early childhood development. Advice on selecting the sample of services subject to quality assessments and in interpreting results was provided by a statistician.

Anecdotal evidence from the children's services industry indicated that the Report was well received and continues to be the subject of considerable interest and to stimulate debate. Community feedback included, *"This is an admirable Report ... It is outstanding in the identification of issues; the criteria for assessment; the rigorous methodology and interpretation of data; and the attention to critical responses. The report also reinforces for me the importance of the independence of the Auditor-General's Office. Your Report 55 gives me hope because you have supplied the missing tools for positive action"*. A number of approaches have been made to the Office from children's services centres seeking advice and to obtain further information regarding the audit. However, the Department of Human Services failed to give credence to the findings of the Report stating that the significant matters raised were being addressed through legislative and administrative change.

Some of the key findings of the audit included:

- The quality of programs provided for infants and young children was found to be poor, with many not meeting minimum standards in relation to key factors influencing outcomes for children;
- The interactions between staff and children, a factor seen by early childhood development specialists as the most important determinant of quality, were often poor;
- Practices of the Department of Human Services did not provide assurance that only suitable people were approved to control and manage children's services, or to be in contact with children;
- Services with high levels of, or continuing, non-compliance with regulations were allowed to continue to operate without strong enforcement by the Department;
- For the past 5 years, the Department has reported that around 90 per cent of Victorian 4 year old children participated in a preschool program. However, the enrolment numbers used as a basis of the calculation of the participation rate had not been verified by the Department; and
- Since 1993, a large proportion of preschool costs has been shifted from the Government to parents. Fees have increased by 120 per cent and parents have contributed increased resources as a consequence of the, transfer of certain responsibilities to parent-run committees of management and in response to fundraising activities.



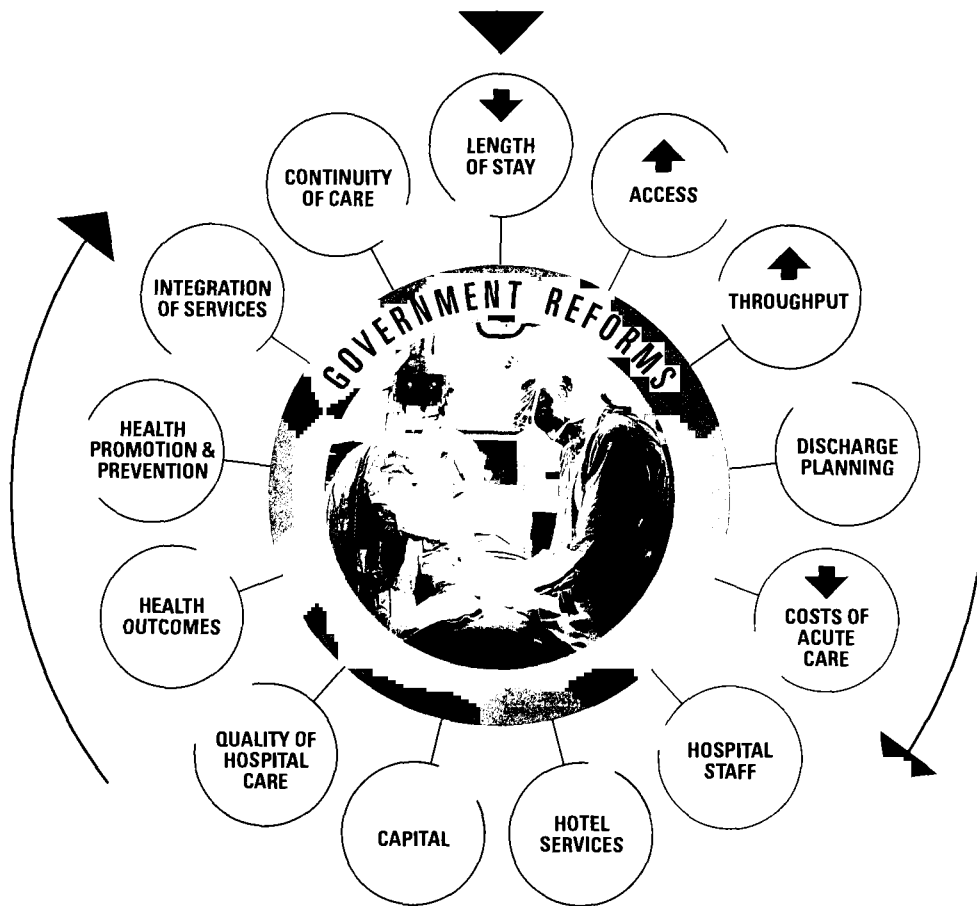
The performance audit of community-based long day care centres provided suggestions for proposed changes to government management arrangements.

SPECIAL REPORT NO. 56
ACUTE HEALTH SERVICES UNDER CASEMIX: A CASE OF MIXED PRIORITIES

Tabled in May 1998, the Report provided an opportunity for information to be disclosed in relation to the way in which one of the Government's major reforms in a key industry sector had been implemented. In this regard, the audit was directed at assessing, at a macro-level, whether certain aspects of acute health services funded under casemix were effectively managed by the Department of Human Services, health care networks and hospitals. The audit covered issues such as quality of patient care, access to acute health services, efficiency gains, the casemix formula, secondary impacts, and objectives and roles.

A diagrammatic presentation of various factors connected with the impact of government reform in the delivery of acute health services is shown below.

**FACTORS ASSOCIATED WITH
GOVERNMENT REFORMS IN ACUTE HEALTH**



(Photo in chart reproduced with the permission of the Mildura Base Hospital.)

In the absence of reliable performance indicators of quality, a Statewide market survey, which formed an integral part of the audit, was commissioned to examine the views of the most senior clinicians in relation to the quality of patient care. These clinicians were drawn from 28 of the State's largest metropolitan and non-metropolitan hospitals (as well as 2 small country-based hospitals) which covered approximately 85 per cent of the State's throughput. Of the respondents, 8 out of every 10 senior doctors and charge nurses had worked in the Victorian public hospital system for over 10 years.

Due to the technical nature and sensitivity of this topic, specialist advice was sought from a wide range of experts in health care management and statistical design and analysis. This authoritative input ensured that the audit findings were credible and relevant to the acute health industry and the public.

The major conclusions and findings drawn from the audit included:

- Casemix, which is a sophisticated output-funding instrument, was a superior mechanism to the previous historically-based budgeting process;
- Significant efficiencies were achieved in terms of increased throughput (predominantly in Same Day admissions), productivity gains, cost savings in hospital services, improved access to elective and emergency services, shorter length of hospital stays and fewer situations where hospitals have needed to revert to ambulance bypass;
- There was a prima facie case to suggest that the pace and breadth of change derived from the relatively narrow policy focus of achieving efficiency gains in the formative years of casemix funding were factors which had adversely impacted on some aspects of quality of patient care. The overwhelming majority of senior clinicians, who according to specialist advice obtained by audit were best placed to assess the quality of care, felt that quality has deteriorated since the massive reforms were introduced into the public hospital system in Victoria some 5 years ago;
- Net current assets of health care network hospitals declined by 94 per cent from \$76 million to \$4.4 million between 30 June 1993 and 30 June 1997; and
- The operating surpluses of health care network hospitals (before capital, depreciation and abnormal items) declined by 88 per cent from \$80.8 million to \$9.4 million between 30 June 1993 and 30 June 1997. In addition to the Western Health Care Network, 19 hospitals recorded operating deficits for 1996-97.



Celinda Estallo and Peter Stoppa developed many of the major audit findings arising from the review of acute health services funded under casemix.

Many issues raised in the Report have been the subject of public debate since its release. Community feedback on the Report included, *"The Report is clearly impressive in its detailed coverage of such a complex issue in a way that makes sense to the layman"*. It has been reassuring that the Minister for Health indicated that the Report provides value to the Department of Human Services and the acute health industry. In addition, it is pleasing that the Department has agreed to undertake special endeavours in conjunction with the networks, clinicians and hospitals to address the major issues.

SPECIAL REPORT NO. 57
PUBLIC TRANSPORT REFORMS: MOVING FROM A SYSTEM TO A SERVICE

In 1993, the Government in conjunction with the Public Transport Corporation (PTC) embarked on a major reform program in public transport in Victoria. The objectives of the program were to achieve ongoing savings in the public transport budget of \$245 million by December 1995 and to provide world class transport services in Victoria. The audit sought to determine whether the objectives of the program were met. The Special Report was presented to Parliament in May 1998.

Specialist advice was provided to the audit team by the Transport Research Centre in relation to an evaluation of the performance measures developed by Met Trains, Met Tram and V/Line Passenger Services, and comparison of these measures with those used in selected overseas transport systems.

The key findings of the Report included:

- By 30 June 1996, implementation of the first stage of the public transport reform program had resulted in a reduction of \$245 million in taxpayers' annual contributions to the operation budget for public transport;
- A distinctive feature of the management reform actions taken by the PTC under the program was the magnitude of reductions in the transport workforce, which had fallen by around 9 600 staff as at 30 June 1997;
- After 6 years of cost cutting and rationalisation of PTC operations, there appears to be limited scope for further large savings in an environment where a substantial proportion of existing rolling stock will need replacement over the next few years;
- The PTC deserves specific recognition for its management of a wide range of reform actions which led to attainment of the challenging and significant financial objective set by the Government;
- The performance of public transport in service delivery and punctuality progressively improved during the reform program as a result of a range of PTC management strategies. An exception to the overall improvement trend has been a deterioration in the delivery of suburban train services during peak periods;



The findings of the Office's performance audit of the Public Transport Reform Program were welcomed by the Minister for Transport.

- For the financial benefits generated under the program to be sustained, it will be important for the PTC to take effective action in 2 key areas, namely, successful implementation of the automatic ticketing system and development of a strategy to control and accurately monitor fare evasion within the automated ticketing environment;
- Achievement of significant patronage growth in the future will require substantial capital outlays for expansion of the transport network to service Melbourne's outer growth areas and for upgrading existing infrastructure (i.e. tracks, signals, stations etc.) in the metropolitan area. Further, much of the country rail infrastructure will need to be improved substantially if high-speed modern trains are to be deployed in the future; and
- The Government has the major task of ensuring its privatisation strategies build upon the past achievements under its reform program and bring about higher quality and less costly public transport services, equivalent to world class standards.

In a news release concerning the Report, the Minister for Transport said that the State Government "... welcomed a report by the Victorian Auditor-General, which confirms the improvements in the cost recovery and operation of the Victorian transport system since 1993". In addition, the Minister said, "... the Auditor-General had recommended continued vigilance in implementing automated ticketing and combating fare evasion" and "... the Auditor-General had also made positive suggestions in lifting train and tram speeds to increase attractiveness of these transport modes".

In addition, in recognition of the importance of the Report, the Shadow Minister for Transport also released a media statement outlining the Opposition's perspective on the range of important issues raised in the Report, including "the ability of privatisation contracts to provide capital funding for new rolling stock and the extension of rail services to the outer suburbs".

ASSESSMENT OF PERFORMANCE AUDITS

COST-EFFECTIVENESS AND TIMELINESS OF PERFORMANCE AUDITS

The Office established the following 2 action targets in 1997-98 to assess the cost-effectiveness and timeliness of its performance audits:

- time and cost budgets established at the completion of audit planning, i.e. not adjusted to take account of conditions or factors subsequently impacting on the audit, to be met or not exceeded by more than 10 per cent for 85 per cent of performance audits; and
- positive external assessments received for at least 75 per cent of performance audit reports.

Achievement of time and cost budgets

Assessment of time and cost data in relation to performance audits indicated that, on average, excluding 2 audits where exceptional circumstances arose, the audits completed during the period exceeded initially set time and cost budgets by 0.4 per cent and 5.4 per cent, respectively. In view of the fact that many factors can progressively raise and impact on the timing and complexity of a performance audit during its course, the Office's performance in this area was considered to be most satisfactory.

External assessment of performance audits

Approximately 8 weeks after the completion of each performance audit, audited agencies are requested to provide their assessment of the Office's performance audit process. The survey forwarded to each agency also seeks an evaluation of the quality of the performance audit report. Feedback on the audit report is also sought from external organisations including the Public Accounts and Estimates Committee, and international and interstate audit offices. The results of surveys of audit process and of audit reports appear below.



Feedback provided by agencies expressed high satisfaction with the Office's performance audit services.

Performance audit process

The survey document seeks assessments from the agency in terms of their agreement or disagreement with the following elements of the audit process:

- courtesy of audit staff;
- professionalism of the manner in which the audit was conducted;
- general understanding of the audit topic by Office staff;
- understanding by audit staff of the relevance of the topic to the overall objectives of the audited agency;
- extent to which senior representatives of the agency were regularly advised of the progress of the audit;
- whether sufficient opportunity was given to the audited agency to comment on audit findings and recommendations during the report clearance process; and
- suitability to the agency of the method used by audit for communicating audit findings.

