

ANNUAL REPORT 2002-03



advancing good
governance



AUDITOR GENERAL
VICTORIA

Auditing in the Public Interest



advancing good governance



Our vision

Recognised excellence in public sector auditing.

Our purpose

To contribute to improvements in performance and enhanced accountability in the Victorian public sector.

Our values

Our corporate goals commit us to:

- Integrity;
- Teamwork;
- Empowerment; and
- Professional and personal growth.

2002-03 corporate focus

Our prime corporate focus was to deliver:

- Parliamentary reports and services – informing Parliament in a timely manner on the results of our work;
- Financial statement audits – providing responsive audit services to agencies and adequately informing Parliament on the quality and reliability of financial reporting practices; and
- Better business management – streamlining our internal systems for best use of scarce resources.

These deliverables reflected our commitment to advancing good governance.

Snapshot of our Office

Our history

The first Victorian Auditor-General, Charles Hotson Ebdon, was appointed in July 1851.

Our history, is documented in the book, *In The Public Interest*, which was officially launched at Parliament House last year. Authored by historian, Dr Peter Yule, it analyses the development of public accountability, and discusses the personalities and key events that have influenced the Office's work over 150 years.

Our staff will continue to build on the Office's great foundation and to uphold its reputation for meeting the needs of Parliament efficiently and effectively.

Principal legislation

The 2 main statutes that establish our responsibilities are:

- the *Constitution Act* 1975, Division 3, Part V, which governs the appointment and independence of the Auditor-General; and
- the *Audit Act* 1994, which defines the powers and responsibilities of the Auditor-General.

Audit responsibilities

At 30 June 2003, the Auditor-General was responsible for:

- auditing the Government's Annual Financial Report;
- reviewing the Estimated Financial Statements within the State Budget;
- conducting financial statement audits and performance audits for some 590 State public sector organisations, including Parliament, government departments, public bodies, educational institutions, public hospitals and municipal councils; and
- undertaking a number of wide-ranging performance audits concerned with the economic, efficient and effective use of public resources applied to achieve public program objectives.

Operating environment

Agencies audited:

- receive approximately \$36 billion in revenue;
- incur approximately \$35 billion in expenditure; and
- hold over \$133 billion in assets.

Available resources

At 30 June 2003, we:

- had 129 in-house staff (127 at 30 June 2002);
- engaged 47 external audit service providers (48 during 2001-02); and
- received \$23.6 million funding from Parliament (\$22.8 million in 2001-02).

Office information

Victorian Auditor-General's Office
Level 34, 140 William Street, Melbourne Vic. 3000

Telephone: (03) 8601 7000

Facsimile: (03) 8601 7010

Email: comments@audit.vic.gov.au

Website: www.audit.vic.gov.au

Hours of business: 8.30 a.m. – 5.30 p.m.

Contents

Highlights for 2002-03	2
Auditor-General's review	3
Accountability to Parliament	5
Role of the Auditor-General	5
Performance against our Annual Plan	5
Enhancements to audit legislation	7
Independent assessment of our performance	7
Awards	9
Parliamentary reports and services	10
Performance against output targets	11
Parliamentary reports	12
Parliamentary services	29
Audit reports on financial statements	32
Range of audit responsibilities	33
Performance against output targets	33
Resourcing our financial statement audits	37
Future directions for financial statement audits	39
Managing our Office	40
Corporate governance	41
Strategy and direction	45
Compliance and accountability	49
Structures and relationships	52
Performance monitoring	59
Financial statements, for the year ended 30 June 2003	62
Appendixes	89
1: Our action on recommendations of performance auditor	90
2: Office publications	96
3: Audit responsibilities	97
4: Delegation for signing audit opinions	104
5: Composition of the Senior Management Group	106
6: Additional staff statistics	107
7: Glossary of terms	108
Indexes	109
Compliance index	110
Alphabetical index	112



Highlights for 2002-03



Accountability to Parliament

- Parliament passed a wide range of enhancements to our audit legislation (see page 7).
- Recommendations from Parliament's 2001 performance audit of our Office largely implemented (see page 7).

Parliamentary reports and services

- Presented 16 major audit reports to Parliament (2001-02, 12 reports) (see page 12).
- There were encouraging attendances and feedback for our post-tabling report briefings to Members of Parliament (see page 29).
- Jointly launched liaison protocols with the Public Accounts and Estimates Committee to codify our interactions (see page 29).

Audit reports on financial statements

- Issued 587 audit opinions on financial statements (2001-02, 564 audit opinions) (see page 35).
- Expressed 78 opinions on local government performance statements (see page 35).
- Achieved a targeted satisfaction level of 75 per cent from agencies (see page 37).
- Introduced major organisational changes to further strengthen our financial statement audit services (see page 39).

Managing our Office

- Successfully installed a new, fully integrated practice management and finance system (see page 46).
- Upgraded our records management system and launched a new intranet site (see page 48).

Awards

- The Auditor-General, Wayne Cameron, received a Centenary Medal, while former Auditor-General, Ches Baragwanath, became an Officer of the Order of Australia (see page 9).
- Received a second successive Gold Award for our Annual Report (see page 9).

Financial performance

- Our net financial result for year was a surplus of \$298 000 (\$916 000, 2001-02) (see page 59).
- Audit fee income of \$14.1 million (\$13.1 million, 2001-02) (see page 60).
- Set up a framework to link future parliamentary appropriations for financial statement audits to our annual fee income (see page 61).

Auditor-General's review

"We have done much to improve our external products and internal practices. There are, however, new challenges that will affect our future business."



This year was a stimulating one, with many events contributing to the range and quality of our products and services, and the way we manage our operations.

Enhancing public accountability and improving public agency performance

A highlight for the year was Parliament's amendments to the Audit Act. These strengthen my powers and include measures that will help create a more responsive and efficient Office.

In addition, amendments to the Constitution Act now protect the Auditor-General's appointment, tenure and independence from change, other than by a referendum.

Our strategic audit planning processes were further strengthened by setting up 3 external consultative committees in the key areas of Health, Education and Local Government. These committees comprise people with extensive knowledge of these sectors, and are a sounding board to ensure that our work is both relevant and timely. The committees' input helps us influence long-term improvement in public sector performance.

Sixteen reports were tabled in Parliament (4 more than last year), including the first report on control and compliance audits.

I also reported to Parliament on a review of the action agencies had taken on our recommendations in 2000-01 performance audits. This now means we report on the follow-up action taken on all our audit reports.

Our post-tabling briefings to Members of Parliament continued during 2002-03. They provide an important opportunity for Members to hear about the key issues in each report. I am very encouraged by their feedback. I also provided a briefing to all in-coming Ministers following the 2002 State election on audit matters associated with their responsibilities.

A set of protocols covering our interactions with the Public Accounts and Estimates Committee was adopted. This reflects the commitment of both parties to the best possible professional relationship.

Maintaining audit quality

My 2001-02 Annual Report detailed the quality assurance regime applied to all audit work. Amendments to the Audit Act now require the Office to summarise these in the Annual Report. The regime includes quality assurance as part of each audit, as well as a number of external assessments. These are:

- a 3-yearly performance audit, which Parliament commissions and the Public Accounts and Estimates Committee manages;
- a periodic peer review by one of our State counterparts (The Audit Office of New South Wales reviewed our performance audits and special reviews in 2001-02);
- examination by the Institute of Applied Economics and Social Research of The University of Melbourne of the logic, scope and analytical rigour of selected performance audits;
- a comprehensive program of post-financial statement audit review, where mostly external parties examine the financial audit work of contractors and my staff; and
- a recent review of our financial audit quality assurance results and processes, by Professor Peter Schelluch from Monash University – recommended that we re-balance future post-audit reviews to reflect a more cyclical risk basis.

Independence and competence – key issues

Any audit function relies on 2 fundamental tenets: independence and competence. Both have been the subject of considerable public debate due to the corporate collapses in Australia and internationally.

I am pleased to say that my Office's early policy work on independence largely anticipated the public debate. For example, we rotate auditors every 5 years. Clear policies and rigorous monitoring help manage conflict of interest. We do not allow our external audit service providers to take on any non-audit work for an audited agency during the course of their contract.

Competence, on the other hand, we achieve through effective recruitment and training programs. A professional organisation must focus strongly on both of these, and we are no exception. We continue to supplement our professional development program with secondments and an intensive management development program. We encourage our staff to seek organisational solutions to business efficiency and to pursue opportunities for personal growth.

Strengthening business efficiency

We completed several initiatives designed to improve our business processes in 2002-03. These included:

- installing upgraded records management software that allows us to access all of our correspondence electronically;
- enhancing our intranet site so it is flexible and integrates with our other business information systems;
- developing a new practice management system, comprising a fully integrated software package that provides audit management and financial systems; and
- bringing together into the one operational group all the responsibilities for financial statement audits, to help provide more responsive and timely audit services.

These actions reflect our corporate goal of managing our internal operations in an exemplary manner.

The year ahead

We have done much to improve our external products and internal practices. There are, however, new challenges that will affect our future business.

The outworking of the amendments to the Audit Act will bring all entities controlled by the State within my audit mandate. Previously, unless the entity met the definition of a public body or was wholly-owned by the State, it lay beyond our audit reach. This change will protect the public interest and increase, over time, the number of audits for which we are responsible.

The increased financial audit workload over the last 18 months had reached a point where we needed to find a funding solution from government. With effect from 1 July 2003, funding authorised under section 29 of the *Financial Management Act* 1994 for financial statement audit activity will be adjusted according to the volume of financial statement audit fees we collect from agencies.

Public comment, correspondence from Members of Parliament or the broader community, raised a wide range of issues. We are working on improving our processes so that we examine issues as quickly and efficiently as possible. Depending on resources, we will complete special reviews or investigations and report to Parliament as early as possible.

Finally, I wish to thank my staff (and the many external audit service providers) for their outstanding contribution to the work of the Office over the past year. They are of course our greatest asset, and they continue to show the highest standards of professionalism in their work. Their presence gives me great confidence for the year ahead as we strive, in the interests of Parliament and the community, to make an even greater difference to the governance and conduct of public sector business.



J. W. CAMERON
Auditor-General

Accountability to Parliament



Role of the Auditor-General

The Victorian Auditor-General is an Officer of Parliament. The State's Constitution enshrines provisions for the appointment, tenure and independence of the position. Parliament's all-party Public Accounts and Estimates Committee recommends the appointment of the Auditor-General, and only a resolution of both Houses of Parliament can remove him/her from office.

The Auditor-General must serve the interests of Parliament by periodically reviewing how well elected governments have met their accountability obligations for responsibly managing public resources. The position has a legislative mandate under the *Audit Act* 1994 to externally audit, on Parliament's behalf, around 590 public sector organisations, encompassing all of the State's government departments and public bodies. The Auditor-General must report the results of all audits directly to Parliament.

The Auditor-General must provide an audit opinion on the annual financial statements of all audited agencies, and on the Annual Financial Statements of the State. The Auditor-General may also investigate instances of waste, probity or lack of financial prudence in the use of public resources, and has the power to carry out performance audits to establish whether government and its agencies effectively, efficiently and economically use public resources.

While much of the work of the Auditor-General is to assure Parliament of the soundness of past public sector performance, the Office also constructively advises government agencies to help them sustainably improve their future performance.

In combination, these historical and prospective functions help to maximise the value of an Auditor-General's independent contribution to upholding accountability and advancing the quality of management practices in the public sector.

Performance against our Annual Plan

Under section 7A of the *Audit Act* 1994, the Auditor-General must prepare an Annual Plan and present it to Parliament, following consultation with the Public Accounts and Estimates Committee. This reinforces the special relationship between the Auditor-General and Parliament. It recognises that the legislative independence and autonomy of an Auditor-General also requires a clear line of accountability to Parliament.

Parliament tabled our Annual Plan for 2002-03 on 11 September 2002. It set out:

- our planned delivery of products and services; and
- the organisational improvements the Office intended to make.



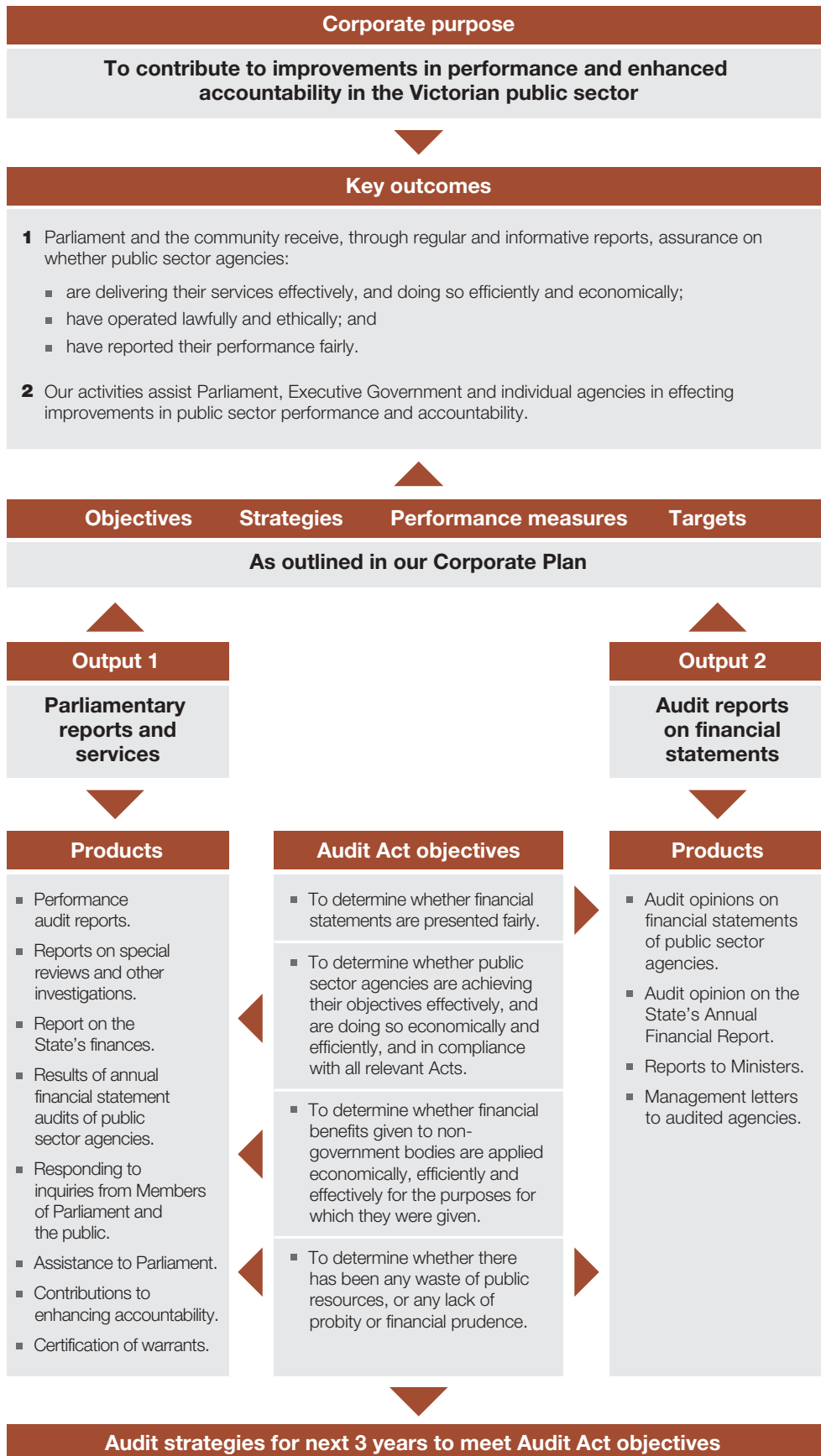
This Annual Report provides an account of the implementation of the 2002-03 Annual Plan. It is the key accountability document to Parliament on our performance during the year.

Our outputs and products

Under Victoria's output management system, the State Budget allocates resources to the Office according to the outputs we deliver and their contribution to the achievement of our key outcomes. For this purpose, our outputs and associated products come under 2 headings:

- Parliamentary reports and services; and
- Audit reports on financial statements.

The following diagram links the planned outcomes with the various products that we deliver under the above output headings. It also shows the relationship of those products with our legislative mandate.



Enhancements to audit legislation

During June 2003, Parliament passed a wide range of amendments to the *Audit Act* 1994. These amendments significantly strengthen the legislative framework of the Auditor-General.

The Auditor-General can now present audit reports to the Clerk of each House of Parliament, making these public documents, while Parliament is in recess. This allows greater flexibility to the Auditor-General, and helps avoid delays in public disclosure of matters in audit reports.

The Auditor-General's mandate now encompasses all entities that the State controls (e.g. 50 per cent or more shareholding or ownership). Previously, the State had to fully own companies and other bodies before the Auditor-General could examine them.

The amendments empower the Auditor-General to examine instances of waste, probity or lack of financial prudence in the use of public resources. The legislation also identifies the importance that Parliament places on the use of this power.

The legislation indemnifies the Auditor-General and staff from personal liability for acts or omissions carried out in good faith in the performance of official duties.

It authorises the Auditor-General to communicate with designated public officials such as the Police Commissioner, the Ombudsman and the responsible Minister whenever deemed desirable during the course of an audit (e.g. in cases of suspected fraud).

The Auditor-General may now audit the financial statements of a non-public body, if invited, and the Auditor-General considers it is in the public interest and practicable.

Lastly, the Auditor-General must now detail in the Annual Report our quality assurances practices. This amendment reinforces our obligation to ensure that we fully inform Parliament of the soundness of our practices in this key area of corporate governance.

In March 2003, Parliament also amended the *Constitution Act* 1975 so that only a referendum can change the provisions for the Auditor-General's appointment, tenure and independence.

With these important changes to the audit legislation, together with the amendment to the Constitution Act, Victoria provides a lead example of an Auditor-General's legislative framework.

Independent assessment of our performance

Action taken on recommendations by Parliament's performance auditor

The *Audit Act* 1994 requires a person appointed by Parliament, on the recommendation of the Public Accounts and Estimates Committee, to conduct a performance audit of the Auditor-General (and the Office) at least every 3 years.

Mr Stuart Alford, Partner, Ernst & Young, completed the most recent performance audit and reported to Parliament in October 2001. Our *2001-02 Annual Report* summarised Mr Alford's main conclusions: that the Auditor-General was effectively, economically and efficiently meeting the objectives of the position, and complying with the *Audit Act*.

The auditor's report recommended a number of improvements. The following table identifies the action we took this year on these recommendations. (Appendix 1 lists more fully our actions against all recommendations.)

ACTION TAKEN DURING 2002-03 ON RECOMMENDATIONS OF PERFORMANCE AUDITOR

STRUCTURE AND MANAGEMENT OF THE OFFICE	
Recommendation	Current status
The conduct of a risk assessment as part of the planning activities of the Office would be informative to the Audit Committee and would assist them in directing and focussing the internal audit resources.	Recommendation adopted. Risk management is now a key element of the Office's corporate governance. The risk management policy and plan have operated since July 2002.
A formal security review of access controls (including some form of attack and penetration exercise with respect to remote access controls) should be considered to ensure that the documented controls are comprehensive and that security policies are being kept up-to-date with best practice.	Recommendation adopted. External testing of our access controls, part of a government-wide assessment of network security, conducted in June 2003.
An alternative to the introduction of a system of billing dates and responsibilities within each month would be to schedule billing dates as part of the audit engagement planning process. This would facilitate administrative assistants raising billings at prearranged dates and remove some of the administrative burden from the audit directors.	Recommendation adopted. We introduced a new billing policy for fees in August 2002.
Activities relating to the review of the Estimated Financial Statements is not re-charged by the Office. Consideration should be given (through legislative change) to arranging for these costs to be borne by the Department of Treasury and Finance.	Recommendation now in legislation. Review of Estimated Financial Statements became a chargeable activity when Parliament amended audit legislation in June 2003.

ACTION TAKEN DURING 2002-03 ON RECOMMENDATIONS OF PERFORMANCE AUDITOR – continued

CORPORATE AND ANNUAL PLANNING PROCESSES

Recommendation	Current status
The sector knowledge now being captured and managed through planning and liaison activities provides a competitive advantage that should be pro-actively leveraged for the benefit of the Office and its stakeholders.	Recommendation in course. As part of the development of our knowledge management, we are considering the opportunities to enhance use of sector knowledge.
Analysis of the output targets and performance measures published in the Office's Annual Plans suggest that they could be made more effective by further analysis of the objectives to which they are being related.	Recommendation in course. We reviewed performance measures and targets as part of the development of our <i>2003-04 Annual Plan</i> .

PERFORMANCE AUDITING

Recommendation	Current status
More timely provision of information to Parliament as well as more effective and efficient use of audit resources would result from the ability of the Office to table audit reports during periods when Parliament is not in session.	Recommendation now in legislation. Parliament amended audit legislation in June 2003 to allow the Auditor-General to table reports when Parliament is in recess.

FINANCIAL STATEMENT AUDITING

Recommendation	Current status
While a risk-based approach is followed, enhancements to audit documentation could be made to more clearly link conclusions on risks with decisions on the extent of control testing, analytical review and detailed substantive testing. As part of these enhancements, the potential for placing greater reliance, in certain areas, on control testing and analytical review in preference to substantive testing should be considered.	Recommendation adopted. Recent upgrades to our financial statement audit methodology, which we will use for the June 2003 audit round, addressed these issues.
Investment in the development of a brief, but consistent, methodology to be applied to the conduct of compliance and probity audits would provide variety to work flow of staff in the Financial Audit Group and assist in the education of contractors.	Recommendation in course. Instructions to audit service providers require them to consider compliance and probity issues when planning the annual financial statement audit. We started a new series of compliance and control audit reports during 2002-03.
Given the number of small, or dormant or low risk entities audited by the Office, an increase in the \$1 million net equity threshold seems warranted.	Recommendation now in legislation. Parliament amended our audit legislation in June 2003 to raise the delegation threshold (for signing of audit opinions) to \$5 million expenditure.

MANAGING RELATIONSHIPS WITH AUDITEES AND OTHER STAKEHOLDERS

Recommendation	Current status
Consider the use of focus group meetings involving groups of stakeholders and report users (including Members of Parliament) to explore reactions to the strategies being considered; and ensure the use of open questions in surveys in preference to questions that prompt satisfaction ratings without qualifying comment.	Recommendation adopted. External consultative groups in 3 key sectors were established during 2002-03 to augment our strategic audit planning.
There is a need to clarify and develop protocols for more effective communication, exchange of views and resource sharing between the Auditor-General, his executive team and the Public Accounts and Estimates Committee and its secretariat.	Recommendation adopted. The Committee and the Auditor-General formally adopted a statement of liaison protocols in July 2003.

Awards

In May 2003, Auditor-General, Wayne Cameron, received a Centenary Medal for:

"... outstanding service as Auditor-General of Victoria".



Wayne Cameron's Centenary Medal.

In the June 2003 Queen's Birthday Honours, former Auditor-General of Victoria, Ches Baragwanath became an Officer of the Order of Australia (AO) in recognition of his:

"... service to the community in the area of public accountability and financial management and in the development of standards through initiatives such as privatisation and advances in information technology".

Ches served with distinction as Auditor-General of Victoria for almost 11 years from August 1988 to July 1999. We warmly congratulate him on this well-deserved award.



Ches Baragwanath, Officer of the Order of Australia, AO.

The awards recognise the value of our work and our aim to deliver exemplary service to Parliament and the Victorian community.

Gold Award for 2001-02 Annual Report

Our 2001-02 Annual Report won a Gold Award for the second consecutive year in the Australasian Reporting Awards (ARA) in May 2003. The Awards, hosted by Australasian Reporting Awards Inc., recognise best practice in annual reporting. They attract entries from listed companies, government agencies, community groups and not-for-profit organisations.

This Award represents the highest standard of excellence in reporting. ARA commended our 2001-02 Annual Report for its strong alignment with ARA criteria, and for conveying transparency and accountability in an easy-to-read manner.



Gold Award for our 2001-02 Annual Report. From left: John Horder, Chairman, ARA and Wayne Cameron.



Mark Holloway and Lotta Lilja.

Parliamentary reports and services

Parliament is our main client; our reports and services seek to meet its and the community's needs.

Our audit work and reports are designed to assure Parliament that the public sector practises efficient and sound resource management, and suggest ways the public sector can improve its performance.

Our services enhance accountability and performance in the public sector by commenting and advising on contemporary public sector developments which Parliament, its committees, the Government and other external parties may be considering.

Performance against output targets

The Office's performance for 2002-03, against the 4 targets of the *Parliamentary reports and services* Output Group, appears below.

PERFORMANCE MEASURES	UNIT OF MEASURE	2002-03 TARGET	2002-03 ACHIEVEMENT	2003-04 TARGET
Cost				
Delivery of reports and services within total output cost (see page 11)	\$million	9.8	9.76	9.8
Quantity				
Reports expected to be tabled in Parliament (see page 12)	number	15	16	15
Timeliness				
Reports completed within planned time frames (see page 27)	per cent	100	100	100
Quality				
Overall level of external satisfaction with performance audit reports (see page 28)	per cent	80	77	80

Performance against cost targets

The costs of services provided in 2002-03 from the *Parliamentary reports and services* Output Group were:

PRODUCT	TARGET 2002-03 (\$m)	ACTUAL 2002-03 (\$m)	TARGET 2003-04 (\$m)
Parliamentary reports			
Performance audits	6.71	5.05	6.16
Special reviews, other investigations and results of annual financial statement audits	1.30	2.63	2.00
Report on the State's Finances for 2001-02	0.46	0.50	0.44
Parliamentary services			
Assistance to Parliament	0.20	0.30	0.20
Responding to inquiries from Members of Parliament and the public	0.20	0.12	0.20
Contributions to enhancing accountability	0.70	1.04	0.70
Liaison with international and interstate organisations	0.20	0.09	0.15
Examination and certification of warrants	0.03	0.03	0.03
Aggregate output costs	9.80	9.76	9.88

This table shows that we spent less on performance audits than planned. The program was affected by the intervention of certain unplanned major inquiries conducted during the year, such as our review of RMIT's finances. This resulted in some deferral of performance audits, one of which will be completed in early Spring 2003, and work is continuing on the other 2. The special reviews and investigations activity increased accordingly and resulted in completion of 4 additional reports.

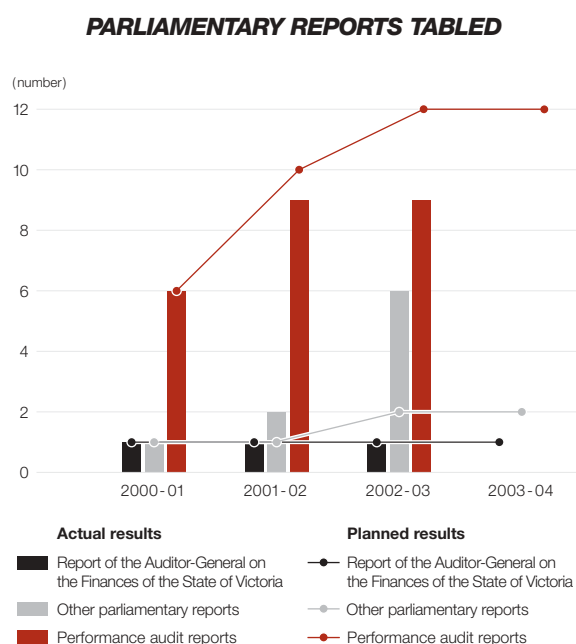
Parliamentary reports

Performance against quantity targets

This table details our performance on the 16 reports that we presented to Parliament during 2002-03.

TYPE OF REPORT	TARGET	ACHIEVEMENT	COMMENT
Performance audits	12	9	Three audits planned for completion during the year were delayed due to diversion of resources to undertake certain unplanned inquiries and as explained for some particular audits below. The audit on <i>Assessing the needs of Victorian prisoners</i> was deferred because this initiative was at a very early stage of development. We expect to complete this audit in Spring 2003. The audit on <i>Improving literacy standards in government schools</i> expanded in scope, and is expected to be completed in Spring 2003. The audit of the <i>Management of public transport franchising</i> has been deferred because of the current state of flux in these franchising arrangements.
Public sector agencies	2	6	The 4 additional reports were: a new control and compliance audit report covering the audit of GST and payroll activities across public agencies; a report of the review of RMIT's finances; a report on how Parliament controls and manages appropriations; and a report on a series of special reviews.
Examination of the State's finances	1	1	Report presented to Parliament in Spring 2002, as planned.
Total	15	16	

The following chart shows an increase in the number of reports produced by the Office over the last 3 years.



Themes of major audit coverage

This year, we report our major audits under the following themes:

- Governance and public sector management;
- Developing and managing the State's infrastructure;
- Sustainability of natural resources and the environment;
- Developing the economy, sectors and regions;
- Protecting the community;
- Fostering a skilled, creative and learning community; and
- Servicing the wellbeing of the community.

The following table presents the 2002-03 reports (including those continuing or planned) under these themes.

THEMES FOR AREAS OF MAJOR AUDIT COVERAGE

THEMES	MAJOR AUDIT COVERAGE, 2002-03	PERFORMANCE AUDIT REPORTS IN PROGRESS OR UNDER CONSIDERATION IN 2003-04
Governance and public sector management	<ul style="list-style-type: none"> ■ Managing risk across the public sector ■ Performance management and reporting: Progress report and a case study ■ Electronic procurement in the Victorian government ■ Parliamentary control and management of appropriations ■ Payroll management <i>and</i> Administration of the goods and services tax ■ Report of the Auditor-General on RMIT's finances ■ Implementation of RMIT's Academic Management System 	<ul style="list-style-type: none"> ■ Budget development and management within departments ■ Human resource management – Recruitment ■ Managing business risk across municipal councils ■ Development of policy advice
Developing and managing the State's infrastructure	<ul style="list-style-type: none"> ■ Regional Fast Rail Project ■ Spencer Street Station redevelopment 	<ul style="list-style-type: none"> ■ Maintenance of public housing ■ Internet access to government services ■ Management of public transport franchising
Sustainability of natural resources and the environment	<ul style="list-style-type: none"> ■ Fire prevention and preparedness 	<ul style="list-style-type: none"> ■ Sustainability of commercial fisheries ■ Establishing sustainable forests
Developing the economy, sectors and regions	<ul style="list-style-type: none"> ■ Docklands development 	<ul style="list-style-type: none"> ■ Agricultural disease management ■ Quality of TAFE education – Meeting the needs of industry
Protecting the community	<ul style="list-style-type: none"> ■ Criminal justice enhancement program 	<ul style="list-style-type: none"> ■ Community correction orders ■ Preparedness of emergency services for major events/incidents ■ Assessing the needs of Victorian prisoners
Fostering a skilled, creative and learning community		<ul style="list-style-type: none"> ■ Improving literacy standards in government schools ■ Professional development for secondary school teachers
Servicing the wellbeing of the community	<ul style="list-style-type: none"> ■ Mental health services for people in crisis ■ Drug education in government schools ■ Community dental services ■ Management of food safety in Victoria ■ Managing medical equipment in public hospitals 	<ul style="list-style-type: none"> ■ Infection control in public hospitals ■ Managing emergency demand in public hospitals ■ Provision of aged care services by local government

Parliamentary reports – major audit coverage

Parliamentary reports focus on areas that offer the best potential for the public sector to improve resource management, and enhance accountability and transparency. Under the above themes, the outcomes of the audit reports tabled in Parliament during 2002-03 are shown on the following pages.



The Parliament of Victoria, a key institution in monitoring public sector accountability.

Featured in the "Parliamentary control and management of appropriations" report.

Governance and public sector management

Managing risk across the public sector

The report investigated risk management by examining risk management structures and processes in a range of public sector organisations and through detailed case studies.

We found that while most Victorian public sector organisations address risk management in some way, it is not yet a standard business discipline. Approximately one-third of organisations do not explicitly identify and assess their key risks, nor do they always report risk information to key stakeholders. Agencies at both organisational and State-sector level must more thoroughly assess and measure risks and risk treatments.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management

It recommended formal risk management approaches, including better cost-benefit and other quantitative risk assessments.

Improved accountability and transparency

It recommended that agencies report annually on risk management strategies; audit committees oversee risk management; and executive performance responsibilities include risk management.

Improved operational procedures

It recommended strengthening, co-ordinating and standardising of existing risk management processes by central agencies and the Victorian Managed Insurance Authority.

The agencies we audited received the report's recommendations well, particularly the recommendations about better public sector information exchange and the need for a co-ordinated approach to State-sector risks.

"The Auditor-General is used to doing reports that investigate and sometimes criticise, but an important function of the Auditor-General is to chart the way forward. This report on managing risk across the public sector is a very timely addition to that particular aspect of the Auditor-General's work."

THE HON. BILL FORWOOD MLC, 27 MARCH 2003

Performance management and reporting: Progress report and a case study

For the third time, the Office reported on the status of Victoria's Performance Management and Reporting Framework. We assessed the framework and prepared a case study on the waste management sector.

We found that there has been some progress in the development of the framework, however, further development is still required. Deficiencies in the framework were illustrated in the waste management sector. Some agencies did not report core government outcomes, and the framework did not cover all public sector agencies. A reporting system that revolves around policy objectives at ministerial portfolio level could more precisely link government outcomes and the outputs in the Budget Papers.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management

It encouraged waste management agencies to work together to develop sector-wide performance indicators, and to co-ordinate staff training in performance management and reporting.

Improved accountability and transparency

It highlighted the need for all public sector agencies to be incorporated into Victoria's Performance Management and Reporting Framework, and recommended changes to the *Financial Management Act 1994* to improve accountability.

Improved operational procedures

Its recommendations focused on improving the links between outcomes and outputs through more effective performance information, and better operational procedures.

Central agencies agreed that performance information is important for budget planning and monitoring, and that the performance management framework can be further developed and refined. However, they did not agree with our recommendations on how the framework can best evolve.

Electronic procurement in the Victorian government

The audit examined the Electronic Commerce for Procurement Project and assessed whether government agencies had efficiently and effectively planned and introduced electronic procurement. It looked at how the central project team in the Department of Treasury and Finance developed and managed the e-procurement project. It also examined e-procurement implementation and sustainability in the Department of Education and Training, the former Department of Natural Resources and Environment (now the Department of Primary Industries and Department of Sustainability and Environment) and Victoria Police.

The Victorian Government took a visionary path in introducing e-procurement, and through it agencies have streamlined internal processes and improved workflow solutions. However, early public statements of the benefits of e-procurement relied on inadequate business cases and were overly optimistic. Progress is substantially behind schedule. Government-wide problems - including tensions around procurement, and rural and regional policy development and best practice advice, and the long-term future of the external catalogue - remain.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management

It recommended reviews of procurement policies, the electronic catalogue, business case development and government IT contracts.

Improved accountability and transparency

It raised awareness of public sector electronic procurement activities.

Improved operational procedures

It suggested that public sector agencies and the Government reconsider the merits of the electronic catalogue.

The Department of Education and Training, the Department of Primary Industries, and Victoria Police generally supported the report and its recommendations. The Department of Treasury and Finance agreed with most recommendations relating to the activities of other agencies, particularly on the need for post-implementation reviews and the periodic survey of users and potential suppliers. However, it disagreed with comments on the progress made in implementing the project, the relevance of the single supplier database and on the willingness of suppliers to join the electronic catalogue.

Parliamentary control and management of appropriations

This report assessed the legislative and administrative arrangements associated with parliamentary appropriations to check whether they protected Parliament's interests, and whether appropriation administration can be improved.

We found that successive reforms to the State's Financial Management and Accountability Framework have given the Executive Government substantial discretion over spending taxpayers' funds, and that the associated scrutiny and accountability arrangements could be strengthened. This would improve the Government's transparency and accountability to Parliament over public spending.

Importantly, the report will assist Parliament to reassess the position from which it controls and scrutinises public finances, and holds the Executive Government to account. It also outlines the various ways the Executive can improve the administration of appropriations and the associated reporting and accountability arrangements.

VALUE-ADDING FEATURES OF THIS REPORT**Improved resource management**

It identified significant opportunities to improve parliamentary scrutiny and supervision of appropriations.

Improved accountability and transparency

It recommended improvements to financial disclosures, and performance management and monitoring.

Improved operational procedures

It identified a number of improvements to appropriation management and administration by Executive Government.

"I make the point at the outset that this is not party political. This is an issue about the role of the Parliament and its function. I again congratulate the Auditor-General on picking up on this topic and bringing it to the attention of the Parliament."