During 1997-98, 9 responses covering 6 performance audits were received from agencies in relation to completed performance audits. It was very pleasing to note that all responses received were positive. The feedback provided by agencies expressed satisfaction levels ranging from 82 to 100 per cent, with an overall average of 90 per cent satisfaction, which compares very favourably with the Office's performance target of a 75 per cent satisfaction level.

The Office's target for 1998-99 in this area is continue to pursue strategies aimed at further enhancing the quality of performance audit services to audited agencies.

Performance audit reports

The survey document forwarded to the agencies calls for responses on the quality and usefulness of the audit report, in terms of whether:

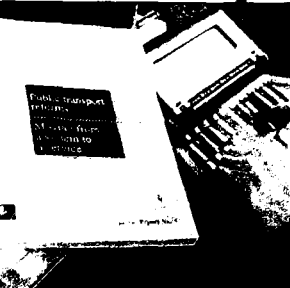
- the issues addressed in the report were of relevance to the audited agency;
- the timing of the report enabled facilitation of action by the agency;
- action was initiated or planned as a result of issues addressed in the report;
- issues raised were of public interest;
- the report added value in terms of strengthening accountability;
- the issues raised were fairly presented;
- the executive summary accurately summarised the detailed findings; and
- the report was not too long or too negative, and was easy to understand.

Survey documents forwarded to the Public Accounts and Estimates Committee, and international and interstate audit offices sought feedback regarding the usefulness, readability and logic of performance audit reports published by the Office.

During 1997-98, survey responses in respect of 5 performance audit reports were received from audited agencies while responses in relation to 3 reports were provided by external organisations. All responses were positive with an overall satisfaction level of 83 per cent expressed by audited agencies and 82 per cent by external organisations. This position compared favourably with the Office's target for the year, namely, "positive external assessments received for at least 75 per cent of audits".

The Office's target for 1998-99 in this area is to continue to strive for further improvements in performance audit reports with positive external assessments received for at least 75 per cent of audits.

4 OFFICE STAFF



Strategic Direction 4: Provide a work environment which recognises the importance of a professional, highly motivated and skilled workforce as the Office's most valuable resource

OFFICE EXECUTIVE

The Office Executive, which acts as a Board of Management, comprises in addition to the Auditor-General, the Deputy Auditor-General and 2 Assistant Auditors-General, each of whom was responsible during the year for a discrete business group with either financial or performance audit functions, together with a support or policy group. The Deputy Auditor-General retains a variety of overall corporate management responsibilities and deputises in the absence of the Auditor-General.



**Ches Baragwanath (FCPA)
Auditor-General of Victoria**

Mr Baragwanath was appointed to the position in 1988 after previous service with the Australian National Audit Office and the then State Electricity Commission of Victoria. He was the inaugural Chairman of the Australian Society of Certified Practising Accountants (ASCPA) Audit Centre of Excellence, the Australian representative on the Public Sector Committee of the International Federation of Accountants during the period 1990-1992 and is a former President of the Victorian Division of the ASCPA.



**Graham Hamilton (CPA, RCA)
Deputy Auditor-General**

Before being appointed as Deputy Auditor-General in 1990, Mr Hamilton managed a wide range of financial and performance audits. Over recent years, he has maintained a strong focus on performance auditing and has overseen its expansion and continued development in the Office.

**Russell A. Walker (FCPA [Auditing])
Assistant Auditor-General**

Mr Walker has Statewide responsibility for financial audits which includes overall responsibility for the Auditor-General's Reports to the Parliament on Ministerial Portfolios and the Government's Annual Financial Statement. Before appointment to the position in 1987, Mr Walker gained a wide range of experience in the management of both financial and performance audits. Mr Walker is a member of the External Reporting Centre of Excellence of the Australian Society of Certified Practising Accountants, represents the Australian Council of Auditors-General (ACAG) on the Consultative Group to the Public Sector Accounting Standards Board, is a member of the Victorian Financial Reporting Advisory Panel of the Institute of Chartered Accountants and is Chairman of the ACAG Liaison Committee.

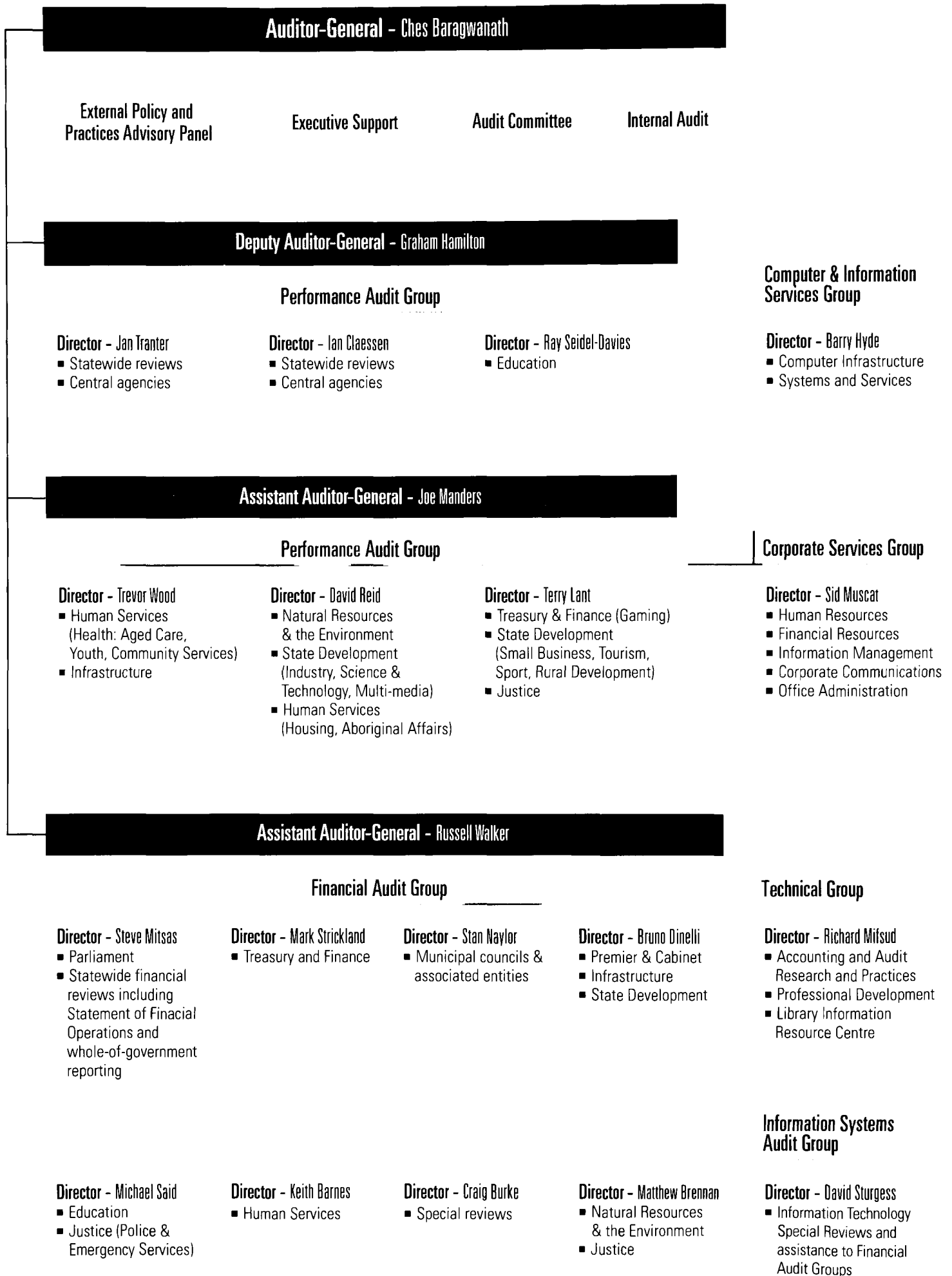


**Joe Manders (FCPA [Auditing], RCA)
Assistant Auditor-General**

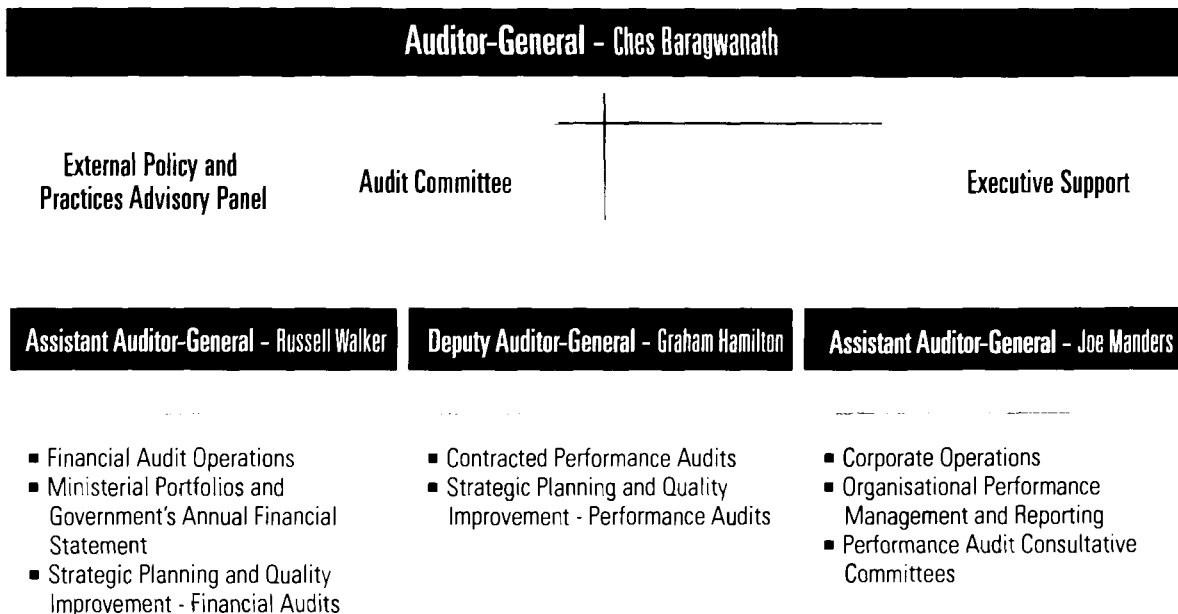
Prior to his appointment in 1989, Mr Manders held the position of Director of Audit with responsibility for managing financial and performance audits in several major ministerial portfolios. He has held responsibility for the strategic management and direction of one of the Office's 2 performance audit business groups and of the Office's corporate activities.



The following organisation chart sets out the structure of the Office during 1997-98.



Following the passage of the *Audit (Amendment) Act 1997* in December 1997, the Office reviewed its organisation structure. The following diagram summarises the organisation structure planned to come into effect in July 1998 to reflect the legislative changes to the Office's operations.



EXTERNAL POLICY AND PRACTICES ADVISORY PANEL

For some years now, Auditors-General in Victoria have been assisted by an External Policy and Practices Advisory Panel which furnishes advice on accounting and auditing developments and practices in the public sector. The Panel, which is appointed by the Auditor-General, has proved to be a most valuable source of information and guidance on emerging accounting and auditing issues.

At 30 June 1998, members of the Panel were Professor B. J. Garner, Professor of Computing, Deakin University; Mr D.T. Greenall, Chartered Accountant; Mr R. C. Trethevan, Fellow of the Australian Society of Certified Practising Accountants, previously with the Australian Securities Commission; Ms E. Alexander, Partner, Price Waterhouse; Mr E. McL. Holmes, Chartered Accountant; and Mr W. J. McGregor, Executive Director, Australian Accounting Research Foundation.

The Panel provides advice to the Auditor-General on a range of matters including Reports of the Auditor-General tabled in the Parliament, feedback from Panel members on relevant external developments, key emerging accounting and financial reporting issues, and amendments and updates to audit and local government legislation.

AUDIT COMMITTEE

The Office's Audit Committee provides the Auditor-General with independent advice on management issues and internal/external audit operations, specifically with a view to assist the Office to achieve its objectives efficiently and effectively.

The 3 member Committee, comprising Mr D. T. Greenhall (chartered accountant), Mr E. McL. Holmes (chartered accountant) and Mr R. C. Treveathan (Fellow of the ASCPA), met on 3 occasions during the year and discussed matter relating to:

- enhancements to the quality of financial reporting, including accounting policies, practices and disclosure;
- risk exposures of the Office;
- scoping, quality and outcomes of internal audit and the outcomes of external audit; and
- the resolution, by the Office, of issues raised by internal/external audit.