THE HON. B. FORWOOD MLC, 8 MAY 2003

The Department of Treasury and Finance responded positively to the report. It believed that the report offers some valuable insights and areas for ongoing improvements in the evolving framework for resource and performance management of departments in Victoria.

Payroll management and Administration of the goods and services tax

The March 2003 *Report of the Auditor-General on control and compliance audits* outlined the findings of 2 control and compliance audits: Payroll management and Administration of the goods and services tax (GST).

Control and compliance audits assure Parliament that agencies comply with key legislation and practise appropriate governance and financial management. These audits also suggest better practices that may help public sector agencies improve their management processes.

We found that the agencies effectively managed payroll. However, several agencies could still strengthen payroll management. In particular, they could implement further controls and processes to reduce the risk of errors and strengthen how payroll expenditure is monitored.

Government departments had devoted significant attention to implementing systems and practices to manage their GST responsibilities. They could, however, manage certain GST transactions better, and increase staff training in GST processing. There was also a need to seek clarification about the taxation status of certain types of transaction.

VALUE-ADDING FEATURES OF THIS REPORT**Improved resource management**

It outlined efficiency benchmarks for payroll administration.

Improved accountability and transparency

It assured Parliament that these functions were adequately managed and identified areas for improvement.

Improved operational procedures

It identified better practices for public sector payroll and GST management.

The agencies reviewed generally agreed with the audit findings outlined in the report. Where necessary, these agencies have commenced action to introduce the better practices contained in the report to improve their payroll and GST management practices.

Report of the Auditor-General on RMIT's finances

The June 2003 *Report of the Auditor-General on RMIT's finances* identified significant and unsustainable deterioration in RMIT University's financial performance from 2000 to 2002. This meant the University urgently had to improve its financial management. Since 1999, there was a 22.5 per cent growth in revenue, yet expenditure increased by 42 per cent.

The mismanagement in setting up an Academic Management System contributed to RMIT's weakened financial position. However, other factors also contributed, such as high overhead costs, losses from research activities, low TAFE productivity and high costs from a large property portfolio.

We found that although RMIT has started to address some of these issues, senior management and Council will need to closely monitor information flows for the position to improve.

VALUE-ADDING FEATURES OF THIS REPORT**Improved resource management**

It recommended initiatives to improve the governance arrangements, and strategic and business planning.

Improved accountability and transparency

It highlighted the current financial position of RMIT and the specific issues affecting it.

Improved operational procedures

It recommended that budget processes integrate with organisational business planning, and setting up appropriate pricing models and comprehensive work force planning.

"The Auditor-General's report is the usual thorough report and it really brings home to the people of Victoria the necessity to have an Auditor-General who can conduct comprehensive reports into organisations and institutions, et cetera."

THE HON. A. R. BRIDESON MLC, 5 JUNE 2003

RMIT agreed that extraordinary events over the past 2 years had exposed structural and cultural deficiencies which have contributed to significant problems identified in the report and by RMIT itself. The University accepted that it is important that these be addressed as it continues to implement a budget and financial strategy to ensure a sustainable future.

Implementation of RMIT's Academic Management System

The February 2003 *Report on Public Sector Agencies* included conclusions on the implementation of RMIT's Academic Management System (AMS). RMIT started the AMS project in December 1999. Its aim was to integrate all RMIT's student management activities into a consolidated system, streamlining processes including student enrolments.

We found that since the AMS went "live" in October 2001, it has suffered functional and technical problems, and has not satisfied a significant number of critical business needs.

RMIT did not comprehensively plan for, and apply, appropriate contractual and project management practices. It had not established adequate governance arrangements, including senior management involvement, or the necessary support for implementing and managing the project.

VALUE-ADDING FEATURES OF THE REPORT

Improved resource management

It found that better financial management and reporting would have helped RMIT respond earlier, although technical problems were still likely.

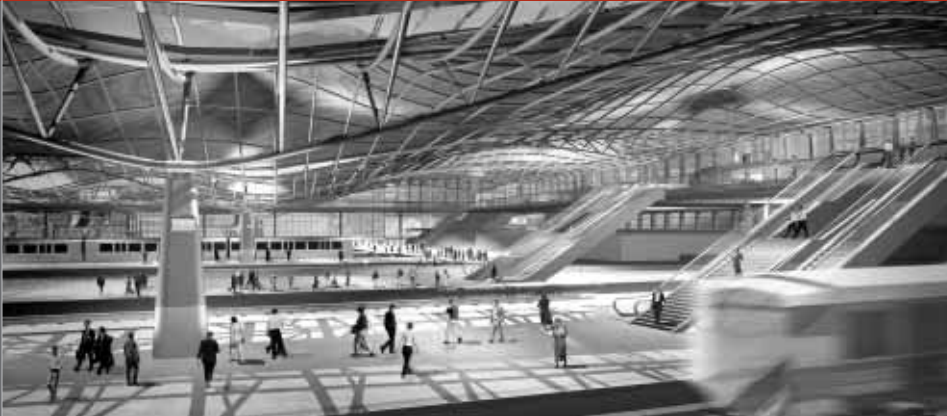
Improved accountability and transparency

It identified the implementation difficulties and costs of the AMS project.

Improved operational procedures

It outlined key factors necessary for successful public sector agency IT projects.

RMIT indicated that the failure of the AMS implementation was regrettable and that it had learned much from the experience. RMIT will be consulting widely as it goes forward to ensure that it benefits from the experiences of others.



Proposed redevelopment of Spencer Street Station.

Featured in the "Report of the Auditor-General on the Finances of the State of Victoria, 2001-02".

(Photograph courtesy of the Department of Infrastructure.)

Developing and managing the State's infrastructure

Regional Fast Rail Project

The October 2002 *Report of the Auditor-General on the Finances of the State of Victoria, 2001-02* included findings on an examination of the status of the Regional Fast Rail Project. This project forms part of the \$1.5 billion *Linking Victoria* initiative, which the Government launched in February 2002.

We found that the feasibility analysis of the project's costs and benefits too narrowly focused on express journey times. Most timetabled train services, particularly peak-hour services, are not express.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management
-
Improved accountability and transparency
It outlined the feasibility analysis; the tender evaluation and selection process; and associated costs.
Improved operational procedures
-

The management response expressed the view that the full benefits of the project had not been acknowledged in the report.

Spencer Street Station redevelopment

The October 2002 *Report of the Auditor-General on the Finances of the State of Victoria, 2001-02* included an appraisal of the Spencer Street Station redevelopment, which comprises a Transport Interchange Facility and a commercial development.

We concluded that the developer assumes the key risks and costs from the commercial development, including the risk of cost overruns and the leasing and use risks.

The report also outlined our findings on the accounting arrangements for the facility.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management
-
Improved accountability and transparency
It outlined the tender evaluation and selection process for the commercial development and the design and construction of the facility; and its cost.
Improved operational procedures
-

A specific management response was not provided on this issue.



Safe fuel reduction burning by trained staff.

Featured in the "Fire prevention and preparedness" report.

Sustainability of natural resources and the environment

Fire prevention and preparedness

The audit assessed wildfire prevention and preparedness in the Department of Sustainability and Environment (DSE) and the Country Fire Authority (CFA).

We concluded that these agencies had improved rural fire prevention and preparedness since our audit of fire prevention on public lands in 1992, and since the tragic death of 5 firefighters in the Linton fire of 1998. Areas of strength include:

- strategic planning for a joint approach by the CFA and the DSE;
- a nationally and internationally recognised incident control system;
- the DSE's risk-based resource allocation model; and
- the CFA's community education programs.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management

It encouraged risk-based resource management, including developing a wildfire component of the State Fire Strategy and better resource management for fuel-reduction burning.

Improved accountability and transparency

It recommended improved planning; data collection, information and performance reporting by fire agencies; and developing appropriate municipal council wildfire management overlays.

Improved operational procedures

It recommended improved procedures for inter-agency co-operation and co-ordinated planning, as well as hazard management, extension of community education and better management of powerlines, private plantations, firefighting personnel and assets.

"There have been many such reports tabled in recent times by the Auditor-General and it is worth the house noting what a significant contribution they make to public administration. I also thank the Auditor-General for the briefings provided to members on a regular basis."

THE HON. PHILIP DAVIS MLC, 22 MAY 2003

The DSE generally supported the findings of the audit. It considered that we had fairly reported the issues, and that the majority of recommendations were practical approaches to resolving the matters. The CFA and the Department of Justice also supported the report.



Developments at the Docklands.

Featured in the "Report on Public Sector Agencies, February 2003".

Developing the economy, sectors and regions

Docklands development

The February 2003 *Report on Public Sector Agencies* contained articles on the status of the Docklands development, including the Victoria Harbour precinct, and the Film and Television Studio.

The report found that the Docklands Authority contractually assigned approximately 91 per cent of the planned development, by development value, to private developers. Approximately 23 per cent of the proposed private development is finished or under construction.

The State substantially financed, through loan funding, the private development and operation of the Film and Television Studio complex. The successful tenderer enjoyed additional opportunities to present and clarify its proposal before it became the preferred tenderer. Negotiations took almost 9 months. This led to new financing arrangements and design changes. The other tenderers were not able to re-present or revise their tenders during that period.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management

-

Improved accountability and transparency

It clarified aspects of the Docklands development; the appointment of developers; and the financial implications associated with the Victoria Harbour and Film and Television Studio complex.

Improved operational procedures

It identified shortcomings, primarily probity issues, in the tendering processes for the Studio complex.

The Department of Innovation, Industry and Regional Development which had responsibility for the Studio project disagreed with some of our findings



Police graduating from the Police Academy.

Featured in the "Report of the Auditor-General on the Finances of the State of Victoria, 2001-02".

Protecting the community

Criminal justice enhancement program

The May 2003 *Report on Public Sector Agencies* included findings on the management of the criminal justice enhancement program.

As a major e-government initiative across many agencies in the Justice portfolio, the program will enable the State's criminal justice system to more effectively, efficiently and punctually deliver its services.

We found that:

- the program's management structure exhibited a number of strengths including operation of an IT steering committee, appointment of a program director, use of a fixed price contract for system integration and development functions, and direct involvement of participating agencies in project teams to reinforce user confidence;
- following the program's increase in scope, the Department of Justice was working to a new completion date of March 2004, with projected costs increasing from \$14.5 million to \$35 million;
- there were no performance measures, directly linked to the program's expected outcomes, which Parliament would need to assess to determine whether the project was effective; and
- a body not involved in direct management decision-making should fulfil a major role in future quality assurance arrangements.

We observed that the Department's largely successful experiences with such a major initiative would be valuable to other agencies embarking upon new e-government projects. We suggested that the Department record and report its experience across the public sector.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management

It independently confirmed several strengths in the program's management structure, and identified the need for close monitoring of performance against revised time deadlines.

Improved accountability and transparency

It presented updated cost data, and recommended future reporting to Parliament incorporate management and overhead expenses of the participating agencies.

Improved operational procedures

It identified necessary improvements in governance arrangements, performance reporting and action to ensure ongoing IT support for the program.

The Department broadly agreed with the issues raised.



Parent involvement in school drug education is important.

Featured in the "Drug education in government schools" report.

(Photograph courtesy of the Department of Education and Training.)

Servicing the wellbeing of the community

Mental health services for people in crisis

This audit examined the acute psychiatric services available from the Department of Human Services, the Mental Health Review Board and Area Mental Health Services. The audit focused particularly on adults experiencing a mental health crisis, but also covered effects on carers and families, funding distribution and monitoring frameworks.

We found that people in crisis had difficulty getting acute psychiatric services for reasons such as increasing demand pressures; work force shortages; gaps in key service delivery processes; and limited involvement of consumers and carers.

Further, while the Mental Health Review Board has improved its operational efficiency, it does not hear the cases of nearly 70 per cent of involuntary patients before institutions release them.

The Department of Human Services has more equitably redistributed funds across the mental health services system, but further improvements can be made. The Department needs to adopt more meaningful key performance indicators to better assess the effectiveness of its service delivery.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management

It identified the need for the Department to better manage increasing demand, improve service co-ordination and further improve funding models.

Improved accountability and transparency

It clarified standards for service delivery; suggested improvements to monitoring and reporting; and proposed new key performance indicators.

Improved operational procedures

It identified operational inefficiencies at Area Mental Health Services and the Mental Health Review Board, and recommended improvements.

The Department of Human Services welcomed the report and acknowledged the pressures on the system. The Department accepted most of our recommendations.

Drug education in government schools

The audit examined the "Turning the tide in schools" program in government schools. We found that almost all government schools and many non-government schools:

- had drug education strategies;
- gave teachers professional development in drug education;
- developed curriculum materials; and
- had information and education programs for parents.

"Turning the tide in schools" has successfully increased the amount and quality of drug education, particularly in government schools. The program has also helped develop other student wellbeing initiatives. However, the Department of Education and Training could monitor and evaluate the program better.

VALUE-ADDING FEATURES OF THE REPORT

Improved resource management

It identified issues affecting sustainability and recommended that the Department target resources and improve monitoring and evaluation.

Improved accountability and transparency

It recommended that the Department's accountability framework include school drug education programs, and specified useful outcome measurements.

Improved operational procedures

It suggested that the Department's intranet disseminate relevant teaching material, and recommended a monitoring and evaluation program.

The Department of Education and Training welcomed the report and agreed with its findings.

Community dental services

The audit examined access to, and delivery of, community dental services; oral health work force issues; and aspects of program management, including resource allocation, strategic planning and accountability. The audit included the Department of Human Services and Dental Health Services Victoria (DHSV), and 13 dental clinics.

We observed a service system under stress and facing increasing demand. The Community Dental Program provides a greater proportion of emergency care than planned leading to a reduced provision of general dental care and prevention activity. With the exception of emergency care, patients do not receive timely attention, and service providers must improve clinic efficiency and conditions, and focus more on infection control.

Shortages in the oral health work force are affecting service. This issue needs more co-ordination and specific action.

VALUE-ADDING FEATURES OF THE REPORT

Improved resource management

It recommended enhancing resourcing, strategic planning and reporting mechanisms, and addressed data deficiencies.

Improved accountability and transparency

It suggested improving public performance reporting.

Improved operational procedures

It recommended reviewing the efficiency of the clinics and the DHSV workshop.

The Department of Human Services and DHSV welcomed the audit, and agreed with most of the recommendations.

Management of food safety in Victoria

The audit assessed whether the regulatory framework for the management of retail food safety in Victoria efficiently and effectively minimises the risks of food-related illness. We examined the Department of Human Services, particularly the Food Safety Unit, and local government councils. We also invited comment from food businesses and other stakeholders.

We found that while the framework is appropriate in principle, only a few councils fulfilled their legislative responsibilities. Most councils complied poorly with key regulatory elements, including not inspecting all registered food businesses annually, and not following-up all non-compliant businesses. The amount of food sampling was below the minimum legislative requirement.

Similarly, shortcomings with the Food Safety Unit's food recall practices may affect the system's effectiveness.

VALUE-ADDING FEATURES OF THE REPORT

Improved resource management

It highlighted deficiencies in the regulatory framework that affect the detection of unsafe food handling practices.

Improved accountability and transparency

It highlighted the lack of public reporting and supervision by the Department and councils.

Improved operational procedures

It identified good and poor examples of councils meeting their obligations under the regulatory framework.

Both the Department of Human Services and municipal councils responded positively to the report. There was some disagreement with our recommendations.

Managing medical equipment in public hospitals

This audit assessed how efficiently and effectively public hospitals managed, maintained and replaced medical equipment. It examined the condition and life expectancy of some 4 310 items.

We concluded that although hospitals effectively maintained their medical equipment, a significant proportion of equipment had exceeded its life expectancy. About 3 per cent of the equipment was in "poor" condition and needed to be replaced immediately, at an estimated cost of \$10 million. A further 14 per cent was in "fair" condition and needed to be replaced by 2005, at an estimated cost of \$32 million.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management

It identified deficiencies with asset management practices and suggested improvements to resource allocation decisions.

Improved accountability and transparency

It generated data on the condition of medical equipment and its life expectancy, which can help hospitals to better manage these assets.

Improved operational procedures

It recommended that hospitals adopt risk-based principles when implementing preventative maintenance. This could save money.

The 19 hospitals examined and the Department of Human Services accepted the results of the audit and most of its recommendations.

"The performance audit the Auditor-General has undertaken with regard to medical equipment is a very important one."

THE HON. D. MCL. DAVIS MLC, 10 APRIL 2003



*Federation Square,
Melbourne, viewed
from Swanston Street.*

*Featured in the "Report on Public
Sector Agencies, May 2003".*

Parliamentary reports – Public Sector Agencies

Report on Public Sector Agencies: Results of special reviews and 30 June 2002 financial statement audits

This February 2003 report set out the results of financial statement audits for public sector agencies with 30 June 2002 balance dates, and the outcomes of several special reviews.

The audit results for the 30 June 2002 audit round reported 429 audit opinions being issued. Of these, 22 were qualified opinions.

Agencies can improve the timeliness of completion of audited financial statements. Only 40 per cent of entities met the 12 week legislative time frame. This was similar to the previous audit cycle.

While most public sector agencies maintained effective internal controls over the financial and information technology systems used to prepare their annual financial reports, management and internal control processes can still be improved. Among the significant issues identified were inadequate arrangements for audit committees, absence of effective risk management arrangements, inadequate asset management practices and deficiencies in information technology management.

The report also included the results of special reviews, covering:

- cash management at schools;
- implementation of RMIT University's Academic Management System (summarised on page 17);
- Austin and Repatriation Medical Centre redevelopment and Mercy Hospital for Women relocation project;
- financial viability of hospitals;
- arrears in public housing rents, and waiting lists;
- Glen Eira City Council's uniform rate rebate;

- former Delatite Shire Council's involvement in the Lakeside Community Centre Project; and
- status of the Docklands development, including the Victoria Harbour precinct and Film and Television Studio complex (summarised on page 20).

The Executive Summary of the report set out our major findings in each of these reviews.

Report on Public Sector Agencies: Results of special reviews

This May 2003 report presented the results of the following 10 special reviews:

- Criminal justice enhancement program (summarised on page 21);
- Regional Infrastructure Development Fund;
- Asset confiscation scheme;
- Victoria Police's outsourcing of information technology services;
- Status of the Federation Square development;
- Administration of study assistance in government departments;
- Internet security management;
- State Library redevelopment;
- Control over drugs and poisons in public sector agencies; and
- Redevelopment of the driver licensing system.

Report on Public Sector Agencies: Results of special reviews and financial statement audits for agencies with balance dates other than 30 June 2002

This June 2003 report was the third and final report in our public sector agencies series, and covered:

- the results of financial statement audits on public sector agencies with balance dates other than 30 June 2002;
- findings from 4 special reviews:
 - maintenance of school facilities;
 - student administration systems in universities and TAFE institutes;
 - overseas operations of Victorian TAFE institutes; and
 - management of the Master Agency Media Service Contracts for government advertising; and
- the action agencies had taken on the recommendations in our 2000-01 performance audit reports.

At the time of this report, we had issued 132 audit opinions on the financial statements of agencies with balance dates other than 30 June 2002. (A further 26 audit opinions were issued subsequent to this report, but prior to June 2003.) Seven of these were qualified opinions because of deficient accounting records and systems, inappropriate recognition of Commonwealth Government general operating grants, and utilising inappropriate methods of valuing non-current assets.

Agencies can be more timely in completing audited financial statements. Only 34 per cent of entities with balance dates other than 30 June met the 12 week legislative time frame.

Although most public sector agencies had effective internal controls over the financial and information technology systems used in preparing their annual financial reports, some could manage the process better, including:

- audit committee arrangements;
- risk management arrangements;
- asset and debt management practices; and
- information technology management.

We followed-up 7 performance audits (see table below) conducted during 2000-01, and outlined the results in this report.

FOLLOW-UP OF 2000-01 PERFORMANCE AUDIT REPORTS

Performance audit report	Tabled in Parliament
Grants to non-government organisations: Improving accountability	Nov. 2000
Services for people with an intellectual disability	Nov. 2000
Non-metropolitan urban water authorities: Enhancing performance and accountability	Nov. 2000
Teaching equipment in the Technical and Further Education sector	May 2001
Implementing Local Priority Policing in Victoria	May 2001
Managing Victoria's growing salinity problem	June 2001
Post-acute care planning (included in <i>Report on Ministerial Portfolios</i> , June 2001)	June 2001

We assessed the action agencies took in response to the recommendations of each of the performance audits. This enhancement to the performance audit process will be continued in 2003-04.



Rail infrastructure is to be substantially upgraded as part of the Regional Fast Rail Project.

Featured in the "Report of the Auditor-General on the Finances of the State of Victoria, 2001-02".

Parliamentary report – Examination of the State's finances

Report of the Auditor-General on the Finances of the State of Victoria, 2001-02

This October 2002 report communicated our findings of our audit examination of the State's financial performance and financial position for the 2001-02 financial year.

Our key finding was that the State's overall financial condition remained strong. However, the report also referred to vulnerabilities and emerging pressures which the Government must carefully manage, including:

- the impact of any downturn in the economic cycle, and expenditure pressures, including wage growth, on future operating surpluses and existing program levels; and
- the risk from an unpredictable property market, and domestic and international equity market volatility on future revenue.

The report also commented on events in 2001-02 that greatly affected the State's finances, including:

- the net additional cost of major public sector industrial settlements and decisions on additional permanent staffing;
- the settlement of contractual disputes and claims, including the franchising of public transport services and the OneLink automated ticketing system;
- the increase in unfunded superannuation liability; and
- major development projects and other activities, including the financing of the Melbourne 2006 Commonwealth Games, government support for the redevelopment of the Melbourne Cricket Ground, the Regional Fast Rail Project and the redevelopment of Spencer Street Station.

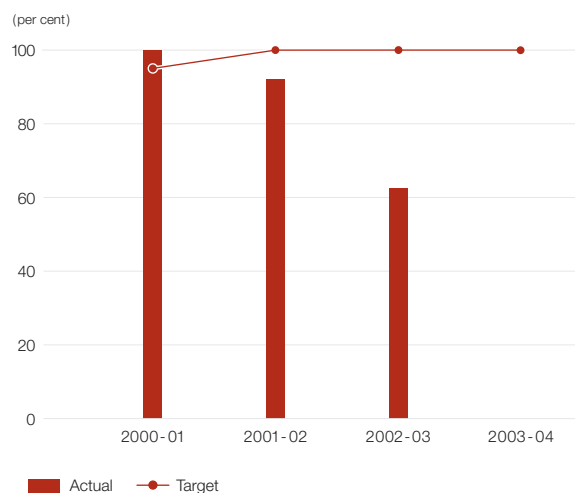
Performance against timeliness targets

The Auditor-General has set performance targets for the completion of reports to Parliament.

Our external target is to have all reports tabled in the planned parliamentary session. A number of internal targets help us achieve this.

While we have met most of our external timeliness targets, we need to meet some of our internal targets better. During 2002-03, we continued to thoroughly examine how we conduct audits and prepare parliamentary reports, including our audit methodology and publication processes.

TIMELINESS OF PARLIAMENTARY REPORTING PROGRAM



The chart shows that the timing of 10 of the 16 reports (62.5 per cent) we presented to Parliament during 2002-03 was in line with targets in our Annual Plan and Business Plan. We planned to submit 6 major audit studies, including 3 performance audits, in the Spring 2002 session of Parliament. On 31 October 2002, Parliament was prorogued for a State election and, as a result, several reports were held over until after the election. The remaining reports were tabled in the Autumn 2003 session.

Parliamentary reports – quality and client satisfaction

Feedback on reports from Members of Parliament

Feedback is effective for confirming that our audits have examined the most appropriate subjects, and our reports are clear and concise in their findings and recommendations. We obtain informal feedback from Members of Parliament and the Public Accounts and Estimates Committee in particular. We obtain formal feedback:

- every 3 years by the independent performance audit of our Office, and our own survey of parliamentarians; and
- during intervening years by interviews with members of the Public Accounts and Estimates Committee.

Comments on our reports also occur during parliamentary debates. These have also been positive.

We did not interview committee members this year because of the 2002 State election and changes in the committee's membership in 2003.

Views of client agencies on tabled reports



Auditor-General, Wayne Cameron during his visit to Greater Geelong City Council in November 2002, with Mayor Barbara Abley and Chief Executive Geoff Whitbread. (Photograph courtesy of "Geelong Advertiser".)

To help us make continuous improvements to our audit reports, we seek feedback from audited agencies through formal surveys and face-to-face discussions.

For 2002-03, we only sought feedback for performance audit reports tabled in Parliament.

We use surveys to measure agencies' satisfaction with our work in 3 key areas:

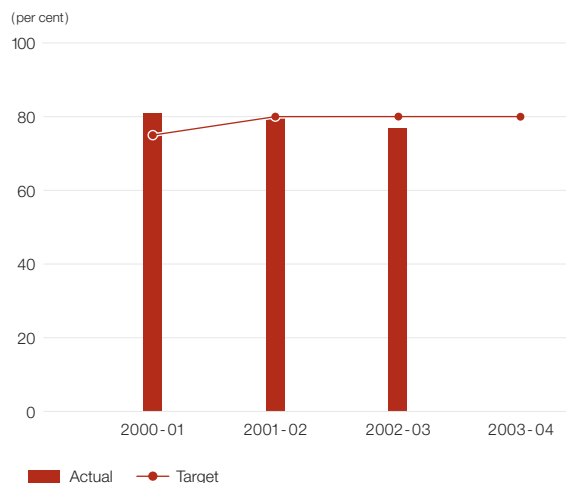
- the quality of the report – its value and relevance;
- the adequacy and the professionalism of the audit process and audit team; and
- the level of agreement with audit recommendations.

We hold face-to-face meetings shortly after we receive the survey results so agencies can expand on their views of our recommendations.

We collate the survey data to determine an overall level of satisfaction with our processes and parliamentary reports.

The results, against an overall satisfaction target of 80 per cent, appear in the opposite chart.

OVERALL CLIENT SATISFACTION WITH PARLIAMENTARY REPORTS



The level of satisfaction is an aggregate of the 3 indicators: report quality; audit process; and level of agreement with recommendations. The overall result of 77 per cent for 2002-03 is 3 per cent less than for the previous year, and does not include survey results for 3 performance audits tabled in June 2003.

The following table presents the level of client satisfaction with individual reports.

CLIENT SATISFACTION WITH PERFORMANCE AUDIT REPORTS

TITLE OF REPORT	CLIENT SATISFACTION (%)	RECOMMENDATIONS MADE (no.)	RECOMMENDATIONS ACCEPTED (%)
Managing medical equipment in public hospitals	77	16	83
Managing risk across the public sector	81	10	80
Mental health services for people in crisis	71	21	71
Management of food safety in Victoria	73	29	48
Community dental services	84	17	90
Drug education in government schools	78	11	86
Performance management and reporting: Progress report and a case study	(a)	(a)	(a)
Fire prevention and preparedness	(a)	(a)	(a)
Electronic procurement in the Victorian government	(a)	(a)	(a)
Overall average	77	..	76

(a) At the time of preparing this Annual Report, the Office had not received survey results.

The slight reduction to the level of client satisfaction with our reports reflects an area of concern.

While most agencies thought that our reports were timely and relevant, and that our staff were highly professional in conducting audits, the level of acceptance of our recommendations declined slightly. For 2003-04, we will aim to achieve an 80 per cent client satisfaction rating.

Our internal quality assurance regime is referred to on pages 49 to 50.

Parliamentary services

Services that we provided during 2002-03 in Parliament's interest

Each year, we provide a range of services that complement our parliamentary reports. This involves advising and commenting on contemporary issues to those key parties - including parliamentary committees, central government and peak professional bodies - that help promote accountability and advance the quality of resource management in the public sector.

Through these services, we strive to use our skills and knowledge to assist Parliament and the Government to sustainably improve public sector management and reporting practices. Our independence from decision-making allows us to advise on public sector change.

We provided the following services in 2002-03.

Assistance to Parliament

We briefed Members of Parliament on our reports; liaised with the Public Accounts and Estimates Committee; and made formal submissions about white-collar crime, fraud and e-commerce to Parliament's Drugs and Crime Prevention Committee in August 2002 and June 2003.

As soon as possible after our reports are tabled, we brief Members of Parliament. There were encouraging attendances at a number of sessions. We will continue briefings during 2003-04, and will assess how fully we meet Members' needs on aspects such as timing and content.

One of the outcomes of our close relationship with Parliament's Public Accounts and Estimates Committee was consultation on the Auditor-General's draft Annual Plan and budgetary needs for 2003-04.

We also worked with the Committee to develop protocols for the various interactions between the Committee and the Auditor-General. The protocols reflect the commitment of both parties to the best possible professional relationship. The Committee's Chair and the Auditor-General formally launched the protocols on 27 June 2003 at our annual staff conference.



The Hon. Christine Campbell MP, Chair of the Public Accounts and Estimates Committee and Wayne Cameron, Auditor-General, signing protocols document at our 2003 staff conference.

We also seconded staff to the Committee to help with research.

Inquiries from Members of Parliament and the public

Each year, we receive many inquiries from Members of Parliament and the public about the actions of public sector agencies or officers. These inquiries are usually concerns about the management of public resources, and often include a request for an audit examination. We see these inquiries as a valuable chance to liaise more closely with stakeholders.

During 2002-03, we received 149 inquiries: 47 from Members of Parliament; and 102 from the general public and community groups (2001-02, 153 inquiries).

While we cannot always (for a number of reasons) fully satisfy their concerns, it is our aim to first respond to all inquiries within 7 days, and respond finally (including whether we will investigate the issue more fully and report to Parliament) within 4 weeks. A number of matters led to specific audits or investigations, and formed part of the issues in the 3 Reports on Public Sector Agencies that we presented to Parliament in 2002-03.

Enhancing accountability and resource management in the public sector

In any one year, we advise government peak bodies and individual agencies in such areas as draft legislation, new proposals for financial management and intended changes to financial reporting frameworks.

During 2002-03, we liaised with government agencies on significant financial reporting and compliance reforms. We advised on the new Financial Reporting Directions and the revised Standing Directions of the Minister for Finance. These directions set out requirements for financial management and reporting in the Victorian public sector.

We also:

- Issued quarterly newsletters to agencies outlining matters of public administration, governance and results of recent performance/major audits. This year, great emphasis has been given to providing information on current and topical interests to public sector bodies;
- Advised on the content of model financial reports and reporting guidelines for TAFE institutes, Victorian government departments, ambulance services and public hospitals;
- Briefed in-coming Ministers on our audit interests in their areas of responsibility;
- Issued model financial reports for water authorities and university subsidiary companies; and
- Worked to identify and promote, as a member of the Australasian Council of Auditors-General, its collective opinion on draft accounting and auditing standards, and other public sector issues.

Next year, we plan to develop and distribute better practice documents for public sector managers in selected areas. We expect such guidance will become a distinctive value-adding feature of our work.

Interstate organisations and international delegations



Visitors to the Office in November 2002 from the Shenzhen Provincial Audit Bureau, accompanied by Wayne Cameron, Auditor-General (front row third left) and Joe Manders, Assistant Auditor-General (front row second left).

We occasionally meet with interstate organisations, and host international delegations (including parliamentary representatives of overseas jurisdictions) to share our knowledge and experiences on particular public sector issues.

International visitors

During 2002-03, we hosted representatives of the:

- Penang State Legislative Assembly;
- Public Accounts Committee of the Zambian Parliament;
- Chinese National Audit Office;
- Government of Bhutan;
- Shanxi Audit Bureau of China; and
- Shenzhen Audit Bureau of China.

Through such visits, we aim to co-operate and communicate better with international colleagues for mutual benefit.

Contributions to professional bodies

A number of our senior staff hold positions in a variety of professional bodies, committees and societies. These include the Australian Accounting Standards Board, Centres of Excellence of CPA Australia, the Public Sector Accountants Committee of CPA Australia, the Australasian Evaluation Society and the Victorian Divisional Council of CPA Australia.

Our Auditor-General took office as President of the Victorian Division of CPA Australia for the year from April 2003.

Australasian Council of Public Accounts Committees Conference, 2003

The Auditor-General, Wayne Cameron, and Deputy Auditor-General, Edward Hay, attended the 7th Biennial Conference of the Australasian Council of Public Accounts Committees "Emerging issues for Public Accounts Committees and similar type Committees", which the Victorian Public Accounts and Estimates Committee hosted in Melbourne in February 2003.

Representatives from parliamentary committees, governments, audit offices and academics from Australasia and overseas attended the conference. It addressed many contemporary developments in resource management and accountability in the public sector, including public-private partnerships, governance, risk management, output-based budgeting and protecting the public interest in the 21st century.

Wayne Cameron presented a paper on the changing relationship between Public Accounts Committees and Officers of Parliament, including Auditors-General.

Interaction with the Australasian Council of Auditors-General

Our Office is a member of the Australasian Council of Auditors-General (ACAG), which promotes the development of public sector auditing through:

- statements on the nature, scope, independence and role of Australasian Auditors-General;
- helping members set core strategic directions; and
- starting up professional quality assurance programs for members.

Hosting of the 2003 ACAG Conference



Attendees at the 2003 ACAG Conference. Standing from left: Des Pearson, Auditor General of Western Australia; Eroni Vatuloka, Auditor-General of Fiji; Walter Barth, Deputy Auditor-General of Namibia; John Parkinson, Auditor-General of the Australian Capital Territory; Kevin Simpkins, Deputy Controller and Auditor-General of New Zealand; Dr Arthur McHugh, Auditor-General of Tasmania; John Noseworthy, Auditor General of Newfoundland & Labrador; Pat Barrett, Auditor-General of Australia; and Edward Hay, Deputy Auditor-General of Victoria. Sitting from left: Bob Sendt, Auditor-General of New South Wales; Len Scanlan, Auditor-General of Queensland; Wayne Cameron, Auditor-General of Victoria; Mike Blake, Auditor General of Northern Territory; and Michael Whitehouse, Assistant Auditor General of the United Kingdom.

Wayne Cameron hosted the 2003 ACAG Conference in Melbourne in February. As well as Auditors-General from across Australasia, 4 international guests attended:

- John Noseworthy, Auditor-General of Newfoundland & Labrador, Canada;
- Fanuel Tjingaete, Auditor-General of Namibia;
- Walter Barth, Deputy Auditor-General of Namibia; and
- Michael Whitehouse, Assistant Auditor General, UK National Audit Office.

The proceedings of the Conference included 2 external presentations. Ian Little, Secretary of the Department of Treasury and Finance, spoke on “Contemporary features of Victoria’s financial management framework”; and Ian Mackintosh, Chair of the Public Sector Committee of the International Federation of Accountants, presented “An international perspective on public sector accountability trends”.

Hosting of other ACAG activities

We also hosted:

- an IT audit forum for IT audit specialists (November 2002); and
- a conference for communications managers and staff from Australasian Audit Offices (May 2003).

Both gatherings were a highly successful sharing of views and experiences between the Office and ACAG members.

Warrants for expenditure of public funds

The *Constitution Act 1975* and the *Financial Management Act 1994* require warrants to authorise expenditure from the Consolidated Fund of the Public Account. As part of our parliamentary services, the Auditor-General examines and certifies these warrants.

During 2002-03, the Auditor-General certified 29 warrants authorising Consolidated Fund expenditure of up to \$25.4 billion (2001-02, 17 warrants, \$22.5 billion).



Office staff Laura Middlemiss (left) and Chrissie Arvanitakis (right) with Sally Levy from Federation Square Management Pty Ltd.