Johann Jansz and Marija Tunjasevic - the staff of the Office are its most important asset.

STAFFING PROFILE

During 1997-98, the Office's staffing level decreased from 153 staff (151 EFT) at 30 June 1997 to 136 (133.46 EFT) at 30 June 1998. In the same period, the percentage of women employed by the Office has remained at 37 per cent.

The following tables summarise staffing data relating to the Office at 30 June 1998.

AGGREGATE WORKFORCE DATA, AT 30 JUNE 1998

<i>Employment status</i>	<i>Male</i>		<i>Female</i>		<i>Total staff</i>	
	No	EFT	No	EFT	No	EFT
Permanent	84	84.0	47	44.96	131	128.46
Leave Without Pay	1	1.0	2	2.0	3	3.0
Temporary	-	-	2	2.0	2	2.0
Total	85	85.0	51	48.96	136	133.46

STAFF COMMENCEMENTS AND SEPARATIONS (permanent staff)

<i>Classification</i>	<i>1996-97</i>		<i>1997-98</i>	
	<i>Commencements</i>	<i>Separations</i>	<i>Commencements</i>	<i>Separations</i>
Executive Officer	-	1	-	-
Audit Manager	-	1	1	2
Audit Senior	-	4	-	8
Auditor	13	3	-	7
Non-audit staff	6	6	-	3
Total	19	15	1	20

CLASSIFICATION BY GENDER, AT 30 JUNE 1998
(permanent staff)

Classification	Full-time			Part time		
	Male	Female	Total	Male	Female	Total
VPS-5	24	13	37	-	3	3
VPS-4	6	1	7	-	-	-
VPS-3	19	18	35	-	-	-
VPS-2	18	9	27	-	2	2
VPS-1	-	-	-	-	2	2
Sub-total	67	41	106	-	7	7
Executive Officers	18	1	19	-	-	-
Total	85	42	125	-	7	7

PROFILE OF EXECUTIVE OFFICER POSITIONS, AT 30 JUNE 1998

Classification	Male	Female	Total	Variation from previous year
Filled positions -				
EO 1	-	-	-	-
EO 2	3	-	3	-
EO 3	15	-	16	-
Total filled positions	18	1	19	
Vacant positions	-	-	1	-

ACKNOWLEDGING CONTRIBUTIONS BY STAFF

Certificates of Service to current staff

To reinforce the value of its staff, the Office awards Certificates of Service based on length of service to its long-serving staff members. In this regard, staff with 10, 20 and 30 years of service were awarded Certificates of Service by the Auditor-General at a presentation ceremony during the Office's annual seminar held in December 1997.

<i>Employee name</i>	<i>Years of service</i>	<i>Employee name</i>	<i>Years of service</i>
Kumar Ariaratnam	10	John Olesky	10
Sheryl Brown	10	Mark Peters	10
Anthony Brown	10	Warwick Spargo	10
Peter Gallagher	10	John Clarke	20
Mark Holloway	10	David Sturgess	20
Elna Manning	10	Bruno Dinelli	30
Luci Marsh	10	Joseph Manders	30

Past employees of the Office

Retirees from the Office

The Office considers its employees to be its most valuable resource. While current staff members are seen as vital to the immediate and future direction of the Office, past contributions to the Office's professional reputation and community standing from the services of retired employees are highly regarded.

In December 1997, the Office continued its traditional practice of recognising the services and achievements of retirees with an annual retired officers' luncheon which was attended by 20 retirees, including past Auditors-General.

Sid Muscat, Director, Corporate Services

Mr Sid Muscat, Director, Corporate Services, retired from the Office on 30 June 1998, after a career which spanned nearly 35 years in the Victorian public service, 27 of which were spent with the Victorian Auditor-General's Office.

He was a valued member of the Office's senior staff, occupying the position of Director of Audit for 5 years, and then the position of Director, Corporate Services for the last 4 years. The Office sincerely thanks him for his most valuable contribution to the auditing and corporate services functions of the Office.



EMPLOYMENT ARRANGEMENTS FOR NON-EXECUTIVE EMPLOYEES

In December 1997, the Auditor-General advised of an intention to make a Certified Agreement, pursuant to section 170LK of the *Workplace Relations Act* 1996, with non-executive employees of the Office. A ballot was held with 84 per cent of eligible staff casting a valid vote, and 76 per cent voting in favour of the proposed Agreement. The Victorian Auditor-General's Office Certified Agreement 1997-2000 was certified in the Australian Industrial Relations Commission in February 1998.

DECLARATION OF PECUNIARY INTERESTS

All relevant officers completed a declaration of pecuniary interests during 1997-98.

STAFF SATISFACTION SURVEY

During 1996 and 1997, the Office carried out a staff survey and qualitative research designed to measure the level of staff satisfaction with 3 principal areas, namely:

- operation of the Office's Performance Management and Review Scheme;
- effectiveness of the Office's policies and strategies emphasising corporate values of teamwork, professionalism, integrity, commitment and achievement of staff; and
- adequacy of the Office's Professional Development Program.

The results of both the quantitative and qualitative research were utilised in the development of appropriate strategies and action plans in late 1997. However, due to the substantial changes to the operations of the Office, resulting from the recent amendments to the *Audit Act* 1994, implementation of these strategies has been deferred.

OCCUPATIONAL HEALTH AND SAFETY

During 1997-98, the Office introduced revised health and safety policies including:

- Occupational Health and Safety;
- Hazard and Injury Reporting; and
- Occupational Rehabilitation.

These revised policies reflect recent changes in legislation and incorporate staff preferences as to how they wish occupational health and safety issues to be resolved.

The Office was again successful in being able to record a low incidence of workplace injury.

MERIT AND EQUITY

The Office introduced its revised Merit and Equity Policy during the year which incorporates policies on:

- Anti-discrimination;
- Harassment and Victimisation;
- Equal Employment Opportunity;
- Managing Diversity and Procedures; and
- Guidelines for Resolving Complaints of Harassment.

The Policy was developed following extensive research into current legislation and government guidelines, and incorporates feedback received from a cross-section of staff.

In addition, the Office's Flexible Work Arrangements Policy was further enhanced by introducing policies on Working from Home and Telecommuting. Since 1996-97, there has been an increase in the number of staff utilising flexible work arrangements.



Staff feedback assisted the Office in the development of its Merit and Equity Policy. From left: Sid Muscat, Sharon Ryan and Ian Aufflick.

RESOURCE AND SKILL MIX

Consistent with its philosophy of maintaining an optimum skill mix to address its responsibilities, the Office seeks to ensure that its human resource base covers a broad range of professional qualifications. At 30 June 1998, the number of staff from disciplines other than accounting represented 31 per cent of its aggregate numbers (40 per cent of its qualified staff).

DEVELOPING INTELLECTUAL CAPITAL

Public sector auditing demands that auditors be at the forefront of their profession by adopting leading edge and best practice audit methodologies in servicing their clients.

The training and development of staff within the Victorian Auditor-General's Office has been critical in developing the intellectual capital of the organisation which has enabled it to be acknowledged with a reputation as one of the world leaders in public sector auditing. This applies to both the financial audit and performance audit functions within the Office.

Continued maintenance and upgrading of knowledge and skills has contributed to a highly competent, professional and committed workforce which has been dedicated to a strategic goal of "*Auditing in the Public Interest*". The past 3 years, for example, has resulted in an average of 12 per cent of administrative expenses (excluding salaries and on-costs) devoted solely to developing the knowledge and skills of all Office staff.

PROFESSIONAL DEVELOPMENT PROGRAM AND SERVICES

The Office's Professional Development Unit has been responsible for providing a broad range of training and professional development services. The work of the Unit has been central to maintaining a high level of professional competence for staff.

The Unit develops, implements and evaluates an in-house Professional Development Program as well as providing specialist advice and support for staff. The Program provides all staff with a structured framework to further develop their personal and professional skills in line with the strategic directions within the Office's Corporate Plan.

Major professional development programs during 1997-98 included:

- *Change Management*. Given the changes impacting on the organisation flowing from the recent review of the *Audit Act 1994*, change management workshops served to provide staff with the opportunity to better understand the effects of change as well as develop appropriate strategies to cope with change; and
- *Understanding and Developing Performance Indicators*. This particular program targeted the Office's performance audit group. This extremely successful program has been critical in enhancing the knowledge and skills of performance audit staff in continuing to carry out high quality performance audits.

The in-house Professional Development Program was supplemented with external courses, conferences and seminars to meet the development needs of individual staff members or specialist audit groups.

CONTINUED CORPORATE FOCUS ON THE VALUE OF SECONDMENTS

For many years, secondments to and from the Office have provided avenues for staff to expand their skills and professional knowledge. These secondments have been arranged at various levels and have involved both private and public sector organisations within Australia or overseas.

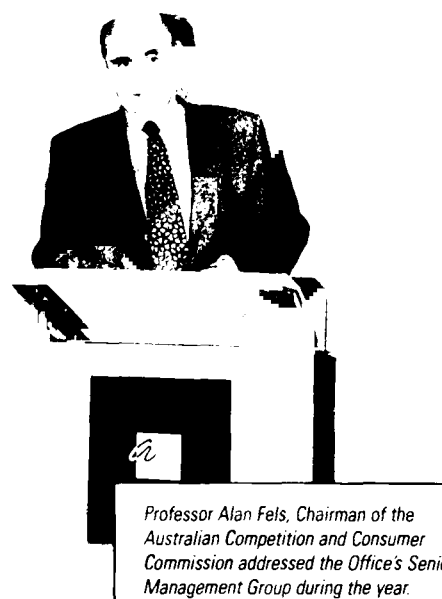
The following secondments to the Public Accounts and Estimates Committee took place during 1997-98: Remy Szpak, Goran Mitrevski, John Arnol and Sharell Cook.

Following the establishment of the new Government statutory body, Audit Victoria, a Transition Management Team was established to oversee transitional arrangements between the Victorian Auditor-General's Office and Audit Victoria. The following 3 members of staff were seconded from the Office to form the Team: Jan Tranter, Mark Strickland and Jann Milic.

SENIOR MANAGEMENT DISCUSSION GROUP

The Office has continued to keep its senior management informed on important contemporary issues through a series of Senior Management Discussion Group presentations. During 1997-98, the range of topics and presenters included:

- *Role of the Australian Competition and Consumer Commission*
- Professor A. Fels, Chairman, Australian Competition and Consumer Commission;
- *Auditing Performance Indicators: A West Australian Experience* - Mr Ray Seidel-Davies, Director, Performance Auditing: Victorian Auditor-General's Office;
- *The Challenges of Managing an AFL Club* - Mr Andrew Plympton, President, St Kilda Football Club;
- *Managing People in a Competitive Tendering Environment* - Mr Michael Kennedy, Chief Executive Officer, Booroondara City Council; and
- *Benchmarking* - Ms Anne Evans, Managing Director, Benchmarking Australia.



Professor Alan Fels, Chairman of the Australian Competition and Consumer Commission addressed the Office's Senior Management Group during the year.

ENCOURAGEMENT FOR PROFESSIONAL CPA ACCREDITATION AND FURTHER STUDY

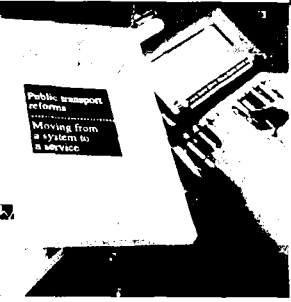
The Office continues to support and encourage existing accounting staff to attain professional accreditation with the Australian Society of Certified Practising Accountants (CPA status). A total of 31 staff are currently undertaking segments of the CPA accreditation program. In addition, there are 11 staff members undertaking some form of other studies, including undergraduate and post-graduate programs.

SOCIAL CLUB ACTIVITIES

The Office social club continued to receive strong support from staff throughout 1997-98, enabling a variety of events to be offered to staff, including a Christmas party, dinner dance, cricket match and continued support of the Corporate Cup running team.

With the major changes to the Office's organisational framework under the revised audit legislation and after 14 years providing social activities for Office staff, the social club ceased operation on 30 June 1998. A final function was held on 26 June 1998 when 118 staff and partners gathered to celebrate the social club's last official event.

INFORMATION TECHNOLOGY



Information technology (IT) is used in most audit and administrative activities in the Office. It is used extensively for administrative activities such as accounting, payroll and library, but also plays a vital role in automating the audit process. Both performance and financial audit activities make extensive use of computer systems as integral elements of the 2 audit methodologies to plan, manage and undertake audits.

All staff utilise either a portable or desktop computer which is connected to the Office Local Area Network. Auditors working at audited organisations' sites can access the Office network using secure dial-up telecommunication lines.

YEAR 2000

Year 2000 is a major event for all IT hardware and software. Considerable work has been completed over the past 2 years to ensure that the Office's business critical systems will continue to function correctly at the turn of the new century.



The Office's Year 2000 program will ensure that its computer hardware and software systems will function correctly after the Year 2000.

Changes have been made to the Office's Audit Management Information System, and a number of vendor-supplied software packages have been upgraded to achieve Year 2000 compliance.

At June 1998, the Office had 2 software products that need to be updated to Year 2000 compliant versions. The IT Year 2000 program should be completed by the end of March 1999.

Critical business system name	Description of critical business function	Scheduled or actual date for Year 2000 compliance
Audit Management Information System	System to manage and store details concerning audits falling within the responsibility of the Auditor-General.	System is Year 2000 compliant.
Business Accounting System	Accounting package providing facilities to manage, record and process financial and accounting transactions etc.	Supplier is currently in the process of upgrading system to Year 2000 compliant software. Target date for compliance is 30 September 1998.
Personnel/Payroll System	Facilities provided by external service bureau to pay staff and store personnel records.	Service provider has confirmed that system is Year 2000 compliant.
Financial Audit Methodology	Package software that provides an electronic framework for the conduct and management of a financial audit.	Vendor of product advises that system is Year 2000 compliant.
Data Communications	Packaged software that authenticates external access to the Local Area Network	An upgraded product is available and will be implemented before 30 December 1998.
Computer Air Conditioning System	Packaged software that automates the switching of chilled water supplies for computer room air conditioners	Software was upgraded in July 1998.

INTERNET

All parliamentary Reports issued by the Office are published in full text form on the Internet immediately after tabling in the Parliament. The site is renowned around the world for the quality and extent of the Reports published and the facilities provided to the community.

The site allows the community to access the Office's parliamentary Reports quickly and easily, and provide feedback to the Office. The vast majority of community feedback is very complimentary about Reports and the web site.

As community use of the Internet grows, the web site will become an increasingly important means of distributing Reports, and as a convenient communication medium between the Office and the community.

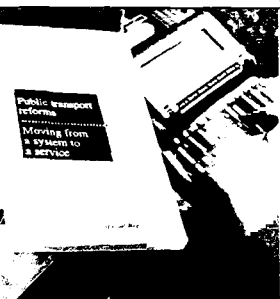
ACHIEVEMENTS DURING THE YEAR

Major achievements of an IT nature during the year included:

- Replacement of approximately 30 per cent of portable computers as part of an ongoing technology update program. This action will contribute to increased productivity of staff as the portables are more reliable and applications run more quickly;
- An electronic performance audit workpapers system was implemented to improve the efficiency and effectiveness of performance audits. The system allows workpapers to be stored as computer files and shared via the computer network with all other audit team members;
- The data communications system which allows portables to connect to the computer network from auditee sites was upgraded to improve security and speed;
- A significant amount of data from agencies was analysed on the Office computer network as part of financial and performance audit activities. This process assists auditors to gather critical evidence;
- Several systems were modified and upgraded to handle the new millennium as part of the Office Year 2000 program; and
- Major upgrades of the network operating systems were undertaken as part of the ongoing maintenance of the technology infrastructure.

Changes to the *Audit Act 1994* mean that the future role of the Office will change significantly and the IT infrastructure will therefore need to be progressively revised to meet new business needs.

FINANCIAL MANAGEMENT



FINANCIAL HIGHLIGHTS

SUMMARY OF FINANCIAL RESULTS FOR THE YEAR WITH COMPARATIVE RESULTS FOR THE PRECEDING 4 FINANCIAL YEARS

The Office has one major output group consisting of 2 outputs (performance audit reports and financial audit reports presented to Parliament) funded by parliamentary appropriations under the purchaser/provider arrangements of Government. This framework reflects the move within the public sector towards output budgeting, management and reporting.

The major function of the Office is to provide the organisational framework and resources necessary to enable the Auditor-General to carry out an external audit of public sector agencies on behalf of the Parliament. Audit fee income generated is required to be paid into the Consolidated Fund. In line with legislative provisions, the Office recovers fees, either from audited agencies in the case of audit opinions expressed on financial statements or from the Parliament's appropriation for all other audit activities.

The following table presents information extracted from the Office's audited financial statements for 1997-98 dealing with the annual net cost of operations, with comparative results for the preceding 4 financial years.

NET COST OF OPERATING THE OFFICE (\$'000)

<i>Item</i>	<i>1993-94</i>	<i>1994-95</i>	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>
Expenditure	13 612	15 481	17 699	19 272	18 492
Income	10 117	12 637	16 169	18 338	17 699
Net costs	(3 495)	(2 844)	(1 530)	(934)	(793)
Net income from government	3 765	2 883	2 462	402	(888)

The above table reflects a continuation of the progressive downward trend in the Office's net cost position over the 5 year period. The reduction of \$141 000 in net operating costs for the year in review represented a reduction of 15 per cent on the equivalent net cost position in 1996-97. This significant reduction in net cost was mainly attributable to:

- ▲ cost efficiencies derived from the use of the Office's advanced financial and performance audit methodologies;
- recovery of costs from the Parliament's appropriation in respect of all performance audits; and
- continued implementation of more effective cost recovery strategies.

The decreasing costs to the Victorian taxpayer of operating the Office is indicative of the Office's commitment towards achieving greater efficiency and effectiveness in the management of its scarce resources.

SUMMARY OF SIGNIFICANT CHANGES IN FINANCIAL POSITION DURING THE YEAR

■ *Debtors and audits-in-progress (decreased by \$0.4 million, or 8 per cent)*

The decrease in debtors and audits-in-progress was due to enhanced management of receivables mainly through periodic follow-up of outstanding debts. This improved position is reflected in the debtors ageing in that the proportion of trade debtors outstanding in excess of 30 days decreased from 33 per cent at 30 June 1997 to 4 per cent at 30 June 1998.

■ *Investments (increased by \$0.2 million or 34 per cent)*

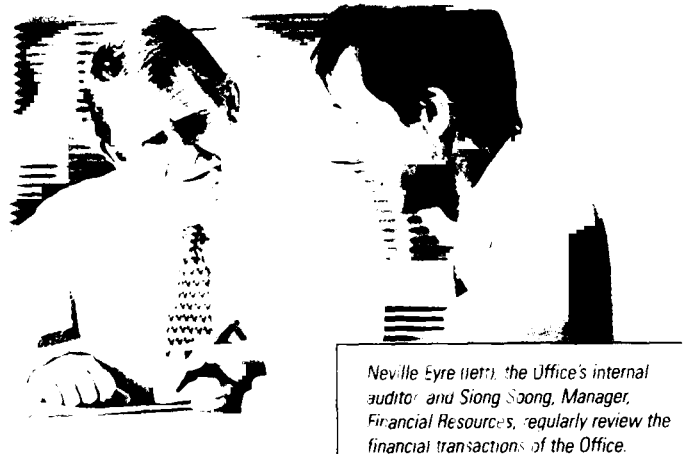
The increase was mainly due to interest revenue and amounts set aside during the year for executive officers' performance incentive entitlements.

■ *Fixed assets (decreased by \$1.2 million or 53 per cent)*

The decrease in fixed assets represents the net result of additions, depreciation expenses and disposals during the year. Disposal of motor vehicles accounted for \$0.6 million of the decrease in fixed assets. The Office's motor vehicle fleet was disposed of as part of the Government's sale and leaseback arrangement with a subsidiary of the Commonwealth Bank of Australia Ltd.

■ *Provision for employee entitlements (increased by \$0.6 million or 21 per cent)*

This increase was mainly attributable to Government decisions on pay levels and the year's provision for executive officers' performance incentive payments.



Neville Eyre (left), the Office's internal auditor and Siong Soong, Manager, Financial Resources, regularly review the financial transactions of the Office.

OUTPUT MONITORING AND REPORTING

During the year, the Office reported quarterly to the Department of Treasury and Finance on its output performance as part of the process of ensuring it delivered quality outputs in a timely and efficient manner.

Details of the Office's main output targets for 1997-98 and the related actual performance are presented below.

COMPARISON OF OUTPUT TARGETS WITH ACTUAL PERFORMANCE

Major outputs/Performance measures	1997-98 Actual	1997-98 Target
Performance Audit Reports of the Auditor-General to Parliament -		
Reports issued	8	7
Feedback from key customers - Percentage satisfaction	83%	75%
Financial Audit Reports to Agencies and the Parliament -		
Audit opinions issued	531	530
Audits completed within timeframe	91%	95%
Feedback from key customers - Percentage satisfaction	73%	70%
Major reports to the Parliament	2	2

CONSULTANCIES

The only consultant arranged by the Office during the year involved engagement of the services of a Commonwealth Government agency at a cost of \$3 300 to assess the adequacy of the Office's publishing software and facilities.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1998

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STATEMENT OF OPERATIONS

FOR THE YEAR ENDED 30 JUNE 1998

<i>Item</i>	<i>Notes</i>	1997-98	1996-97
		(\$)	(\$)
EXPENDITURE	4		
Salaries and associated costs		9 406 711	9 656 009
Superannuation	1(e)(v)	643 011	655 682
Contract audits		5 365 252	5 822 722
Administration		1 934 735	1 996 283
Depreciation and amortisation		971 384	1 031 978
Bad and doubtful debts		48 709	20 150
Capital assets charge		122 250	89 250
Total expenditure		18 492 052	19 272 074
INCOME	5		
Audit fees		17 612 548	18 201 140
Other income		81 276	126 546
Net income from disposal of non-current assets		4 812	10 076
Total income		17 698 636	18 337 762
NET COST OF OPERATING THE OFFICE	11	(793 416)	(934 312)
INCOME FROM GOVERNMENT	3		
Special appropriation		190 076	190 076
Current appropriation		17 171 624	18 192 454
Capital appropriation		314 342	58 619
Other income		20 050	33 631
		17 696 092	18 474 780
Less:			
Amounts paid to the Consolidated Fund		(18 583 865)	(18 072 530)
Net income from government		(887 773)	402 250
CHANGE IN NET ASSETS			
RESULTING FROM OPERATIONS		(1 681 189)	(532 062)
Accumulated surplus 1 July 1997		4 344 632	4 876 694
Accumulated surplus 30 June 1998	10	2 663 443	4 344 632

BALANCE SHEET

AS AT 30 JUNE 1998

<i>Item</i>	<i>Notes</i>	<i>1998</i>	<i>1997</i>
		(\$)	(\$)
ASSETS			
Current assets -			
Cash at bank and on hand		(477)	5 000
Funds held in the Public Account	18	500 208	-
Debtors and audits-in-progress	6	4 413 623	4 815 700
Prepayments		277 339	337 202
Investment	8	923 047	690 680
		<u>6 113 740</u>	<u>5 848 582</u>
Non-current assets -			
Fixed assets	7	1 097 199	2 324 056
		<u>1 097 199</u>	<u>2 324 056</u>
Total assets		<u>7 210 939</u>	<u>8 172 638</u>
LIABILITIES			
Current liabilities -			
Creditors and accruals		494 731	353 851
Provision for employee entitlements	8	1 510 716	894 094
Departmental advance		5 000	5 000
		<u>2 010 447</u>	<u>1 252 945</u>
Non-current liabilities -			
Provision for employee entitlements	8	2 537 049	2 575 061
		<u>2 537 049</u>	<u>2 575 061</u>
Total liabilities		<u>4 547 496</u>	<u>3 828 006</u>
EQUITY			
Accumulated surplus	10	2 663 443	4 344 632
Total liabilities and equity		<u>7 210 939</u>	<u>8 172 638</u>

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 1998

<i>Item</i>	<i>Notes</i>	1997-98	1996-97
		(\$)	(\$)
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments -			
Salaries and associated costs		(9 376 842)	(9 934 880)
Administrative expenses		(1 200 898)	(1 280 125)
Accommodation		(704 529)	(749 714)
Contract audits		(5 482 500)	(5 819 114)
Capital assets charge		(122 250)	(89 250)
Receipts -			
Fees and charges		17 957 260	17 995 108
Other		46 294	75 602
Cash Flows From Government -			
Receipts from appropriations	3	17 676 042	18 441 149
Other income		20 050	33 631
Payments of revenue collections to the Consolidated Fund		(18 583 865)	(18 072 530)
(Increase)/decrease in funds held in the Public Account		(500 208)	-
Net cash used in operating activities	11	(271 446)	599 877
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchase of non-current assets	12	(314 342)	(600 548)
Finance lease payments		-	(1 149)
Proceeds from sale of assets		580 311	1 820
Net cash used in investing activities		265 969	(599 877)
Net increase/(decrease) in cash held		(5 477)	-
Cash at 1 July 1997		5 000	5 000
Cash at 30 June 1998		(477)	5 000

SUMMARY OF COMPLIANCE WITH EXTERNALLY-IMPOSED FINANCIAL DIRECTIVES

FOR THE YEAR ENDED 30 JUNE 1998

	Note	1997-98			1996-97		
		Appropriation		Expenditure	Appropriation		Expenditure
		(\$) Original	(\$) Total	(\$)	(\$) Original	(\$) Total	(\$)
CURRENT (a)	3						
Output Group 511	2	18 663 800	18 663 800	17 050 784	18 400 600	18 400 600	17 862 354
CAPITAL	3	550 000	550 000	314 342	60 000	60 000	58 619
SPECIAL (b)		202 000	202 000	190 076	196 000	196 000	190 076
TREASURER'S ADVANCE		-	120 840	120 840	-	330 100	330 100
TOTAL		19 415 800	19 536 640	17 676 042	18 656 600	18 986 700	18 441 149

(a) Expenditure includes \$4 074 217 (1996-97, \$3 591 200) for receipts credited under section 29 of the *Financial Management Act 1994*.