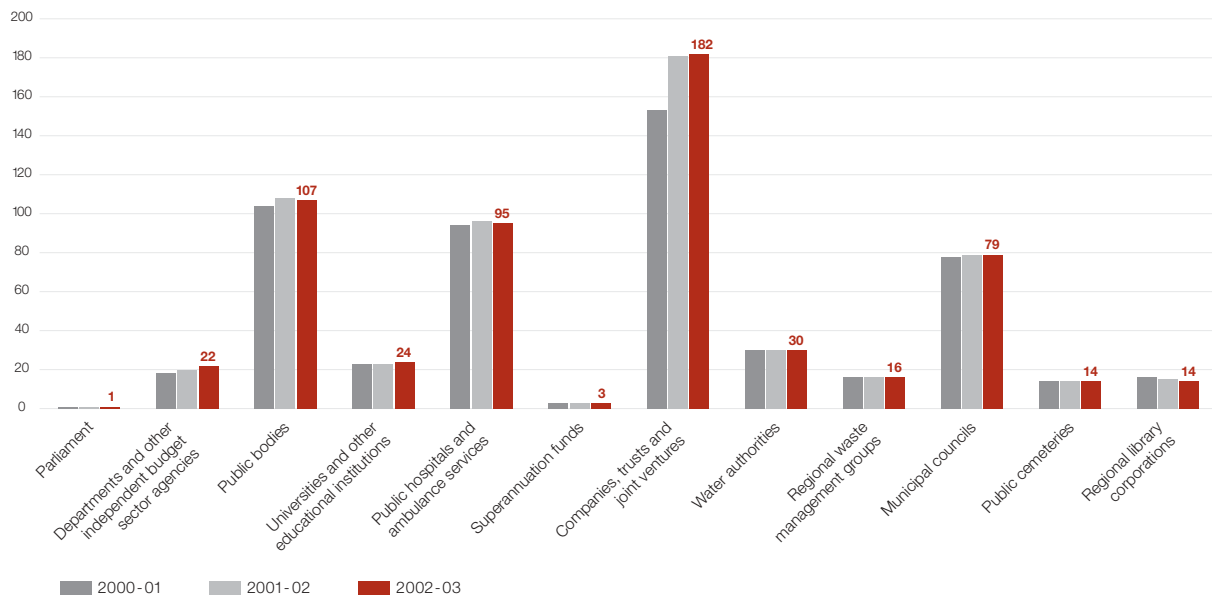
Audit reports on financial statements

The Auditor-General has a statutory responsibility to examine the annual financial statements of departments and public bodies, and to express an audit opinion on the fair presentation of those financial statements. The Auditor-General must also express an opinion on non-financial performance indicator, included in performance statements prepared by municipal councils.

Range of audit responsibilities

At 30 June 2003, the Auditor-General was responsible for the audit of the Annual Financial Report for the State of Victoria; the review of the Estimated Financial Statements in the State Budget; and audits of around 590 financial statements of public sector agencies (around 560 in 2001-02). These agencies collect income of about \$36 billion, spend about \$35 billion, and hold over \$133 billion in assets.

TYPE AND NUMBER OF AGENCIES AUDITED BY THE AUDITOR-GENERAL



A complete listing of the agencies we audit as at 30 June 2003 appears in Appendix 3.

Performance against output targets

Our performance for 2002-03, against the 4 targets making up the *Audit reports on financial statements* Output Group, appears on the following page.

PERFORMANCE MEASURES	UNIT OF MEASURE	2002-03 TARGET	2002-03 ACHIEVEMENT	2003-04 TARGET
Cost				
Delivery of services within output cost (see page 34)	\$million	13.5	13.7	14.19
Quantity				
Audit opinions issued to agencies (see page 35)	number	560	585	591
Audit opinion on the 2001-02 Annual Financial Report of the State (see page 36)	number	1	1	1
Review of the Estimated Financial Statements forming part of the 2003-04 State Budget (see page 36)	number	1	1	1
Audit opinions on non-financial performance indicators prepared by municipal councils (see page 35)	number	77	78	79
Timeliness				
Audit opinions issued within statutory deadlines (see page 36)	per cent	100	96	100
Management letters to agencies and reports to Ministers issued within established time frames -				
Management letters (see page 36)	per cent	100	74	100
Reports to Minister (see page 36)	per cent	100	90	100
Quality				
Overall level of external satisfaction with the conduct of financial statement audits (see page 37)	per cent	75	75	77

Any issues that, during the course of a financial statement audit, we consider should be reported to Parliament appear in our Reports on Public Sector Agencies (see page 24).

Performance against cost targets

The costs of the *Audit reports on financial statements* Output Group in 2002-03 were:

PRODUCT	TARGET 2002-03 (\$m)	ACTUAL 2002-03 (\$m)	TARGET 2003-04 (\$m)
Audit reports on financial statements -			
Audits conducted by internal resources	6.13	5.67	6.48
Audits involving external audit service providers	6.99	7.66	7.31
Audit report on State's Annual Financial Report	0.16	0.16	0.14
Review of Estimated Financial Statements in State Budget	0.26	0.21	0.26
Aggregate output costs	13.54	13.70	14.19

During 2002-03, the number of audit opinions issued – particularly companies, trusts and joint ventures – increased to 587 (564 in 2001-02). Payments to external audit service providers also cost more, increasing from \$6.5 million in 2001-02 to \$6.8 million in 2002-03, because of the increases in the number of audit clients and extra costs associated with solving complex accounting issues.

Trends in average cost of audit opinions

	ACTUAL 2000-01	ACTUAL 2001-02	ACTUAL 2002-03	TARGET 2003-04
Number of audit opinions	550	564	587	593
Costs	\$12.17m	\$13.51m	\$13.70m	\$14.19m
Average cost per opinion	\$0.022m	\$0.024m	\$0.023m	\$0.024m

During 2002-03, the total cost of providing audit opinions on financial statements increased to \$13.7 million (\$13.5 million, 2001-02).

The Office recovers the costs of conducting financial statement audits from the agencies, and pays the money to the Consolidated Fund. We raised \$14 million in audit fees during 2002-03 (\$13.1 million during 2001-02). The increase in costs and audit fees resulted from:

- the increase in the number of agencies;
- costs for internal staff and external audit service providers; and
- a change in the timing of billing with more interim audit work before 30 June 2003 compared with previous years.

The average cost per audit opinion decreased slightly in 2002-03 to \$23 000.

Annually, the Office reviews its charge-out rates for audits. In 2002-03, some rates were reduced slightly.

We estimate the costs for the Output Group will increase to \$14.19 million in 2003-04, largely because of the increase in the number of agencies, and forecast rises in employment costs and external audit service provider fees.

Performance against quantity targets

Audit opinions issued to agencies

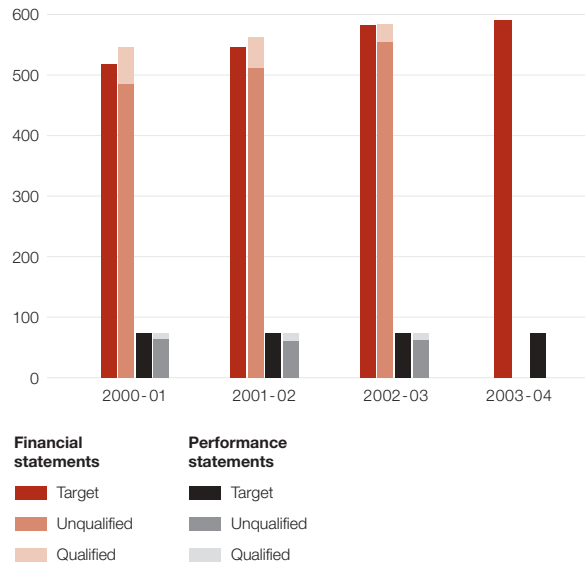
We issued 587 audit opinions on financial statements during 2002-03 (564 in 2001-02). This comprised:

- 206 audit opinions for audits by in-house staff (178 in 2001-02); and
- 381 audit opinions from audits by external service providers (386 in 2001-02).

We also issued 78 audit opinions on performance statements to local government councils (compared with 78 in 2001-02), and 39 audit opinions to the Commonwealth Department of Transport and Regional Services on financial statements required under the *Roads to Recovery Act 2000* (39 in 2001-02).

The following chart shows the number of audit opinions we issued on financial statements and performance statements, and the number qualified over the last 3 years.

NUMBER OF AUDIT OPINIONS ON FINANCIAL STATEMENTS AND PERFORMANCE STATEMENTS



Of the 587 audit opinions issued on financial statements, 95 per cent were unqualified. Eighty-eight per cent of opinions on local government council performance statements were unqualified.

We most commonly issued qualified opinions on financial statements because agencies:

- Inappropriately disclosed non-reciprocal grants. Ten agencies did not disclose these as income in the year of receipt, contrary to the Australian Accounting Standard AAS15: *Revenue*;
- Failed to consolidate “controlled entities” in accordance with Australian Accounting Standard AAS24: *Consolidated Financial Reports* (3 agencies); and
- Inappropriately recognised or valued non-current assets (4 agencies).

One agency (Royal Melbourne Institute of Technology) had inadequate accounting records, so we could not form an opinion on certain balances and transactions.

Nine local government councils received qualified performance statements because they:

- did not establish in their strategy plans the performance targets and measures against which their performance will be reported (7 instances); or
- provided insufficient or inappropriate evidence to support results in certain performance measures (2 instances).

Audit opinion on the 2001-02 Financial Report of the State

A key feature of the State's accountability framework is that the Government must prepare, and present each year to Parliament, consolidated financial statements for the State. These statements include all the public sector entities that the Government controls. Local government bodies and universities are not consolidated for the purpose of whole-of-State financial reporting.

On 14 October 2002, the Auditor-General issued an unqualified audit opinion on the Annual Financial Report of the State for 2001-02. The Government presented its audited financial report to Parliament on 29 October 2002.

The Government's Estimated Financial Statements

On 1 May 2003, we concluded our review of the Government's Estimated Financial Statements covering the financial year ending 30 June 2004 and the following 3 years. The Government's *Budget Papers*, presented to Parliament in May 2003, included our short-form audit report on the results of this review.

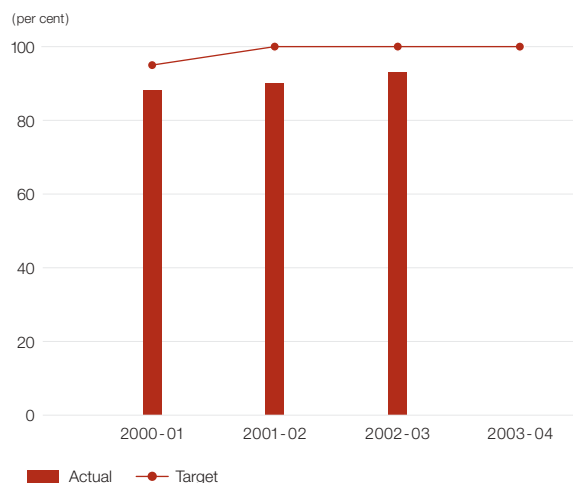
Performance against timeliness

Audit opinions issued within statutory deadlines

The *Financial Management Act* 1994 and the *Audit Act* 1994 set out the annual reporting and audit requirements for departments and other public sector agencies. Under section 45 of the *Financial Management Act*, each department and public body must submit its annual financial statements to the Auditor-General within 8 weeks of the end of the financial year.

Under the *Audit Act* 1994, the Auditor-General must then express an opinion on the financial statements within 4 weeks.

PERCENTAGE OF AUDIT OPINIONS ISSUED WITHIN STATUTORY DEADLINES



During 2002-03, we issued 94 per cent (2001-02, 90 per cent) of audit opinions within the statutory deadline. We did not reach our target of 100 per cent because material accounting and disclosure issues for certain entities were unable to be resolved in time for an audit opinion to be issued.

Improving timeliness of financial reporting by agencies

Overall, 45 per cent of public sector agencies completed audit financial statements within 12 weeks of balance date, compared with 41 per cent last year. A more substantial improvement was not achieved due largely to the time necessary to resolve complex issues arising from the introduction of new accounting standards and government financial reporting guidelines.

We will continue to work with agencies to help them meet their statutory reporting requirements. Ongoing strategies include:

- early consulting with agencies to effectively schedule year-end reporting and auditing processes;
- resolving emerging accounting and auditing issues as early as possible; and
- encouraging agencies to prepare draft financial reports before balance date so we can resolve issues about format and disclosure earlier.

Management letters to agencies and reports to Ministers

In 2001-02, we introduced 2 new timeliness targets. We aimed to:

- send all management letters to agencies within 4 weeks of issuing the audit opinion; and
- forward all reports on the results of audits to relevant Ministers within 8 weeks of issuing the audit opinion.

We sent management letters, which outline our findings and recommendations from financial audits, to each of the 587 audited agencies in 2002-03. We delivered reports on 60 agencies to Ministers, outlining the significant issues in these management letters.

For 2002-03, we sent 74 per cent of management letters and 90 per cent of reports to Ministers within our targeted time frame. We were below our management letter target mainly because we had to consult extensively on some complex issues before we could formally issue management letters.

We will adopt further strategies in 2003-04 to improve the timeliness of issue of our management letters, including:

- completing as much of the audit as possible before balance date; and
- sending interim management letters before the end of the financial year to inform agencies earlier of the results of interim audit results.

Measuring the quality of financial statement audits

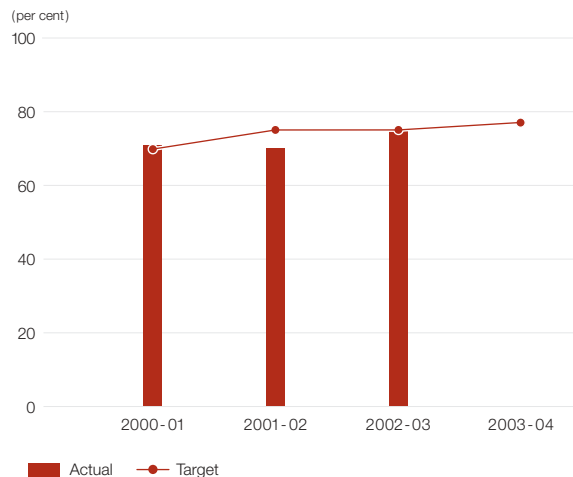
Level of external satisfaction with the conduct of financial statement audits

Each year, we survey audited agencies for feedback on the quality of our financial statement audit work.

The survey allows agency executive management to rate our financial statement audit services against a range of key attributes, including the professionalism and skills of audit staff, effectiveness of their communications with the audited agency, and level of understanding of the agency's business. We use responses to find areas for improving the standard of our service.

The survey also asks for an overall rating of satisfaction with financial statement audit services. The chart below shows that agencies' average overall satisfaction level for 2002-03 was 75 per cent. This met our target for the year.

AGENCY SATISFACTION WITH FINANCIAL STATEMENT AUDIT WORK



We developed new strategies for 2002-03 to improve agency satisfaction levels for financial audits.

These included:

- consulting earlier with agencies to resolve emerging accounting issues; and
- emphasising ongoing interaction with agencies to discuss the progress and outcomes of the financial audit process.

We plan to further expand on these initiatives in 2003-04 through:

- more extensive liaison with senior management of agencies throughout the audit process; and
- greater interaction with our audit service providers and clients during the planning phase of high risk audits.

Our internal quality assurance regime is referred to on pages 49 to 50.

Resourcing our financial statement audits



From left: Virginia Razga and Anthony Reitano from the Financial Audit Group discussing a proposed audit plan.

Policy for resourcing of financial statement audits

Either the Office's Financial Audit Group, or external audit service providers, audit the financial statements of agencies. We base decisions on the resources we use on our financial statement audit resourcing policy, established in 2001-02. Under this policy:

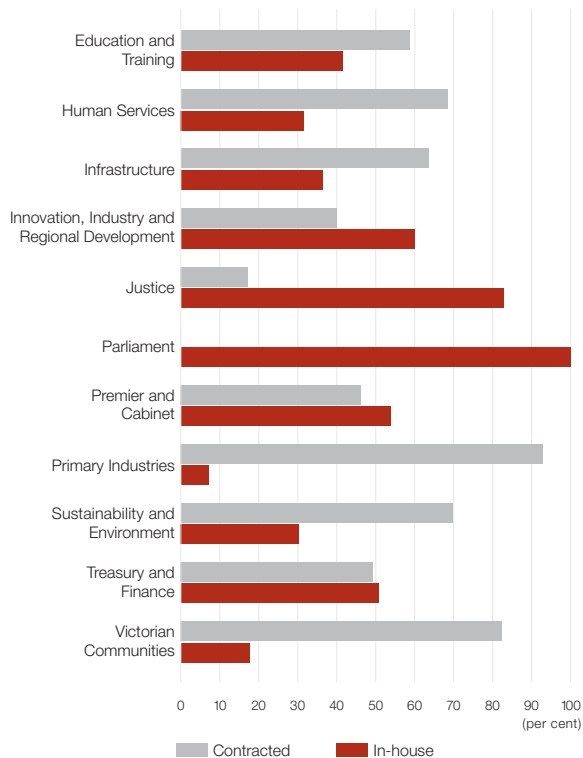
- the Office's Financial Audit Group retains responsibility for the audit of the Financial Report of the State, and the review of the Government's Budget Estimates, the administrative functions of Parliament and government departments;
- the Office will gradually increase its internal resourcing of financial statement audits within each sector of government to at least 35 per cent by 2004;
- we will progressively offer contracted audits to public tender as current contractual arrangements expire; and
- we will rotate the Financial Audit Group director or partner from the external audit service provider for each audit every 5 years, in line with international "best practice" to help maintain audit independence, and ensure a fresh and objective perspective.

The Office policy to resource internally a minimum of 35 per cent of audits is to maintain a representative audit presence and capability in each sector. Existing contractual arrangements, and prospective audit contractors' perception of the commercial viability of undertaking contract audits will influence the policy's implementation.

Current resource mix for financial statement audits

By 30 June 2003, the number of audits internally resourced by the Financial Audit Group had risen to 206, (30 June 2002, 193), or 35 per cent (33 per cent in 2001-02).

The chart below shows the mix of in-house and external audit service providers across each sector at 30 June 2003, by percentage of audits.



Changed administrative arrangements, introduced in December 2002, affected the resourcing mix across each sector at 30 June 2003. The Government created 2 new departments, and transferred responsibility between sectors for a number of other agencies.

The policy to resource a minimum of 35 per cent of audits internally will mean that a further 14 audits in the local government sector included in the Victorian Communities sector will be transferred to the Financial Audit Group for the 2003-04 financial year.