(b) The Auditor-General's remuneration is paid from a special appropriation by Parliament in accordance with section 4(4) of the *Audit Act 1994*.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1998

1 (A) SIGNIFICANT ACCOUNTING POLICIES

These financial statements constitute a general purpose financial report and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements and are consistent with the requirements of the *Financial Management Act 1994*. The statements have been prepared on the accrual basis of accounting using historical cost accounting and do not take into account changing money values or, except where stated, current valuations of non-current assets.

The accounting policies for the year are consistent with those of the previous reporting year and the comparative figures for 1996-97 have been disclosed on a basis consistent with the disclosures specified for the current reporting period. In particular, the investment (refer note 8 and note 11) previously disclosed as a non-current asset is now classified as a current asset to reflect its underlying nature.

1 (B) APPROPRIATIONS

Appropriations, whether special, current, capital or other, are recognised as income from government in the period in which the Office gains control of the appropriated funds.

1 (C) OTHER INCOME

Other income is recognised in the period in which the Office gains control of the funds as provided.

1 (D) NON-CURRENT ASSETS

Fixed assets - Fixed assets are defined as those items of equipment, motor vehicles and furniture having a unit cost of \$500 or more which are not consumed in one accounting period. Library books are valued as a collective unit. All purchases are recorded at cost.

Depreciation (note 7(B)) - Fixed assets are depreciated on a straight line basis over the estimated period of time which the future economic benefits embodied in such assets are expected to be consumed by the Office. The expected useful lives are:

<i>Furniture and fittings</i>	<i>Between 4 to 10 years</i>
<i>EDP equipment</i>	<i>3 years</i>
<i>Library</i>	<i>10 years</i>
<i>Office equipment</i>	<i>4 years</i>
<i>Equipment leased under State Computer Lease Facility</i>	<i>Between 5 to 8 years</i>

In respect of private use motor vehicles acquired prior to the removal of sales tax exemption (June 1996), trade-in disposal prices compared favourably with acquisition costs (excluding sales tax), therefore no depreciation was charged and the profit or loss adjustment was brought to account on disposal of the vehicles.

Amortisation - Amortisation of leased assets is calculated on a straight line basis over the lesser of either the estimated useful life of the leased asset or the lease period.

1 (E) EMPLOYEE ENTITLEMENTS

(i) Provision for long service leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments including on-costs to be made in respect of services provided by employees up to the reporting date. Consideration is given, when assessing expected future payments, to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates attaching, as at the reporting date, to Commonwealth Government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows. An estimate of the entitlements likely to be payable within the next financial year is classified as a current liability within the Balance Sheet.

(ii) Annual leave

The Office's accrued liability for annual leave not taken by staff at 30 June is classified as a current liability. This liability includes the estimated cost of annual leave loading for non-executive personnel.

(iii) Accrued days off

The Office's obligation in respect of accrued days off not yet taken by staff at 30 June is classified as a current liability.

(iv) Performance incentive payments

The Office's obligation in respect of the Executive Officers' performance incentive entitlements likely to be payable within the next financial year is classified as a current liability within the Balance Sheet.

(v) Superannuation

Prior to 1994-95, while employees have contributed directly to the State Superannuation Fund, the Office's obligations to the Fund were not met by the Government until the time when members become eligible for benefits. Commencing in 1994-95, the Government provided funding to the Office, as part of its current appropriation, in respect of employer's superannuation contributions which have been recognised as income from government and expenditure of the Office in the Statement of Operations. The Office contributes towards the State Superannuation Fund and the Victorian Superannuation Fund for employees who are members of the Revised and New schemes, and the VicSuper scheme, respectively. The rates used as the basis for determining superannuation contributions to the Funds are as laid down by the Department of Treasury and Finance and the *Commonwealth Superannuation Guarantee (Administration) Act 1992*. The Office also contributes towards private complying superannuation funds for other employees in compliance with the requirements of the abovementioned Act.

No liability is shown for superannuation in the Balance Sheet as the Government has advised that it intends to reflect the aggregate budget sector liability for superannuation in the financial statements of the Department of Treasury and Finance.

1 (F) LEASES

Leases of equipment under which the Office assumes all of the risks of ownership and which meet the criteria set out in the Statement of Accounting Standard AAS17 on "Accounting for Leases" are capitalised and classified as finance leases. Other leases are classified as operating leases. Finance leases are capitalised at the present values of the minimum lease payments. Operating lease payments are charged against income.

1 (G) ROUNDING

All figures in the financial statements and the notes thereto have been rounded off to the nearest dollar, unless specifically stated to be otherwise.

2 **OUTPUT GROUP OF THE OFFICE**

Output Group 511 is the major output group of the Office. The key outcome of this output group is to strive for excellence in the provision of independent external audit services in order to enhance accountability to the Parliament and the efficient and effective use of public resources in Victoria. This output group relates principally to the provision of quality audit reports to the Parliament on significant resource management issues and expression of audit opinions on the financial statements of audited agencies within the legislative timeframe.

The Office is funded by parliamentary appropriations. All resources controlled by the Office in order to carry out its functions have been included in the financial statements. The major function of the Office is to provide the organisational framework and resources to enable the Auditor-General to carry out an external audit of public sector agencies on behalf of the Parliament. Audit fee income generated is required to be paid into the Consolidated Fund.

3 **APPROPRIATIONS**

Reconciliation of appropriations to government income

Item	1997-98	1996-97
	<i>(\$)</i>	<i>(\$)</i>
Total appropriations	17 676 042	18 441 149
Other income	20 050	33 631
Income from government	17 696 092	18 474 780

Income from Government in the 1996-97 financial year was categorised as recurrent and works and services appropriation, however, in the 1997-98 financial year income from Government was categorised as current and capital appropriations. The change in categorisation of appropriations better aligns the funding sources with the purpose towards which they are applied, that is expenditure of an operating or capital nature.

4 EXPENDITURE

<i>Item</i>	<i>Audit operations</i>	<i>Support services</i>	<i>Total</i>	
			<i>1997-98</i>	<i>1996-97</i>
	(\$)	(\$)	(\$)	(\$)
Salaries and associated costs	7 541 264	1 865 447	9 406 711	9 656 009
Superannuation	512 866	130 145	643 011	655 682
Contract audits	5 365 252	-	5 365 252	5 822 722
Administration	1 534 969	389 516	1 924 485	1 986 533
Audit fees	-	10 250	10 250	9 750
Depreciation	774 776	196 608	971 384	1 030 585
Amortisation	-	-	-	1 393
Bad and doubtful debts	48 709	-	48 709	20 150
Capital assets charge (a)	97 507	24 743	122 250	89 250
Total	15 875 343	2 616 709	18 492 052	19 272 074

(a) Capital assets charge relates solely to payments to the Government in relation to the Office's capital appropriation to fund its Information Technology strategy.

5 INCOME

Income includes the proceeds from audit fees and miscellaneous income which are controlled by the Office.

Net income from disposal of non-current assets

<i>Item</i>	<i>1997-98</i>	<i>1996-97</i>
	(\$)	(\$)
Proceeds from disposal of non-current assets	580 311	336 125
Less: written down value of non-current assets	575 499	326 049
Net income	4 812	10 076

6 DEBTORS AND AUDITS-IN-PROGRESS

<i>Item</i>	<i>30 June 1998</i>	<i>30 June 1997</i>
	(\$)	(\$)
Debtors	1 994 757	2 057 640
Audits-in-progress	2 411 223	2 750 859
Others	14 523	23 201
	4 420 503	4 831 700
Less:		
Provision for doubtful debts	6 880	16 000
	4 413 623	4 815 700

7 (A) FIXED ASSETS

<i>Item</i>	<i>1998</i>	<i>1997</i>
	(\$)	(\$)
Furniture and fittings		
At cost	1 306 041	1 303 491
Less: Accumulated depreciation	980 176	840 190
Total furniture and fittings	325 865	463 301
Motor vehicles (a)		
At cost	-	603 047
Less: Accumulated depreciation	-	29 629
Total motor vehicles	-	573 418
EDP equipment		
At cost	3 324 418	3 177 746
Less: Accumulated depreciation	2 657 292	2 022 126
Total EDP equipment	667 126	1 155 620
Library		
At valuation	70 833	70 833
Less: Accumulated depreciation	70 833	66 839
Total library	-	3 994
Office equipment		
At cost	209 823	195 974
Less: Accumulated depreciation	105 615	68 251
Total office equipment	104 208	127 723
State Computer Lease Facility equipment		
Under lease	1 857 931	1 857 931
Less: Accumulated amortisation	1 857 931	1 857 931
Total State Computer Lease Facility equipment	-	-
Total shown in Balance Sheet	1 097 199	2 324 056

(a) The Office's motor vehicle fleet was disposed of on 3 July 1997 as part of the Government's sale and leaseback arrangement with Victorian Fleet Arranger Pty Ltd, a subsidiary of the Commonwealth Bank of Australia Ltd. The arrangements entered into under the Master Lease Agreement are classified as an operating lease in the financial statements of this Office, in accordance with the Directions of the Minister for Finance under the *Financial Management Act 1994*.

7 (B) DEPRECIATION AND AMORTISATION EXPENSE

<i>Item</i>	<i>1998</i>	<i>1997</i>
	(\$)	(\$)
Furniture and fittings	139 985	144 780
Motor vehicles	-	28 655
EDP equipment	790 040	833 764
Library	3 995	7 083
Office equipment	37 364	16 303
State Computer Lease Facility equipment	-	1 393
Total	971 384	1 031 978

8 PROVISION FOR EMPLOYEE ENTITLEMENTS

Entitlement	Current liabilities	Non-current liabilities	Total	
			1998	1997
	(\$)	(\$)	(\$)	(\$)
Long service leave	489 250	1 956 999	2 446 249	2 124 856
Annual leave	606 676	-	606 676	613 683
Accrued days off	73 284	-	73 284	37 691
Accrued salary on-costs	12 777	-	12 777	30 234
Performance Incentive Scheme (a)	328 729	580 050	908 779	662 691
Total shown in Balance Sheet	1 510 716	2 537 049	4 047 765	3 469 155

(a) In accordance with the terms of the *Public Sector Management Act 1992*, a total of \$923 047 (1996-97, \$690 680) set aside for Executive Officers' performance pay entitlements, but excluding related on-costs, has been paid into the "Performance Incentive Payments Scheme Trust Account". The proceeds of this Account are invested with the Treasury Corporation of Victoria.

9(A) OPERATING LEASE COMMITMENTS

Lease	1998	1997
	(\$)	(\$)
Not later than 1 year	636 969	628 931
Later than 1 year but less than 2 years	657 778	621 478
Later than 2 years but less than 5 years	1 812 578	1 848 021
Later than 5 years	-	580 565
Total	3 107 325	3 678 995

The above operating leases relate primarily to leasing costs associated with the Office's accommodation.

9(B) CONTRACT AUDIT COMMITMENTS

Expenditure	1998	1997
	(\$)	(\$)
Commitments for the payment of future auditing services under contracts in existence at the reporting date, payable:		
Not later than 1 year	3 843 406	3 547 440
Total	3 843 406	3 547 440

10 EQUITY AND CHANGES IN EQUITY

Equity represents the residual interest in the net assets of the Office. The Government holds the equity interest in the Office on behalf of the community.

Item	1998	1997
	(\$)	(\$)
Accumulated surplus		
Balance 1 July 1997	4 344 632	4 876 694
Change during period	(1 681 189)	(532 062)
Balance 30 June 1998	2 663 443	4 344 632

11 RECONCILIATION OF NET CASH USED IN OPERATING ACTIVITIES TO NET COST OF OPERATING THE OFFICE

For the purposes of the statement of cash flows, "cash" includes cash at bank and on hand.