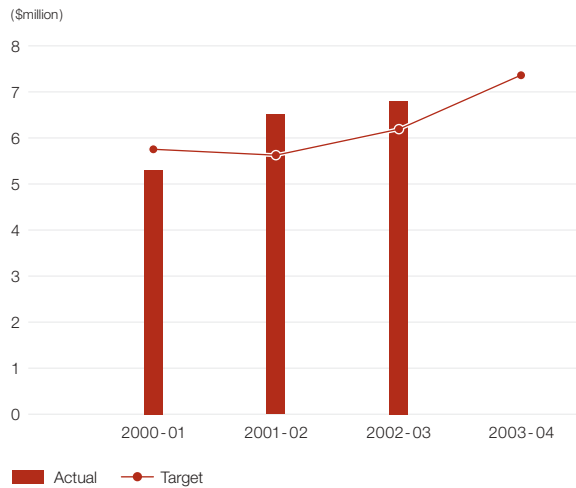
This will increase the proportion of in-house audits in this sector to 35 per cent.

During June 2003, a tender round was commenced for 47 audits, mainly in the local government sector, after the current contracts had expired. We expect to finalise new contracts for these audits in August 2003.

Use of external audit service providers in 2002-03

During 2002-03, the Office paid \$6.8 million to external audit service providers for financial statement audits. A comparison of payments over the last 3 years, and projected expenditure for 2003-04, appears below.

FINANCIAL STATEMENT AUDITS, PAYMENTS TO EXTERNAL AUDIT SERVICE PROVIDERS



This increase in payments reflects:

- additional audits in the education sector, because of the expanded commercial activities of universities and the new entity structures for those activities;
- additional audits in the local government sector, under the Roads to Recovery Program; and
- additional fees paid to address problem areas in some specific audits.

The following table sets out payments to external audit service providers in 2002-03.

**FINANCIAL STATEMENT AUDITS,
PAYMENTS TO EXTERNAL AUDIT SERVICE
PROVIDERS, 2002-03**

(\$'000)

External audit service provider	Amount
Risk Management & Assurance Services (a)	1 395
Ernst & Young	950
Investor Group Ltd - Day Neilson	679
Armitage Downie	142
	821
PricewaterhouseCoopers	701
Richmond Sinnott & Delahunty	424
Haines Norton	337
KPMG	273
Hall Chadwick	273
Wernli O'Kane	269
Deloitte Touche Tohmatsu	237
Coffey Hunt	220
Johnsons MME	165
Pannell Kerr Foster	150
Other (b)	624
Total	6 839

(a) During the year, the assurance division of Stockford Accounting Services Pty Ltd became part of Risk Management & Assurance Services.

(b) Comprises payments to external audit service providers of less than \$100 000.

The Audit Act authorises the Auditor-General to delegate the responsibility for signing audit opinions on financial statements to external audit service providers where the net equity of an agency is less than \$1 million. Under this authority, the Auditor-General delegated responsibility to 15 external audit service providers to issue audit opinions and audit management letters on his behalf for 41 audits in 2002-03 (13 providers, and 28 audits in 2001-02). Specific delegations appear in Appendix 4.

Parliament amended the Audit Act in June 2003. The Auditor-General can now delegate responsibility for signing audit opinions on financial statements to external audit service providers where the annual expenditure of an agency is less than \$5 million. This means that the Auditor-General can delegate responsibility for around 110 audits for the 2002-03 financial year. Exercising these powers should lead to greater internal efficiencies being achieved.

Changes in Office organisational arrangements for financial statement audits

Until 31 December 2002, the Office's Accounting and Audit Policy Group was responsible for supervising and administering audits contracted to external audit service providers. The Office's Financial Audit Group was responsible only for those financial statement audits that were resourced internally.

From 1 January 2003, the Financial Audit Group was assigned responsibility for all financial statement audits.

In addition, a single director of the Group now takes lead responsibility for all financial statement audits in each sector.

We aim, with these changes, to:

- transfer our sector knowledge and skills to all clients within each industry or sector;
- help compile the results of financial statement audits and emerging issues within each sector, and report these to Parliament;
- help internal staff and external audit service providers take a more consistent approach to issues in similar organisations within a sector; and
- improve our responsiveness and our ability to help agencies.

These changes coincided with a new approach to quality control over contracted audits. This approach encourages Office staff and external audit service providers to interact more throughout the audit, to assess the quality of their work, and to quickly identify and resolve audit issues. This replaces the former approach which emphasised reviewing contracted audits just before issuing the audit opinion.

Following these changes, the Accounting and Audit Policy Group will focus on researching technical accounting and auditing issues, providing technical aid to operational audit staff and external audit service providers, and reviewing and developing audit methodology.

Future directions for financial statement audits

We significantly changed the way we deliver and manage financial statement audits during 2003-03. We also made major changes to our financial audit methodology, the quality of reporting on financial audits and our use of information technology.

During 2003-04, we plan to extend these achievements by:

- focusing more on reporting the results of financial statement audits to Parliament;
- reassessing and revising our financial audit methodology so that it continues to lead the way in meeting financial auditing standards and our clients' expectations;
- revising our approach to small and low-risk audits to maximise their efficiency;
- extending our review of the risks from information technology in the public sector, particularly e-commerce; and
- streamlining our processes for managing contracted audits to improve administrative efficiency while still effectively overseeing the quality of these audits.



Bridget Boadu and Rocco Rottura.

Managing our Office

Given our responsibilities in reporting to Parliament on how others in the public sector use their resources, we must also conduct our own affairs with maximum efficiency and effectiveness. We aim to be exemplary in managing our Office and its people, and reporting our annual performance to Parliament.

This underpins all aspects of our operations: from the soundness of our strategic audit planning, the effectiveness of our quality assurance, our success in attracting and retaining sufficient numbers of skilled people and giving them opportunities for professional growth, to our stewardship in administering the funds Parliament assigns to us.

Our challenge is to maintain and improve delivery of our core audit products.

Corporate governance

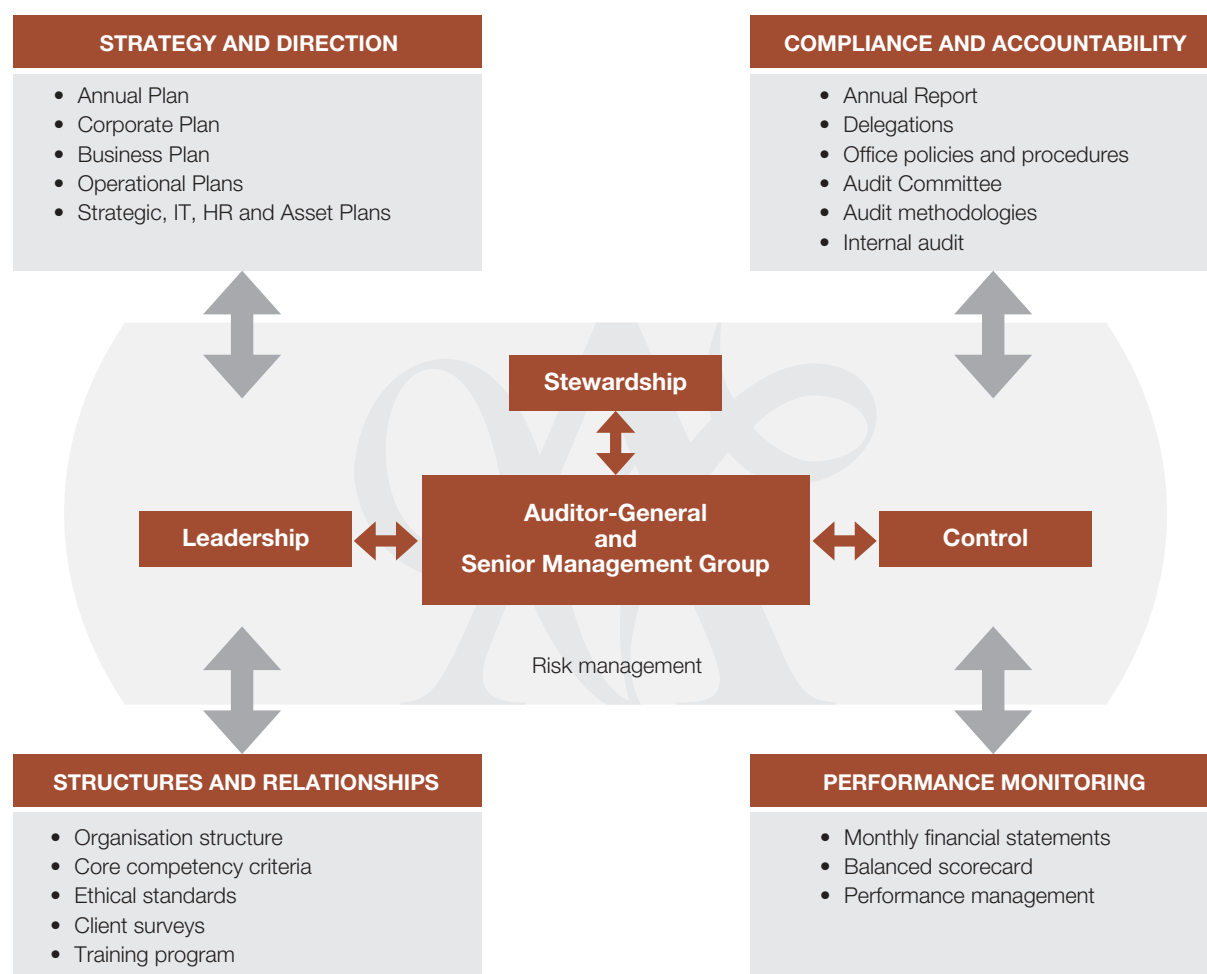
The Office supports its main work with a strong framework of corporate governance.

Our governance framework comprises 4 specific elements, namely, strategy and direction, structures and relationships, compliance and accountability, and performance monitoring. The first 2 elements constitute the organisational context for our governance policies and practices, while the latter 2 focus on the accountability obligations arising from implementation of those policies and practices.

The 4 elements and their underlying components are presented diagrammatically below and show the interaction of the elements with the central pillars of the governance framework, including the important area of risk management.

Commentary on the various components of each element making up the governance framework and how they have contributed during 2002-03 to effective functioning of the Office is included in this part of the Annual Report.

GOVERNANCE FRAMEWORK



The following table outlines our main organisational achievements during 2002-03.

Our performance against corporate targets

TARGET FOR THE YEAR	ACHIEVEMENT
Establish methodology for the audit of performance indicators.	We will complete this in 2003-04.
Replace the existing practice management information system.	We launched a new practice management system on 1 July 2003 (see page 46).
Improve our financial statement and performance audit methodologies to keep up with best practice.	We enhanced the methodologies as planned (see page 49).
Continually improve our learning and development strategies to maintain high standards of staff professional skills and performance.	We delivered specific programs for executives and managers, among other development activities (see page 56).
Obtain positive responses to staff satisfaction surveys.	Key organisational indicators moved in both directions, resulting in a slight decrease in overall staff satisfaction (see page 57).
Have effective post-audit quality assurance reviews of representative audit samples.	Independent external reviewers carried out structured quality assurance reviews on all in-house audits (see pages 50 to 51).
Develop a knowledge management strategy.	We have a draft strategy (see page 48).
Redevelop the Office intranet.	We launched the new intranet on 1 July 2003 (see page 48).
Implement strategies to better communicate with Parliament and other key stakeholders.	We briefed parliamentarians after tabling each report (see page 29).

Future directions

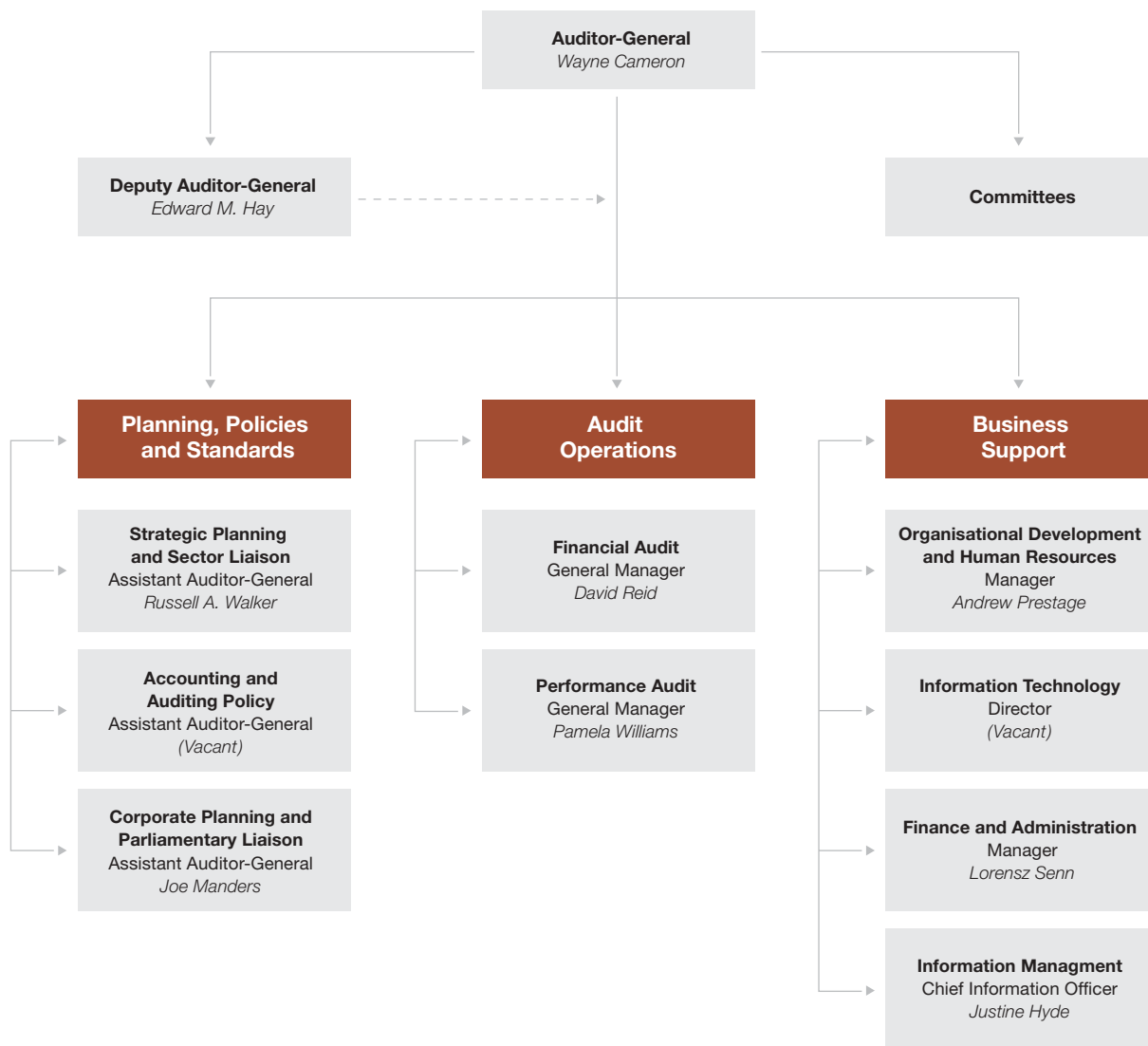
As part of our continuous improvement strategies, we will take the following business improvement initiatives in 2003-04.

BUSINESS INITIATIVE	OBJECTIVE
Implement a methodology to examine performance indicators.	We will have available a robust methodology which will assist us in providing independent assurance on the performance indicators that agencies report to Parliament.
Widen our use of external consultative groups for strategic audit planning.	Enhance our strategic planning by better understanding industry sectors.
Capture business opportunities through developing the new practice management system.	Improve decision-making with better and more timely information.
Research new ways to add value through our activities, e.g. better practice guides, newsletters.	To better inform our staff and increase the value of our work for Parliament and other key stakeholders.

Leadership and stewardship

Senior management structure

The following chart outlines our management structure at 30 June 2003.



Committees

Five committees support the Office's management:

- the Senior Management Group;
- the Audit Committee;
- the Information Management and Technology Steering Committee;
- the Remuneration Committee; and
- the Operations Committee.

Senior Management Group

The Senior Management Group (SMG) provides a forum to consider our policy framework and strategic direction, and to monitor our performance against corporate goals and milestones.

The leaders of each organisational unit are members of the SMG. It meets monthly.

Details on the composition of the SMG are contained in Appendix 5.



Senior Management Group. Standing from left: Pamela Williams, David Reid, Andrew Prestage, Barry Hyde (until October 2002), Joe Manders and Russell Walker. Sitting from left: Lorenz Senn, Edward Hay (Deputy Auditor-General), Wayne Cameron (Auditor-General) and Justine Hyde.

Audit Committee

The Audit Committee independently advises the Auditor-General on the quality of internal operating controls, resource management and adequacy of financial reports. It:

- oversees arrangements to manage significant financial risks;
- reviews the internal and external audit functions; and
- reviews the annual financial statements.

The Office's internal audit function is outsourced.

The Audit Committee members are Mr David Greenall (Chairman) and Mr Keith James, both independent members, and the Deputy Auditor-General. Mr Ted Holmes retired during the year. The Committee met 4 times in 2002-03.

Audit Committee Chairman's report

The Audit Committee is set up pursuant to directions issued by the Minister for Finance under the Financial Management Act. It provides independent advice to the Auditor General on the financial management and external financial reporting of the Office. It also examines risk areas associated with the operations.

On the recommendation of the Audit Committee, Mr Ron Tilley was appointed by the Auditor-General as the new internal auditor, to replace Mr Neville Eyre who retired on account of ill-health. Internal audit programs were reviewed to ensure that all necessary aspects were addressed in a suitable time scale. We received regular reports from the internal auditor on progress.

Public Accounts and Estimates Committee recommendations on the performance audit were carefully tabulated to ensure compliance with recommendations, these are now nearly all implemented.

The monthly internal financial management reporting package was reviewed for adequacy and we noted various improvements had been effected to ensure that relevant management information was being provided. As new management reporting software is being implemented, we reviewed the planned reports for appropriateness, including suitable staff charge-out rates to ensure recovery of costs.

The annual financial report was examined and external audit matters were discussed with Mr Graeme Ross, the external auditor.

During the year, I briefed the Office's Senior Management Group on the activities of the Audit Committee.

The Office has prepared a risk management policy and plan. We have ascertained that there is a suitable implementation schedule to ensure all matters in the plan are covered over a suitable time scale and in a suitable manner.