<i>Item</i>	1997-98	1996-97
	(\$)	(\$)
Net cost of operating the Office	(793 416)	(934 312)
Items not involving cash -		
Depreciation	971 384	1 030 585
Amortisation	-	1 393
Bad and doubtful debts	48 709	20 150
	1 020 093	1 052 128
Investing activity -		
Net income from disposal of non-current assets	(4 812)	(10 076)
Cash flows from Government -		
Receipts from appropriations	17 676 042	18 441 149
Other income	20 050	33 631
Payments of revenue collections to the Consolidated Fund	(18 583 865)	(18 072 530)
(Increase)/decrease in funds held in the Public Account	(500 208)	-
	(1 387 981)	402 250
Change in operating assets and liabilities -		
Increase in employee entitlements	578 610	602 686
Decrease/(Increase) in current assets	180 864	(539 892)
Increase)/decrease in non-current assets	(5 684)	3 467
Increase in current liabilities	140 880	23 626
	894 670	89 887
Net cash used in operating activities	(271 446)	599 877

12 PURCHASE OF NON-CURRENT ASSETS

<i>Item</i>	1997-98	1996-97
	(\$)	(\$)
Payments for acquisition of furniture and fittings, computer equipment etc.	314 342	600 548

13 EVENT OCCURRING AFTER BALANCE DATE

As a result of the enactment of the *Audit (Amendment) Act 1997*, the Auditor-General is required to appoint "authorised persons", following progressive implementation of a process of contestability from 1 July 1998, to assist in the discharge of financial and performance audit responsibilities which commence after that date. Under the legislative changes, the majority of audit operational staff of the Victorian Auditor-General's Office transferred to a new statutory authority, Audit Victoria, on 1 July 1998. Audit Victoria will in the future compete with private sector service providers to assist the Auditor-General on the conduct of public sector audits.

The new arrangements will result in the transfer to Audit Victoria of liabilities totalling \$1.7 million in respect of employee entitlements. At the date of preparation of these financial statements, matters associated with the transfer of assets, predominantly EDP equipment, to Audit Victoria had not been finalised.

14 DISCLOSURES RELATING TO MINISTERS AND ACCOUNTABLE OFFICERS

Given the independent relationship of the Auditor-General with the Parliament, no government minister has any direct responsibility for the operations of the Victorian Auditor-General's Office. However, because the Office was administratively linked to the Department of Premier and Cabinet up to 30 June 1998, the following disclosures are made relating to the Responsible Minister and Accountable Officer in accordance with the Directions of the Minister for Finance under the Financial Management Act 1994:

(i) Names

Persons who held the above positions in relation to the Office at any time during the reporting period are:

<i>Responsible Minister</i>	<i>The Hon. J. Kennett MLA</i>
	<i>The Hon. P. McNamara MLA (Acting)</i>
<i>Accountable Officer</i>	<i>Mr C.A. Baragwanath</i>
<i>(Auditor-General)</i>	<i>Mr K.G. Hamilton (Acting)</i>
	<i>Mr R. A. Walker (Acting)</i>

(ii) Remuneration

Remuneration received or receivable by the Accountable Officer in connection with the responsibilities of the position during the reporting period was in the range:

\$190 000 - \$200 000 (1996-97: \$190 000 - \$200 000)

The relevant amount relating to the Responsible Minister is reported separately in the financial statements of the Department of Premier and Cabinet. The amount relating to the Acting Accountable Officers is included in "Executive Officers Remuneration".

(iii) Other transactions

Other related party transactions requiring disclosure under the Directions of the Minister for Finance have been considered and there are no matters to report.

15 TRANSACTIONS WITH OTHER VICTORIAN PUBLIC SECTOR ENTITIES

During the 1997-98 financial year, various transactions were undertaken with other State Government controlled entities which are summarised as follows:

	1997-98	1996-97
	(\$)	(\$)
Assets	4 541 133	4 540 862
Liabilities	47 135	43 720
Income (a)	31 224 055	33 395 004
Expenditure (b)	19 963 579	19 480 984

(a) Includes income from operations and income from Government.

(b) Includes inter-entity expenditure and amounts paid to the Consolidated Fund

16 EXECUTIVE OFFICERS REMUNERATION

(i) The numbers of executive officers whose total remuneration exceeded \$100 000 during the reporting period, are shown below in their relevant income bands:

Income band	1997-98	1996-97
\$100 000 to \$109 999	9	5
\$110 000 to \$119 999	4	-
\$120 000 to \$129 999	-	2
\$130 000 to \$139 999	1	1
\$140 000 to \$149 999	2	-
Total number of executive officers within the above income bands	16	8

(ii)

Item	1997-98	1996-97
	<i>(\$)</i>	<i>(\$)</i>
Total remuneration for the reporting period of executive officers included above amounted to:	1 803 510	911 280

17 FINANCIAL INSTRUMENTS

(i) Terms, conditions and accounting policies

The Office's accounting policies, including the terms and conditions of each class of financial asset and financial liability, recognised at the balance date, are as follows:

Recognised Financial Instruments	Accounting Policies	Terms and Conditions
(a) Financial assets		
Funds held in the Public Account	Funds held in the Public Account are carried at nominal amounts.	Available for application to meet payment obligations as they become payable.
Debtors and audits-in-progress	Debtors and audits-in-progress are carried at nominal amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Trade receivables are to be settled within 30 days from the date of issue of invoice.
Investment	This investment is stated at the lower of cost and net realisable value. Interest is recognised in the Statement of Operations when earned.	Details of the terms and conditions are set out in note 8. The investment held at balance date totalling \$923 047 (1996-97: \$690 680) earned weighted average interest of 5.03% (1996-97: 7.25%) and 4.93% (1996-97: 6.36%) received semi-annually in November and May respectively.
(b) Financial liabilities		
Creditors and accruals	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Office.	Trade liabilities are normally settled on government terms of 30 days or as agreed with the supplier on specific contractual terms.

(ii) *Interest rate risk*

The Office's exposure to interest rate risks is only applicable to the investment balance as disclosed in note 17(i)(a) above.

(iii) *Net fair values*

The carrying amounts of financial assets and financial liabilities, recognised, at the balance date consisting of debtors and audits-in-progress, the investment and creditors and accruals approximates fair value.

(iv) *Credit risk exposures*

The Office's exposure to credit risk is limited due to legislative provisions provided under the *Audit Act 1994* which requires:

- an audited entity to pay to the Consolidated Fund an amount to be determined by the Auditor-General to defray the reasonable costs and expenses of a financial audit undertaken by the Office; and
- the reasonable costs and expenses of the Auditor-General in conducting a performance audit of an audited entity must be paid from money appropriated to the Parliament.

18 FUNDS HELD IN THE PUBLIC ACCOUNT

Funds held in the Public Account consists of funds held by the Department of Treasury and Finance on behalf of the Office to meet payment obligations in future periods in respect of creditors and accrued expenses outstanding at balance date and unreimbursed payments funded out of the current financial year appropriations.

CERTIFICATION OF FINANCIAL STATEMENTS

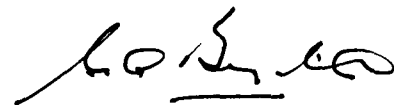
We, the undersigned, hereby certify that:

- in our opinion the financial statements of the Victorian Auditor-General's Office present fairly, the financial operations during 1997-98 and the financial position of the Office as at 30 June 1998;
- at the date of signing the statements, we are not aware of any circumstances which would render any particulars included in the statements to be misleading or inaccurate; and
- the statements have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements and the requirements of the *Financial Management Act 1994*.



H. S. SOONG
Manager, Financial Resources

MELBOURNE 19/8/1998



C. A. BARAGWANATH
Auditor-General

INDEPENDENT AUDITOR'S REPORT

AUDIT SCOPE

We have audited the accompanying financial statements of the Victorian Auditor-General's Office for the year ended 30 June 1998, comprising the statement of operations, balance sheet, statement of cash flows and notes to the financial statements. The Auditor-General is responsible for the financial statements. We have conducted an independent audit of these financial statements in order to express an opinion on them in accordance with section 17 of the *Audit Act 1994*.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial statements are free of material misstatement. Our procedures included an examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and comply with the requirements of the *Financial Management Act 1994*, so as to present a view which is consistent with our understanding of the financial position of the Victorian Auditor-General's Office and the results of its operations and its cash flows.

The audit opinion expressed on the financial statements has been formed on the above basis.

AUDIT OPINION

In our opinion, the financial statements present fairly the financial position of the Victorian Auditor-General's Office as at 30 June 1998 and the results of its operations and its cash flows for the financial year ended on that date in accordance with applicable Accounting Standards and other mandatory professional reporting requirements and comply with the requirements of the *Financial Management Act 1994*.



D.N. BARTLEY
KPMG

19/8/1998

APPENDICES

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APPENDIX 1: OFFICE PUBLICATIONS

AVAILABILITY OF PUBLICATIONS

Publications issued by the Victorian Auditor-General's Office are available from:

- Victorian Auditor-General's Office
Level 14, 222 Exhibition Street
Melbourne Vic. 3000
Phone: (03) 9651 6012
Fax: (03) 9651 6050
E-mail: vicaud1@vicnet.net.au
Homepage: <http://www.vicnet.net.au/vicaud1/aghome.htm>

- Information Victoria Bookshop
356 Collins Street
Melbourne Vic. 3000
Phone: 1300 366 356 (toll free)
Fax: (03) 9603 9920

REPORTS ISSUED DURING 1997-98

- Report of the Auditor-General on the Government's Annual Financial Statement, 1996-97.
- Annual Report of the Victorian Auditor-General's Office, 1996-97.
- Special Report No. 50 - Metropolitan Ambulance Service: Fulfilling a vital community need, November 1997
- Special Report No. 51 - Victorian Rural Ambulance Services: Fulfilling a vital community need, November 1997
- Special Report No. 52 - Schools of the Future: Valuing accountability, December 1997.
- Special Report No. 53 - Victoria's multi-agency approach to emergency services: A focus on public safety, December 1997
- Special Report No. 54 - Victoria's gaming industry: An insight into the role of the regulator, March 1998
- Special Report No. 55 - Child care and kindergartens: Caring about quality, April 1998
- Special Report No. 56 - Acute health services under casemix: A case of mixed priorities, May 1998
- Special Report No. 57 - Public transport reforms: Moving from a system to a service, May 1998
- Report on Ministerial Portfolios, May 1998.

The full text of all reports issued by the Office during 1997-98 is available on the Office's Internet homepage site at <http://www.vicnet.net.au/~vicaud1/aghome.htm>