Membership changed during the year: we accepted the resignation of a founding member of the Audit Committee, Mr Ted Holmes after 8 years service. This followed a period on the former Auditor-General's Advisory Panel for a number of years prior. This brought to an end a long and distinguished involvement of Mr Holmes in public sector financial management. Mr Edward Hay, Deputy Auditor-General, was appointed to the Committee in place of the Auditor-General as it was felt to be a more appropriate reporting structure for the Committee, which reports to the Auditor-General. Mr Keith James of Hall & Wilcox continues on the Committee as the other member. The Auditor-General continues to attend our meetings, as do a number of senior staff as appropriate to the meeting agenda.

David T. Greenall (Chairman)

Information Management and Technology Steering Committee

This Committee's responsibilities include the strategic supervision of the Office's information management and technology initiatives.

The Committee members are the Deputy Auditor-General; Manager IT; Manager Finance and Administration; and General Manager, Financial Audit. The General Manager, Performance Audit, joined the Committee when the new practice management project began.

The Committee met monthly during the first half of the year, and then weekly while it supervised start-up of the new practice management system.

Remuneration Committee

This Committee advises the Auditor-General on the remuneration policies and practices for the Office and the remuneration arrangements for staff. Through these policies and practices, the Office aims to attract, motivate and retain quality people.

The Auditor-General; Deputy Auditor-General; General Managers, Performance and Financial Audit; Assistant Auditor-General, Strategic Planning and Sector Liaison; and Manager, Organisational Development and Human Resources sit on the Committee. It met twice during the year.

Operations Committee

The responsibilities of this Committee include directing resources to achieve our planned outputs.

The Operations Committee members are the Deputy Auditor-General; General Managers, Performance and Financial Audit; and Assistant Auditor-General, Strategic Planning and Sector Liaison.

During the year, the Committee met on a needs basis.

Risk management

Risk management is an integral part of effective corporate governance. It identifies and assesses risks, and adopts appropriate treatments to reduce risks to acceptable levels.

A formalised risk management policy started on 1 July 2002. Our risk management plan identifies all risks requiring treatment, whether they be strategic, audit or operational.

We have also introduced procedures to ensure that operational groups inform the Senior Management Group about:

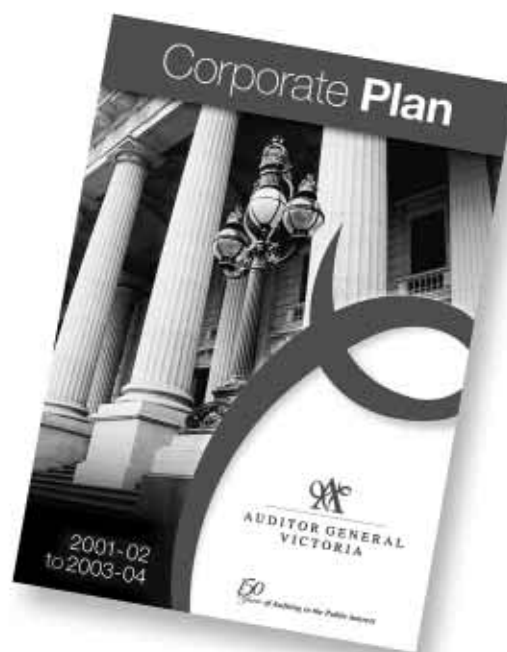
- any changes to existing risks, or the timetable for managing those risks; and
- any new risks, and the strategies proposed for treating them.

Next year, we plan to review our risk management procedures to check that they are operating effectively in all aspects of our work.

Declarations of pecuniary interests

Members of the Senior Management Group and all executive officers have lodged statements of declaration of their pecuniary interests, shares in and other benefits from statutory authorities and any other business enterprises.

Strategy and direction



Corporate Plan

Our *Corporate Plan 2001-02 to 2003-04* sets out our corporate objectives and the strategies to achieve these outcomes. The Senior Management Group monitors progress towards achieving these objectives quarterly. During 2003-04, we will develop a new Corporate Plan that will run from 1 July 2004.

Annual Plan

One of our key corporate goals is to target our audits at areas most likely to help improve performance and accountability in the public sector.

With this in mind, during 2002-03 we continued improving our strategic audit planning to more knowledgeably identify areas of audit interest. We monitor the work of the public sector, including emerging trends and directions, and gather information to advise our stakeholders on key issues affecting audited entities.

During our strategic audit planning process, we looked at:

- international and national trends in public sector practice;
- emerging issues for the public sector, including probable changes in service delivery methods (such as private-public partnerships);
- results of current or previous audit work;
- risk issues in areas of government operations; and
- community concerns, through direct communication and the media.

In developing our plan for 2003-04, the Auditor-General established 3 advisory panels for 3 major sectors (Health, Education, and Local Government) so we could better assess key developments in those sectors and identify issues of audit interest. These panels are important and help ensure that our work remains relevant.

Our strategic audit planning produces 2 streams of strategic information:

- a revised 3-year strategic audit plan for each government sector, from which we decided, on the above criteria, which areas we could include in our 2003-04 program; and
- any emerging organisational factors or risks affecting our business operations that warrant management action.

This informed our Annual Plan for 2003-04 and in setting our budgetary needs. After consulting with Parliament's Public Accounts and Estimates Committee, we finalised and submitted the Annual Plan to the Clerks of each House of Parliament in June 2003 (complying with section 7A of the Audit Act).

Business and Operational Group Plans

While the Corporate Plan outlines the strategic directions for the Office, and the Annual Plan establishes the areas of audit activity for the year, the Business Plan sets out the plan for achieving the year's planned outputs. Plans for each Operational Group support the Business Plan. The Senior Management Group monitors progress against the Business and Operational Group Plans.

IT strategic planning

A major upgrade of the information technology hardware and software infrastructure concluded in 2001-02. This enabled us to completely review and update the application software portfolio this year. The first such applications were the financial management and practice management systems. This review led us to set-up a multi-disciplinary project team charged with the responsibility of designing and implementing a new practice management system.

Implementation of the MARS practice management system



Our new practice management system (MARS) will link our financial and audit management facilities.

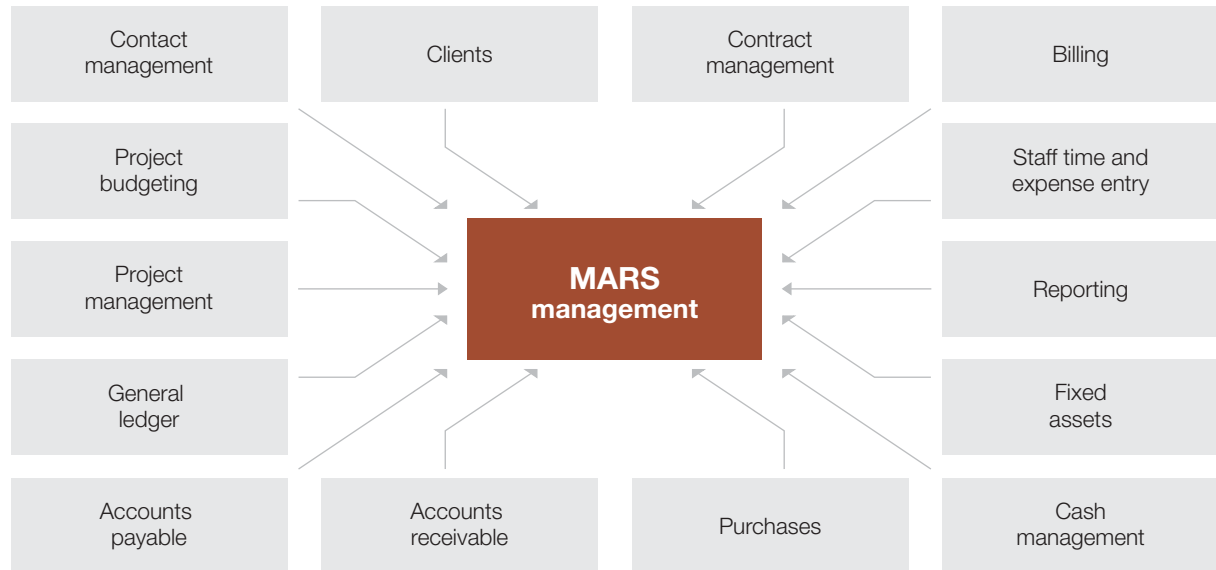
This project was a major undertaking for the Office and the IT Group during the year. The Office signed a contract with the successful vendor on 24 December 2002, and the system began on 1 July 2003, as planned. The project's first year external cost was \$365 000, and the 5-year external cost will be about \$410 000.

The main aims of the project were to:

- replace the existing practice management system with a modern practice management software package;
- link the financial management system with the practice management system;
- improve data accessibility for everyone;
- make the system more user-friendly;
- provide flexible, user-driven, data query facilities;
- provide an opportunity to review associated internal business processes;
- improve the accuracy, consistency and redundancy of data; and
- ensure that we had effective technical support for the software.

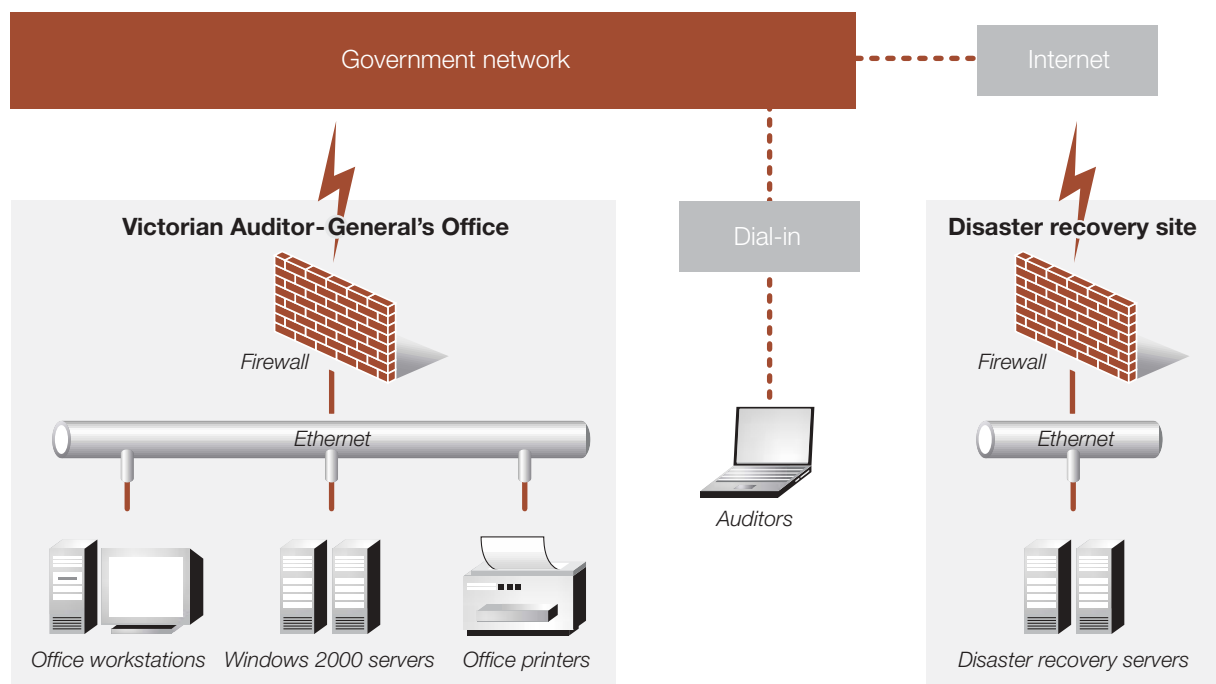
Modules in the new practice management system

A major feature of the new practice management system is the linking of financial management and audit management facilities. The key modules in the system are shown below.



Improvements to disaster recovery facilities

As applications systems become more complex, and environmental risks increase, we have invested more in disaster recovery facilities. We now have a data communications link to back-up critical system data daily and make data recovery more efficient. The following diagram shows the current structure of our network.



Other system and facility improvements

Other important activities during the year included:

- improving facilities and equipment; and
- improving the performance audit electronic workpaper system to make the performance audit process more efficient.

IT tasks for 2003-04

Key tasks for 2003-04 include:

- reviewing remote data communications facilities to improve the speed and availability at client premises;
- upgrading the electronic financial audit workpapers system to make the financial audit process more efficient;
- further improving the disaster recovery facilities to provide additional redundancy for the practice management and document management systems; and
- assess whether we should allow our business partners and clients access to use our practice management system.

Information management

During 2002-03, we carried out the following major information management initiatives to improve access to information across the Office.

We upgraded the records management system, integrating it with our email and practice management systems, and moved towards the capture and retrieval of electronic records. This will make it easier to comply with the Victorian Electronic Records Strategy.

We also launched a new intranet site, with key internal and external information sources in an easily navigable structure. It has a greater degree of integration with other Office applications, such as our records management and practice management systems.

Knowledge management strategy

Finding and using knowledge is a critical facet of our activities. Our work for Parliament and for our other stakeholders benefits from having good intelligence. We began development of an office-wide knowledge management strategy late in 2002-03, with the appointment of a Chief Information Officer. In 2003-04, we plan to progressively carry out several projects within this strategy.

Corporate communications strategy

Our corporate communications strategy aims to make our key stakeholders - Parliament, audited agencies, the community, other Auditors-General, the accounting profession, educational institutions, and staff - more aware and confident of our role and work.

In line with this, our corporate communications activities during 2002-03 included:

- ongoing website updates, such as posting full-text copies of our reports at the time of tabling;
- participating in the Government Exhibition at the September 2002 Royal Melbourne Show and Parliament Open Day in June 2003;
- distributing a quarterly *Auditing in the Public Interest* newsletter to Members of Parliament, audited agencies and other interested organisations and individuals; and
- introducing an email alert system to better communicate with our stakeholders.



The Office's exhibit at the 2002 Royal Melbourne Show.

In 2002-03 we also revised our corporate communications strategy to build on the successes of our past practices and to use more innovative communications technologies. We will finalise and begin using this strategy through 2003-04.

Compliance and accountability

Quality assurance practices

We are committed to professional best practice in the conduct of our audits. We aim to continually raise the standard of our audit activities in line with the needs of Parliament and our audit clients.



An up-to-date knowledge of quality assurance practices is important to our auditing work.

Keeping our audit methodologies and practices up-to-date

We place a high priority on ensuring that we have modern and effective methodologies for all audit activities.

Parliament's most recent independent performance audit on the Office examined this aspect of our work and strongly confirmed the soundness of our methodologies. It commented that:

"... the core methodologies of the Office have been benchmarked against the quality assurance processes of international audit practices. In general the results support, from a world class viewpoint, that the Victorian Office's methodologies are effective and applied efficiently".

A key aspect of our operational activities is to improve our audit policies and methodologies. These provide a comprehensive basis for delivering high quality outcomes by:

- outlining the legislative framework governing the audit environment in the Victorian public sector;
- ensuring we comply with professional auditing bodies' standards;
- implementing robust quality assurance processes for all audit activities; and
- providing audit staff and external audit service providers appropriate guidance on audit assignments.

Financial Audit Policy Manual

Our Financial Audit Policy Manual guides staff and external audit service providers in the conduct of financial statement audits.

The Audit Service Providers' Forum in April 2003 introduced the use of the updated manual. The forum included presentations on current developments in auditing and financial reporting, as well as emerging developments within individual sectors or across the public sector. We held a similar forum in November 2002 for the 31 December year-end audits in the education sector.

Although we periodically revise the manual, the Accounting and Auditing Policy Group also issues Financial Auditing Policy Alerts to give timely interim guidance on policy developments on emerging legislative, financial reporting or auditing issues. These "as needed" alerts form updates to the manual. Auditors in the field can now access the manual and the alerts with controlled internet access. During the year, the Accounting and Auditing Policy Group issued 10 alerts.

Financial audit methodology

Staff within the Financial Audit Group undertake 35 per cent of financial statement audits. One of our key roles is to make sure that the applied audit methodology produces high quality outcomes.

Accordingly, we continue to upgrade our electronic financial audit methodology, EFINA, to make our financial audit work even better, and to reflect changes in professional accounting and auditing standards.

Major enhancements in 2002-03 included:

- strengthening the audit planning processes with particular emphasise on evaluating and managing key financial risks within public sector agencies;
- revising various financial audit policies and guidance statements, including analytical reviewing and sampling in an audit environment, and assessing agency financial viability;
- improving communication with clients, management, audit committees and statutory boards on the financial audit process and its requirements; and
- continuing to review emerging information technology issues within agencies and electronic audit tools that improve financial auditing.

We have also integrated into our audit methodology a compulsory element that requires the involvement of our Computer Risk Management team. That team will, as a matter of course, review new information technology controls within the computer systems of audit clients such as IT security, business continuity planning, and development and maintenance of key business applications.

In 2002-03, the team reviewed 37 agencies, including universities and TAFEs, as part of the annual financial audits. They assessed the IT controls of the core financial systems used to prepare annual financial reports. They also reviewed several individual IT system developments and security over Internet facilities.



Paul Lim (left) and Piyal Ratnayake from the Office's Computer Risk Management team.

In 2003-04, the Computer Risk Management team will continue to focus on IT controls within financial systems, as well as emerging technologies such as e-commerce.

Methodology for performance audits and special reviews

During 2002-03, we supported high-quality performance audits through the ongoing development of our audit methodology, practices and systems.

The Victorian Performance Audit Methodology (VPAM) is a framework for conducting performance audits and special reviews. VPAM covers both conceptual and policy issues, and sets out the procedures for the planning, resourcing, implementation and reporting phases of an audit. It also addresses how we communicate with audited agencies and engage specialists. It ensures that the Office conducts performance audits efficiently, and that high-quality reports are delivered to Parliament.

Performance audits are documented using an electronic working paper system - EMPERA. This is a rigorous and user-friendly system, which makes the audit process efficient and allows us to systematically organise audit evidence and quality assurance reviews.

Adherence to standards overview

We are required under the *Audit Act* 1994 to adhere to Australian Auditing Standards. The Act allows us to set additional audit standards, and summarise these in our Annual Report. The Auditor-General has not issued any additional standards.

Complementary to the Australian Auditing Standards, the Auditor-General from time-to-time issues audit policy statements through amendments to the Financial Audit Policy Manual on audit procedures, processes and emerging audit issues.

To comply with auditing standards and our policies, procedures are maintained that safeguard the quality of our auditing, such as:

- involving senior officers in all phases of the audit, including approving the plan and reviewing significant matters arising on each audit;
- senior support officers assisting the primary officer on all high risk audits; and
- senior staff reviewing audit results so that the audit is of a professional standard.