INDEX OF RESOURCE MANAGEMENT ISSUES IN REPORTS TABLED DURING THE YEAR

- Acute health services under casemix: A case of mixed priorities, Special Report No. 56, May 1998
- Ambulance Service, Metropolitan: fulfilling a vital community need, Special Report No. 50, November 1997
- Ambulance services, Victorian, rural: Fulfilling a vital community need, Special Report No. 51, November 1997
- Bus services, privatisation of, Report on Ministerial Portfolios, May 1998, pp.78-84
- Central Gippsland Region Water Authority, Report of the Auditor-General on the Government's Annual Financial Statement, 1996-97, pp.227-42
- Child care and kindergartens: Caring about quality, Special Report No. 55, April 1998
- Community Support Fund, administration of the, Report on Ministerial Portfolios, May 1998, pp.205-9
- Community-based orders by courts, Report on Ministerial Portfolios, May 1998, pp.143-9
- Dairy Industry Authority, Victorian, chinese joint venture, Report on Ministerial Portfolios, May 1998, pp.183-8
- Docklands redevelopment, Report on Ministerial Portfolios, May 1998, pp.87-103
- Electricity industry privatisation, Victorian, Report of the Auditor-General on the Government's Annual Financial Statement, 1996-97, pp.34-52
- Electricity industry privatisation, Victoria, Report on Ministerial Portfolios, May 1998, pp.285-302
- Electricity industry reforms - payments to external service providers, Report of the Auditor-General on the Government's Annual Financial Statement, 1996-97, pp.131-40
- Emergency services, Victoria's multi-agency approach to: A focus on public safety, Special Report No. 53, December 1997
- Fines and fees, collection of, Report on Ministerial Portfolios, May 1998, pp.152-9
- Gaming industry, Victoria's: An insight into the role of the regulator, Special Report No. 54, March 1998
- Government property, utilisation of, Report on Ministerial Portfolios, May 1998, pp.277-84
- Grand Prix Corporation, Australian, Report of the Auditor-General on the Government's Annual Financial Statement, 1996-97, pp.127-30
- Greater Dandenong, City of, competitive tendering arrangements at the, Report on Ministerial Portfolios, May 1998, pp.128-30
- Human Services, Department of, tendering procedures, Report on Ministerial Portfolios, May 1998, pp.53-59
- Infant investment trust accounts by courts, management of, Report on Ministerial Portfolios, May 1998, pp.150-51
- Latrobe Regional Hospital, Report of the Auditor-General on the government's Annual Financial Statement, 1996-97, pp.191-203
- Local Authorities Superannuation Board unfunded superannuation liabilities, Report on Ministerial Portfolios, May 1998, pp.266-70
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- Local government sector, quality of external financial reporting in the, Report on Ministerial Portfolios, May 1998, pp.104-09
- Milk marketing, Report on Ministerial Portfolios, May 1998, pp.189-91
- Motor vehicles, stamp duty on, Report of the Auditor-General on the Government's Annual Financial Statement, 1996-97, pp.104-17
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- Residents' amenities funds, management of, Report on Ministerial Portfolios, May 1998, pp.60-64
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- South East Water Moorabbin site, Report of the Auditor-General on the Government's Annual Financial Statement, 1996-97, pp.79-84
- St Vincent's Hospital redevelopment, Report of the Auditor-General on the Government's Annual Financial Statement, 1996-97, pp.203-5
- State, contingent liabilities of the, Report of the Auditor-General on the government's Annual Financial Statement, 1996-97, pp.206-20
- State, financial commitments of the, Report of the Auditor-General on the Government's Annual Financial Statement, 1996-97, pp.221-3
- Swinburne University of Technology, capital expenditure and asset management at, Report on Ministerial Portfolios, May 1998, pp.31-7
- Tender specifications, impact of poor, Report on Ministerial Portfolios, May 1998, pp.121-7
- Tricontinental failure, cost of, Report on Ministerial Portfolios, May 1998, pp.303-5
- University IT systems, development of - the CASMAC project, Report on Ministerial Portfolios, May 1998, pp.38-40
- Water authorities, restructuring of, Report on Ministerial Portfolios, May 1998, pp.172-82
- WorkCover, financial standing of, Report on Ministerial Portfolios, May 1998, pp.271-6
- World Congress Centre, termination of, financing arrangements, Report of the Auditor-General on the Government's Annual Financial Statement, 1996-97, pp.181-91
- Yallourn power station site, clearance of, Report on Ministerial Portfolios, May 1998, pp.239-48
- Year 2000 issue - the millennium bug, Report on Ministerial Portfolios, May 1998, pp.215-32

A comprehensive index of resource management issues and other matters addressed in Auditor-General's Reports tabled prior to 1997-98 can be found at the Office's internet homepage site at
<http://www.vicnet.net.au/~vicaud1/aghome.htm>

APPENDIX 2: PROFESSIONAL ACTIVITIES



CONFERENCES

ATTENDANCE AT CONFERENCES

<i>Participants</i>	<i>Date</i>	<i>Conference</i>
International		
J. Olesky	September 1997	"12th Public Relations Institute of Australia Conference", New Zealand
C. Estallo, C. Pagnon	October 1997	"XVth World Congress of the International Federation of Accountants", France
Interstate		
J. Milic	August 1997	"Quality in Education", National Conference, New South Wales
I. Claessen, M. Holloway, M. Jaeger, J. Velovski	October 1997	"Australasian Evaluation Society Annual Conference", South Australia
B. Dinelli, L. Marsh, G. Mitrevski	October 1997	"National Public Sector Accountants Conference", New South Wales
P. Stoppa	November 1997	"Performance Audit Retreat", Western Australian Auditor-General's Office, Western Australia
B. Dinelli, M. Brennan, I. Claessen, P. Stoppa	June 1998	"Australasian Senior Audit Executives Conference", New South Wales
Victoria		
Various Executive Members	August 1997	"Institute of Public Administration Australia", National Conference, Victoria
C. Lacey	January 1998	"Library Automation Biennial Conference", Victoria
G. Peters	March 1998	"Australian Institute of Training and Development National Conference", Victoria
M. Newington, S. Naylor	March 1998	"Victorian Association of Municipal Accountants, 1998 Annual Conference", Victoria

PRESENTATIONS

EXTERNAL PRESENTATIONS

<i>Officers</i>	<i>Date</i>	<i>Topic</i>
Joe Manders	October 1997	"Role of the Auditor-General in the Public Accountability Process". Presented to students at Footscray Campus of the Victorian University of Technology.
Joe Manders	June 1998	"Role of the Auditor-General in the Public Accountability Process". Presented to students at Lilydale Campus of Swinburne University.
Michael Said	March 1998	"Contracting out of Audits". Presentation at the request of the Australian Continuous Improvement Group to a delegation of Mongolian Members of Parliament and their Treasury officials
Ian Claessen	May 1998	"Contestability - the Victorian Experience". Presentation at the Australasian Senior Audit Executives' conference in New South Wales.
Matthew Brennan	May 1998	"Accounting and Audit Issues". Presentation to the Water Industry Annual Finance Managers Conference.
Matthew Brennan	June 1998	"New Audit Services". Presentation to the Australasian Senior Audit Executives Conference in New South Wales.
Stan Naylor	February/March 1998	"Issues of the Auditor-General". Presentation to officers of Local Government and the Victorian Association of Municipal Accountants.
Stan Naylor	June 1998	"Management of Business Units". Presentation to Local Government Chief Executive Officers and senior managers and sponsored by the Macquarie Lawyers and Strategists.
Stan Naylor	June 1998	"The impact of changed accounting standards on local government". Presentation to Local Government accountants and sponsored by the Victorian Association of Municipal Accountants.

APPENDIX 3: AUDIT RESPONSIBILITIES

Parliamentary bodies

Parliament of Victoria

State accounts

Government's annual financial statement

Departments and other independent budget sector agencies

Education, Department of
 Environment Protection Authority
 Human Services, Department of
 Infrastructure, Department of
 Justice, Department of
 Natural Resources and the Environment, Department of
 Ombudsman, Office of the
 Police, Office of the Chief Commissioner of
 Premier and Cabinet, Department of the
 Public Prosecutions, Office of the Director of
 Public Service Commissioner, Office of the
 Regulator-General, Office of the
 Senior Master of the Supreme Court
 State Development, Department of
 Treasury and Finance, Department of
 Victorian Electoral Commission

Public bodies

Adult, Community and Further Education Board
 Advanced Dental Technicians Qualifications Board
 Alpine Resorts Co-ordinating Council
 Ambulance Officers Training Centre
 Anti-Cancer Council of Victoria
 Architects Registration Board of Victoria
 Australian Food Industry Science Centre
 Australian Grand Prix Corporation
 Board of Studies
 Building Control Commission
 Chiropractors Registration Board of Victoria
 Chiropractors Registration Board of Victoria
 Cinemedia Corporation
 Council of Adult Education
 Country Fire Authority
 Dental Board of Victoria
 Dental Technicians Licensing Committee
 Docklands Authority
 Eco Recycle Victoria
 Emerald Tourist Railway Board
 Emu Industry Development Committee
 Falls Creek Alpine Resort Management Board
 Gas Transmission Corporation
 GASCOR
 Generation Victoria
 Greyhound Racing Control Board

Harness Racing Board
 Hastings Port Holdings Corporation
 Heritage Council
 Infertility Treatment Authority
 Lake Mountain Alpine Resort Management Board
 Legal Practice Board
 Library Board of Victoria
 Liquor Licensing Commission
 Marine and Freshwater Resources Institute
 Marine Board of Victoria
 Medical Practitioners Board of Victoria
 Melbourne City Link Authority
 Melbourne Market Authority
 Melbourne Port Corporation
 Melbourne Water Corporation
 Mental Health Review Board
 Metropolitan Fire and Emergency Services Board
 Mount Baw Baw Alpine Resort Management Board
 Mount Buller Alpine Resort Management Board
 Mount Hotham Alpine Resort Management Board
 Mount Stirling Alpine Resort Management Board
 Murray Valley Citrus Marketing Board
 Murray Valley Wine Grape Industry
 Development Committee
 Museums Board of Victoria
 National Gallery of Victoria, Council of Trustees of the
 National Gallery Society of Victoria
 National Institute of Forensic Science
 National Police Ethnic Advisory Bureau
 Northern Victorian Fresh Tomato Industry
 Development Committee
 Nurses Board of Victoria
 Office of Gas Safety
 Office of the Chief Electrical Inspector
 Office of the Legal Ombudsman
 Optometrists Registration Board of Victoria
 Osteopaths Registration Board of Victoria
 Parks Victoria
 Pharmacy Board of Victoria
 Phillip Island Nature Park Board of Management
 Physiotherapists Registration Board of Victoria
 Plumbing Industry Board
 Port Bellarine Committee of Management
 Port of Geelong Authority
 Port of Melbourne Authority
 Port of Portland Authority
 Prince Henry's Institute of Medical Research
 Psychologists Registration Board of Victoria
 Psychosurgery Review Board
 Public Transport Corporation
 Renewable Energy Authority Victoria



Roads Corporation
 Royal Botanic Gardens Board
 Rural Finance Corporation of Victoria
 Shrine of Remembrance Trustees
 State Electricity Commission of Victoria
 State Library of Victoria Foundation
 State Training Board
 Surveyors Board of Victoria
 Tattersall Club Keno
 Tattersall Gaming Machine Division
 Tattersall Sweep Consultation
 Tourism Victoria
 Transport Accident Commission
 Treasury Corporation of Victoria
 Urban Land Corporation
 V/Line Freight Corporation
 VENCorp
 Veterinary Practitioners Registrations Board of Victoria
 Victoria Legal Aid
 Victorian Casino and Gaming Authority
 Victorian Channels Authority
 Victorian Dairy Industry Authority
 Victorian Dried Fruits Board
 Victorian Financial Institutions Commission
 Victorian Funds Management Corporation
 Victorian Health Promotion Foundation
 Victorian Institute of Forensic Medicine
 Victorian Institute of Forensic Mental Health
 Victorian Interpreting and Translation Service
 Victorian Managed Insurance Authority
 Victorian Meat Authority
 Victorian Plantations Corporation
 Victorian Power Exchange
 Victorian Rail Track Corporation
 Victorian Relief Committee
 Victorian Strawberry Industry Development Committee
 Victorian Tertiary Admissions Centre
 Victorian Workcover Authority
 Water Training Centre
 Zoological Parks and Gardens Board

Universities and other educational institutions

Barton Institute of TAFE
 Bendigo Regional Institute of TAFE
 Box Hill Institute of TAFE
 Casey Institute of TAFE
 Central Gippsland Institute of TAFE
 Deakin University
 East Gippsland Institute of TAFE
 Eastern College of TAFE
 Gordon Institute of TAFE
 Goulburn Ovens Institute of TAFE
 Holmesglen Institute of TAFE
 Kangan Batman Institute of TAFE
 La Trobe University
 Melbourne Institute of Textiles
 Monash University
 Northern Melbourne Institute of TAFE
 Peninsula Institute of TAFE
 Royal Melbourne Institute of Technology
 South West Institute of TAFE
 Sunraysia Institute of TAFE

Swinburne University of Technology
 The University of Melbourne
 University of Ballarat
 Victoria University of Technology
 Victorian College of the Arts
 Western Melbourne Institute of TAFE
 William Angliss Institute of TAFE
 Wimmera Institute of TAFE
 Wodonga Institute of TAFE

Public cemeteries

Anderson's Creek Cemetery Trust
 Ballarat General Cemeteries Trust
 Bendigo Cemeteries Trust
 Cheltenham and Regional Cemeteries Trust
 Geelong Cemeteries Trust
 Keilor Cemetery Trust
 Mildura Cemetery Trust
 Preston Cemetery Trust
 Templestowe Cemetery Trust
 Trustees of the Fawkner Crematorium and Memorial Park
 Trustees of the Lilydale Memorial Park and Cemetery
 Trustees of the Memorial Park
 Trustees of the Necropolis Springvale
 Werribee Cemetery Trust

Public hospitals and ambulance services

Alexandra and District Ambulance Service
 Alexandra District Hospital
 Alpine Health
 Ambulance Services Victoria -
 Metropolitan Region
 North Eastern Region
 North Western Region
 South Eastern Region
 South Western Region
 Western Region
 Austin and Repatriation Medical Centre
 Bairnsdale Regional Health Service
 Ballarat Health Services
 Barwon Health
 Beaufort and Skipton Health Service
 Beechworth Hospital, The
 Benalla and District Memorial Hospital
 Bendigo Health Care Group
 Bethlehem Hospital Inc.
 Boort District Hospital
 Caritas Christi Hospice Ltd
 Casterton Memorial Hospital
 Central Wellington Health Service
 Cobram District Hospital
 Cohuna District Hospital
 Colac Community Health Services
 Coleraine and District Hospital
 Corangamite Regional Hospital Services
 Dental Health Services Victoria
 Djerriwarrh Health Services
 Dunmunkle Health Services
 East Grampians Health Service
 East Wimmera Health Service
 Echuca Regional Health
 Edenhope and District Memorial Hospital
 Far East Gippsland Health and Support Service

Gippsland Southern Health Service
 Goulburn Valley Base Hospital
 Hamilton Base Hospital
 Hepburn Health Service
 Hesse Rural Health Service
 Heywood and District Memorial Hospital
 Inglewood and District Health Service
 Inner and Eastern Health Care Network
 Kerang and District Hospital
 Kilmore and District Hospital
 Kooweerup Regional Health Service
 Kyabram and District Memorial Community Hospital
 Kyneton District Health Service
 Latrobe Regional Hospital
 Lorne Community Hospital
 Maffra District Hospital
 Maldon Hospital
 Mallee Track Health and Community Service
 Manangatang and District Hospital
 Mansfield District Hospital
 Maryborough District Health Service
 McIvor Health and Community Services
 Mercy Public Hospitals Inc.
 Mildura Base Hospital
 Mount Alexander Hospital
 Nathalia District Hospital
 North Western Health Care Network
 Numurkah and District War Memorial Hospital
 O'Connell Family Centre (Grey Sisters) Inc.
 Omeo District Hospital
 Otway Health and Community Services
 Peninsula Health Care Network
 Peshurst and District Memorial Hospital
 Port Fairy Hospital
 Portland and District Hospital
 Queen Elizabeth Centre
 Robinvale District Hospital and Health Services
 Rochester and Elmore District Health Service
 Seymour District Memorial Hospital
 South Gippsland Hospital
 Southern Health Care Network
 St Vincent's Hospital (Melbourne) Ltd
 Stawell District Hospital
 Swan Hill District Hospital
 Tallangatta Hospital
 Terang and Mortlake Health Services
 Timboon and District Health Care Service
 Tweddle Child and Family Health Service
 Upper Murray Health and Community Services
 Wangaratta District Base Hospital
 Warracknabeal District Hospital
 Warrnambool and District Base Hospital
 West Gippsland Health Care Group
 West Wimmera Health Service
 Wimmera Health Care Group
 Wodonga District Hospital
 Women's and Children Health Care Network
 Wonthaggi and District Hospital
 Wycheproof and District Health Service
 Yarram and District Health Service
 Yarrawonga District Hospital
 Yea and District Memorial Hospital

Superannuation funds

Coal Mine Workers' Pension Fund
 Emergency Services Superannuation Board
 Hospitals Superannuation Board
 Local Authorities Superannuation Board
 Parliamentary Contributory Superannuation Fund
 State Superannuation Fund
 Victorian Superannuation Board
 Victorian Superannuation Fund
 Water Industry Superannuation Fund

Companies, trusts and joint ventures

Agriculture Victoria Services Pty Ltd
 Aluminium Smelters of Victoria Pty Ltd
 Aluvic Metal Sales Pty Ltd
 Australian Music Examinations Board (Vic.) Ltd
 Australian National Academy of Music Ltd
 Australian Power Exchange Pty Ltd
 Blackspots Projects Trust Account
 Box Hill Enterprises Ltd
 Centre for Innovative Enterprise Pty Ltd
 Centre for Innovative Enterprise Trust
 City West Water Ltd
 Citytech Pty Ltd
 CityWide Service Solutions Pty Ltd
 Deakin Software Services Pty Ltd
 Dova Port Pty Ltd
 Driver Education Centre of Australia Ltd
 Ecogen Energy Ltd
 Energy 21 Pty Ltd
 Food Quality Services Pty Ltd
 Gas Services Business Pty Ltd
 Gascor Holdings No.1 Pty Ltd
 Gascor Holdings No.2 Pty Ltd
 Gascor Holdings No.3 Pty Ltd
 Gasmart (Victoria) Pty Ltd
 Geelong Performing Arts Centre Trust
 Hawthorn International Education Ltd
 Health IT Ltd
 Ikon Energy Pty Ltd
 International Training Australia Pty Ltd
 Kinetik Energy Pty Ltd
 La Trobe International Pty Ltd
 La Trobe Marketing Pty Ltd
 La Trobe University Housing Ltd
 Loy Yang B Power Station Pty Ltd
 Melbourne 2006 Commonwealth Games Bid Pty Ltd
 Melbourne and Olympic Parks Trust
 Melbourne Convention and Exhibition Trust
 Melbourne Information Technologies Australia Pty Ltd
 Melbourne Research Enterprises Ltd
 Melbourne Sports and Aquatic Centre Trust
 Melbourne Wholesale Fish Market Pty Ltd
 Meltech Services Pty Ltd
 Monash International Pty Ltd
 Monash IVF Pathology Services Trust
 Monash IVF Pty Ltd
 Monash Language Centre Pty Ltd
 Monash Merchandising Unit Trust
 Monash Mt. Eliza Graduate School of Business
 and Government Ltd
 Monash Pathology Services Pty Ltd

Monash Ultra Sound Trust
 Monash Ultrasound Pty Ltd
 Monash Unicomm Pty Ltd
 Monash University Foundation Ltd
 Monash University Foundation Trust
 Montech Medical Development Pty Ltd
 Montech Pty Ltd
 Multinet (Assets) Pty Ltd
 Multinet Gas Pty Ltd
 National Power Exchange Pty Ltd
 Neurometric Systems Pty Ltd
 Opalwood Pty Ltd
 Overseas Projects Corporation of Victoria Ltd
 Prahm Market Pty Ltd
 Queen Victoria Market Pty Ltd
 Queen Victoria Women's Centre Trust
 Quiet Life Ltd
 Regent Management Co. Pty Ltd
 RMIT Foundation
 RMIT Innovation Ltd
 RMIT International Pty Ltd
 RMIT Malaysia Pty Ltd
 RMIT Resources Ltd
 RMIT Training Pty Ltd
 RMIT Union
 Securities Finance Corporation Ltd
 Sir John Monash Business Centre Pty Ltd
 South East Water Ltd
 Southgate Control Limited
 Southgate Trust
 State Trustees Limited
 STL Financial Services Limited
 Stratus Networks (Assets) Pty Ltd
 Stratus Networks Pty Ltd
 Swinburne Ltd
 TACLaw Pty Ltd
 Telematics Course Development Fund Trust
 Terec Ltd
 The Albury Gas Company Ltd
 The Holding Trust
 The School of Forestry, Creswick Ltd
 The School of Mines & Industries Ballarat Ltd
 Transmission Pipelines Australia (Assets) Pty Ltd
 Transmission Pipelines Australia (Holdings) Pty Ltd
 Transmission Pipelines Australia Pty Ltd
 Tricontinental Australia Ltd
 Tricontinental Corporation Ltd
 Tricontinental Holdings Ltd
 Trust for Nature (Victoria)
 Twin Waters Resorts Pty Ltd
 Unilink Ltd
 VCAH Foundation Trust
 VCAH Services Ltd
 VFM Australian Fixed Interest Trust
 VFM Equity Trust
 VFM Short-Term Money Market Trust
 Vicfleet Pty Ltd
 Victoria University Enterprises Pty Ltd
 Victoria University of Technology Foundation Ltd
 Victorian Arts Centre Trust
 Victorian Electricity Metering Pty Ltd
 Victorian Institute of Sport Ltd

Victorian Institute of Sport Trust
 Victorian Medical Consortium Pty Ltd
 Water Industry Superannuation Fund Pty Ltd
 Westar (Assets) Pty Ltd
 Westar Pty Ltd
 Yarra Bend Park Trust
 Yarra Valley Water Ltd

Water authorities

Barwon Region Water Authority
 Central Gippsland Region Water Authority
 Central Highlands Region Water Authority
 Coliban Region Water Authority
 Corangamite Catchment Management Authority
 East Gippsland Catchment Management Authority
 East Gippsland Region Water Authority
 First Mildura Irrigation Trust
 Gippsland Southern Rural Water Authority
 Glenelg Hopkins Catchment Management Authority
 Glenelg Region Water Authority
 Goulburn Broken Catchment Management Authority
 Goulburn Valley Region Water Authority
 Goulburn-Murray Rural Water Authority
 Grampians Region Water Authority
 Lower Murray Region Water Authority
 Mallee Catchment Management Authority
 North Central Catchment Management Authority
 North East Catchment Management Authority
 North East Region Water Authority
 Portland Coast Region Water Authority
 South Gippsland Region Water Authority
 South West Water Authority
 Sunraysia Rural Water Authority
 Tungamah Shire Water Board
 West Gippsland Catchment Management Authority
 Western Region Water Authority
 Westernport Region Water Authority
 Wimmera Catchment Management Authority
 Wimmera-Mallee Rural Water Authority

Regional waste management groups

Barwon Regional Waste Management Group
 Calder Regional Waste Management Group
 Central Murray Regional Waste Management Group
 Desert Fringe Regional Waste Management Group
 Eastern Regional Waste Management Group
 Gippsland Regional Waste Management Group
 Goulburn Valley Regional Waste Management Group
 Grampians Regional Waste Management Group
 Highlands Regional Waste Management Group
 Mildura Regional Waste Management Group
 Mornington Peninsula Regional Waste Management Group
 North East Regional Waste Management Group
 Northern Regional Waste Management Group
 South Eastern Regional Waste Management Group
 South Western Regional Waste Management Group
 Western Regional Waste Management Group

Municipal councils

Alpine Shire Council
 Ararat Rural City Council
 Ballarat City Council
 Banyule City Council

Bass Coast Shire Council
Baw Baw Shire Council
Bayside City Council
Boroondara City Council
Borough of Queenscliffe
Brimbank City Council
Buloke Shire Council
Campaspe Shire Council
Cardinia Shire Council
Casey City Council
Central Goldfields Shire Council
Colac-Otway Shire Council
Corangamite Shire Council
Darebin City Council
Delatite Shire Council
East Gippsland Shire Council
Frankston City Council
Gannawara Shire Council
Glen Eira City Council
Glenelg Shire Council
Golden Plains Shire Council
Greater Bendigo City Council
Greater Dandenong City Council
Greater Geelong City Council
Greater Shepparton City Council
Hepburn Shire Council
Hindmarsh Shire Council
Hobsons Bay City Council
Horsham Rural City Council
Hume City Council
Indigo Shire Council
Kingston City Council
Knox City Council
La Trobe Shire Council
Loddon Shire Council
Macedon Ranges Shire Council
Manningham City Council
Maribyrnong City Council
Maroondah City Council
Melbourne City Council
Melton Shire Council
Mildura Rural City Council
Mitchell Shire Council
Moirā Shire Council
Monash City Council
Moonee Valley City Council

Moorabool Shire Council
Moreland City Council
Mornington Peninsula Shire Council
Mount Alexander Shire Council
Moyne Shire Council
Murrindindi Shire Council
Nillumbik Shire Council
Northern Grampians Shire Council
Port Phillip City Council
Pyrenees Shire Council
South Gippsland Shire Council
Southern Grampians Shire Council
Stonnington City Council
Strathbogie Shire Council
Surf Coast Shire Council
Swan Hill Rural City Council
Towong Shire Council
Wangaratta Rural City Council
Warrnambool City Council
Wellington Shire Council
West Wimmera Shire Council
Whitehorse City Council
Whittlesea City Council
Wodonga Rural City Council
Wyndham City Council
Yarra City Council
Yarra Ranges Shire Council
Yarriambiack Shire Council

Regional libraries corporations

Casey-Cardinia Regional Library Corp.
Central Highlands Regional Library Corp.
Corangamite Regional Library Corp.
Eastern Regional Library Corp.
Geelong Regional Library Corp.
Glenelg Regional Library Corp.
Goulburn Valley Regional Library Corp.
High Country Regional Library Corp.
Hume-Moonee Valley Regional Library Corp.
North Central Goldfields Regional Library Corp.
Swan Hill Regional Library Corp.
West Gippsland Regional Library Corp.
Whitehorse Manningham Regional Library Corp.
Wimmera Regional Library Corp.
Yarra Plenty Regional Library Corp.
Yarra-Melbourne Regional Library Corp.

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OFFICE INFORMATION

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The Reports on Ministerial Portfolios provide a thorough, insightful and honest appraisal of the performance within a portfolio. As such, it is trusted and seen as an independent account which keeps governments honest and provides transparency.

Comment by Member of Parliament
Survey of Reports of the Auditor-General
June 1998