These measures also allow us to tell Parliament and agencies about significant financial management and accountability issues, and inconsistencies in financial reporting across government.

Post-audit quality reviews

A series of external quality assurance reviews supplement these measures. This includes:

- Parliament appointing an auditor to conduct a 3-yearly independent performance audit of the Office;
- another Audit Office being invited to undertake peer reviews;
- running a major program of post-audit quality reviews, entailing the detailed review on a sample basis of completed audits; and
- clients completing surveys that measure, among other things, their satisfaction with the quality of the audit (see pages 27 to 29, and page 37).

Financial statement audits

Each year, the Accounting and Auditing Policy Group has qualified external parties review selected audits for quality assurance. These include at least one audit for each external audit service provider, and a sample of in-house audits. This provides feedback on the outcome of each audit. The results also inform our assessment of the performance of auditors.

Each post-audit quality review conducted during the year determined whether:

- the audit conformed to Australian Auditing Standards and legislative requirements;
- it included a comprehensive risk assessment, linked to the audit strategy;
- the audit strategy was appropriate, and had a supporting audit program;
- adequate audit evidence backed up the recommended audit opinion;
- the auditor had used an appropriate level of resources and review processes;
- contracted auditors had complied with the terms of their contract; and
- agencies and auditors had addressed all issues arising during the audit and, where applicable, reported in a timely manner.

Overall the results were satisfactory.

Next year, we plan to streamline the post-audit quality review process to adopt a more cyclical, risk-based approach.

Performance audits and special reviews

The peer review of 2003-03 performance audits is currently underway and is being undertaken by an officer of the UK National Audit Office and Professor Peter Schelluch of Monash University.

Last year, we introduced independent academic reviews of performance audit reports, one for each Director, based on criteria used by the UK National Audit Office. Dr Elizabeth Webster from the Melbourne Institute of Applied Economic and Social Research and Dr Colin Scott from the Australian National University repeated the reviews this year. Dr Scott has experience as a reviewer for the UK National Audit Office.

The reviews commented positively on the quality of the reports selected. They identified some improvement issues, which we will incorporate in further audit methodology and staff development.

Whistleblowers legislation

The *Whistleblowers Protection Act 2001* became operative in Victoria on 1 January 2002.

The legislation's main aim is to encourage and help whistleblowers to disclose improper conduct by public officers and public bodies. It protects whistleblowers, and sets up a system to investigate disclosed matters.

Audit-related issues

The *Audit Act 1994* expressly excludes the functions of the Auditor-General from application of the whistleblowers legislation.

Section 41 of the legislation enables the Ombudsman to refer a disclosure to the Auditor-General if appropriate. However, the Auditor-General decides whether or not to investigate, in accordance with the powers under the Audit Act.

The Office investigated the former Delatite Shire Council's involvement in the Lakeside Community Centre Project. We reported this to Parliament in our February 2003 *Report on Public Sector Agencies*.

The Ombudsman referred one further matter to the Auditor-General in 2002-03. It related to Victoria Police's management of outsourced information technology services. We reported our findings to Parliament in our May 2003 *Report on Public Sector Agencies*.

Administrative issues

We have procedures for handling whistleblower disclosures about our administrative processes. We have distributed these procedures to staff, and they are available on request to members of the public.

The Deputy Auditor-General is the Office's protected disclosure co-ordinator under the legislation. There were no disclosures on administrative matters during 2002-03.

Privacy legislation

The Victorian *Information Privacy Act 2000* became fully operational on 1 September 2002. We had already reviewed our practices to make sure we complied. During 2003-04, we will work closely with the Office of the Victorian Privacy Commissioner to produce a complementary approach to information privacy principles and legislation in audits on Victorian public sector agencies and their recommendations.

Freedom of information

The Office has a professional relationship with its audited agencies, and legislation precludes us from disclosing information we gather during an audit to a third party. Under section 20B of the *Audit Act* 1994, third parties do not have access to information and documents the Office holds in connection with the discharge of its audit responsibilities.

The administrative processes of the Office, however, come under the State's Freedom of Information legislation. There were no applications under the legislation during the year.

Structures and relationships

Our people management policies and practices help our audit operations deliver effective outcomes. They are in line with contemporary practice. An objective of our Corporate Plan is to be a preferred employer. Our achievements against the strategies are summarised in the following table.

Our progress against corporate strategies

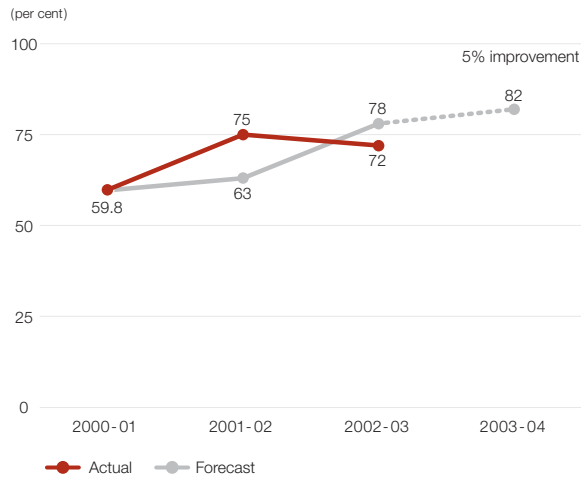
CORPORATE STRATEGY	ACHIEVEMENT
Deliver a learning program to address the technical and managerial development needs of staff.	Completed (see page 56).
Finish reviewing all human resources policies.	Completed (see page 56).
Develop a staff Reward and Recognition Scheme.	We reviewed the Reward and Recognition Scheme (see page 57).
Review training programs to emphasise full-career trajectories. Introduce a capabilities framework as a basis for career development, talent, management and succession planning.	We completed the first stage of a whole-of-career training program. We are unable to finalise the program until the implications of the new VPS Careers Structure Framework are fully assessed (see page 57).
Introduce a capabilities framework as a basis for career development, talent management and succession planning.	The proposed VPS Careers Structure Framework for 2003-04, although affecting the completion of our framework, provides an opportunity to reassess our progress to date (see page 57).
Develop a work force planning reporting regime.	Work force reporting introduced this year (see page 56).
Conduct an annual staff survey.	Staff survey completed in June 2003 (see page 57).

Our people

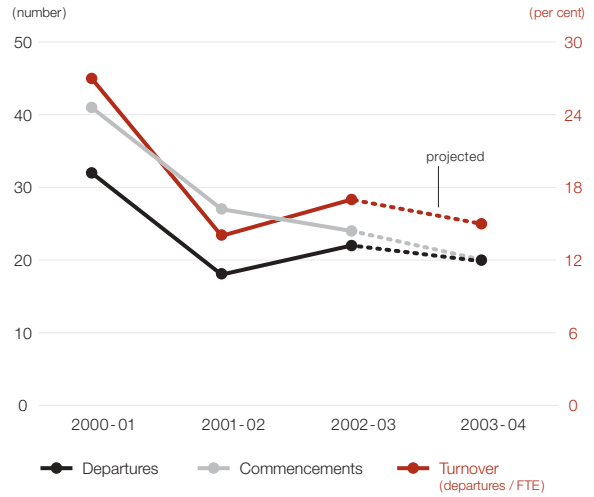
We have introduced in this year's Annual Report charts showing our progress against corporate targets that are used to measure staff satisfaction. The overall result, as shown in the following charts, indicates that we are generally progressing well towards our corporate targets for 2003-04.

Progress against corporate targets

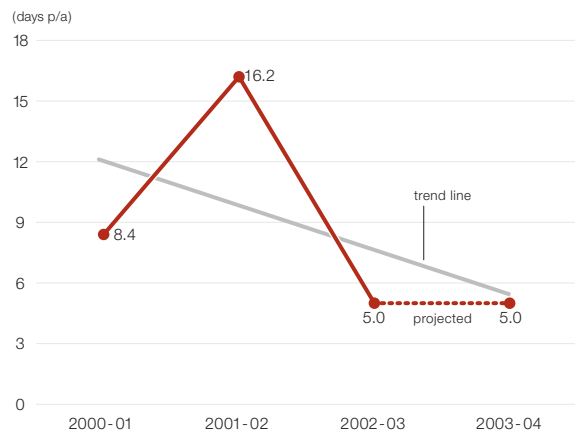
**STAFF SURVEY FEEDBACK
(AVERAGE RESPONSE TO KEY INDICATORS)**



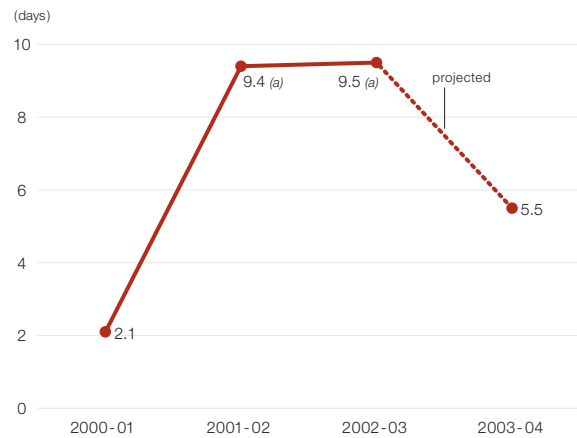
RECRUITMENT, DEPARTURES AND TURNOVER



SICK LEAVE

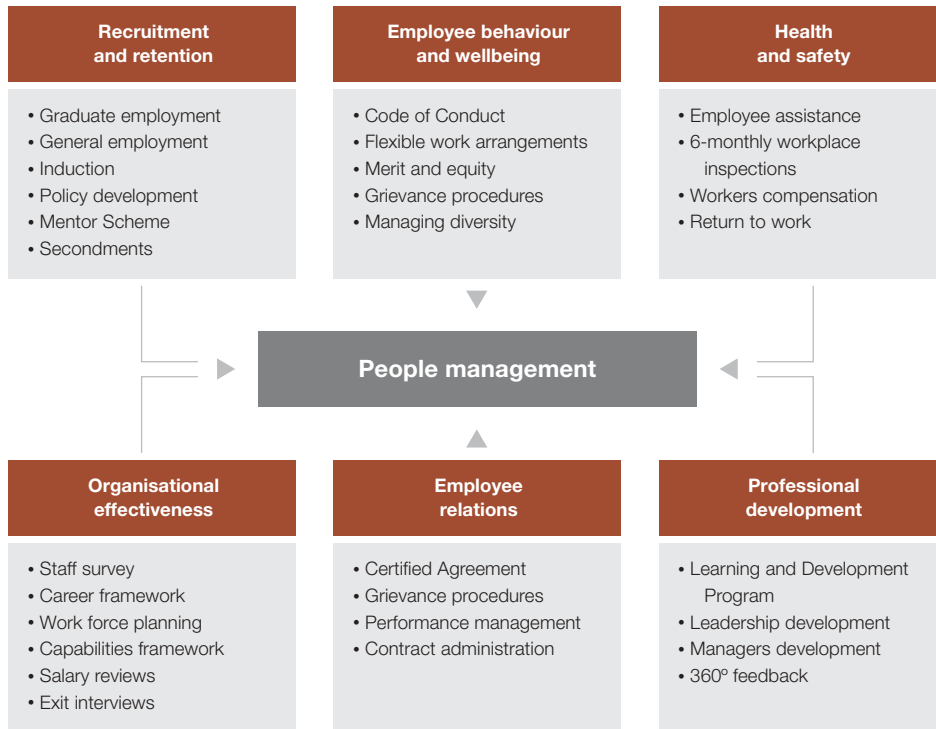


TRAINING DAYS



(a) Increased level of days training over 2001-02 to 2002-03 due to an increased commitment to Leadership and Management Development.

PEOPLE MANAGEMENT FRAMEWORK



Recruitment and retention

One of our strategies is to use recruitment practices that keep pace with the changing external environment to attract competent and skilled people.

We introduced a number of new or updated initiatives during the year, including the following.

Recruitment Program

We developed a new Recruitment Program to manage our recruitment activities. The program includes recruiting guidelines and checklists, and staff training in interviewing skills and techniques.

Our recently upgraded website provides a career opportunities page where information about careers is available, as well as current vacancies.

Induction Program

Our new staff Induction Program now uses web-based technology that gives staff easy access to relevant Office information. New staff attend an induction course and have follow-up training after their first month.

Graduate Development Program



Some of our recent graduates. From left: Alexander McDonald, Candy Yeung, Stevan Mihajlovic, Charlotte Jeffries and Laura Middlemiss.

We revised our Graduate Development Program to give new graduates recruited to the Financial Audit Group a sound understanding of our workings. We supplemented this with further training in financial audit methodology and communication skills. Nine new accounting graduates started work with us in February 2003.

We encourage our graduates to work towards Certified Practising Accountant or Certified Accountant membership by providing financial and coaching opportunities.

Mentor Scheme

Our Mentor Scheme supports new financial audit graduates in their transition from an academic to a professional environment. Mentors guide and support graduates for 12 months.

Secondments

The Office encourages staff to take secondments to or from other government departments and agencies. Secondments to or from our Office in 2002-03 were:

- John Misiano to the then Department of Natural Resources and Environment;
- Peter Stoppa to the Department of Education, Employment and Training;
- Steven Vlahos to the Public Accounts and Estimates Committee;
- Mats Hallgren to the Department of Justice;
- Gurpreet Kaur from the New Zealand Audit Office;
- Sarah Lineham from the New Zealand Audit Office; and
- Kate Nichols from the then Department of Natural Resources and Environment.

We were also pleased to have Ms Leni Dwihastuti, a Masters student in Public Policy at The University of Melbourne, spend time with us for research and discussion on public sector accountability and audit issues under an internship arrangement with the University.

Employee behaviour and wellbeing

Another strategy is to manage our people in an exemplary manner. In line with these corporate values we have a range of programs, including:

Managing diversity

We maintain programs and policies to ensure that our workplace remains free of discrimination:

- A trained Equal Opportunity (EO) Contact Officer helps staff with queries and concerns about EO, harassment, discrimination and our complaints process;
- Our Merit and Equity Policy commits us to promoting and supporting diversity through the Office. The annual staff survey measures our success;
- Staff with personal or work-related problems affecting their work can receive professional and confidential counselling through our Employee Assistance Program from an external provider;
- Our Code of Conduct incorporates the VPS Code of Conduct. This helps staff to understand the behavioural standards they must meet as public service officers; and
- The induction training for all new staff includes information on anti-discrimination laws and expected behaviours.

Over the next year, we will focus on further educating our staff on sexual harassment laws.

STAFFING PROFILE, BY POSITION AND GENDER

POSITION AT YEAR-END	MALE		FEMALE		TOTAL	
	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
Executive officers -						
EO 2	5	4	1	1	6	5
EO 3	14	13	5	5	19	18
VPS 5	25	25	7	11	32	36
VPS 4	4	6	1	-	5	6
VPS 3	12	16	19	19	31	35
VPS 2	15	11	18	18	33	29
VPS 1	-	-	1	-	1	-
Total	75	75	52	54	127	129

Health and safety

We have introduced a new Occupational Health and Safety (OH&S) planning regime that commits us to a yearly OH&S program. This year's program included:

- introducing 6-monthly OH&S workplace inspections. After the first inspection, we bought peripheral equipment (keyboards, screens and risers) for portable computers to minimise the risk of workplace injury;
- developing OH&S checklists to grade staff accommodation at audit client locations; and
- better reporting of hazards and injuries, resulting in more accurate recording and preventative action.

Details of our OH&S statistics appear in the 3-year statistics table on the inside back cover of this report.

Professional development

Our people-centred strategies reflect the value of professional and personal growth. One of our aims is to have well-designed, annual learning and development programs to help our staff attain high standards of professional skills and performance. Our continuing developmental opportunities for 2002-03 included:

Annual Learning and Development Program

We provide our staff with an annual Learning and Development Program focused on structured career growth through both technical and professional development.



George Peters, Manager, Learning and Development at the 2003 staff conference.

360° feedback

Senior staff took part in a 360° feedback process to complement the performance management processes. For the first time, the manager group took part alongside the executive officers. Results helped to highlight participants' strengths and areas for further skilling.

Manager Development Program

Managers in project teams researched topics of corporate relevance. They reported the outcomes to the Senior Management Group, which welcomed the recommendations.

Plain English initiative

In line with our commitment to continue improving our parliamentary reports, we invested in a major plain English training program to enhance our staff's writing skills. This will improve the readability and clarity of our written material.

People and skills database

During the year, we commenced development of a database to record information on our staff's skills, experience and interests, and to promote awareness of these within the Office. This major initiative will further strengthen our knowledge management capabilities. It will also help senior managers match appropriate staff to audit assignments and projects.

Industrial relations

Flexible working arrangements

We emphasise the importance of our staff creating a productive balance between professional and personal roles by offering various work arrangements, such as flexible work hours, tele-commuting and extended leave.

Employees may apply to change their working pattern and work from home. This arrangement is on a case-by-case basis, and each agreement is for a maximum of one year.

Human resources policies

This year saw the completion of a major review of human resources policies. The Office is now well placed with a comprehensive Human Resources Policy Manual that is available on-line through the Office's intranet.

Work force planning reporting

The Senior Management Group is provided with a detailed report outlining the Office's work force demographics. This information assists the Office to plan for future human resources strategies and policies.

Certified Agreement

The VPS Non-executive Agreement 2001 expires on 1 November 2003. This Agreement provided 6 per cent in salary increases with a further increase of up to 4 per cent over 2 annual performance cycles of the Agreement if staff bettered performance expectations.

Careers Structure Framework

Work has started on a new whole-of-government Careers Structure Framework. This will replace the current broadband pay system. This will encourage staff to develop their skills, as well as fostering, rewarding and encouraging excellence through structured progression plans, and learning and development.

Office Social Club



Office staff at the Social Club's Aquarium Soiree held at the Melbourne Aquarium in August 2002.

The Office Social Club promotes friendship and teamwork among staff, and supports a high level of morale in the Office. It co-ordinates cultural and recreational activities.

This year's activities included regular happy hours, a dinner dance, a fun run, a Christmas party and numerous sports days. The money raised through these events sponsor a child in Uganda through World Vision.

Organisational effectiveness

We recognise that people are key to improving our overall efficiency and performance. We do this by measuring performance and staff satisfaction against a number of organisational performance indicators.

Performance Management System

Our Performance Management System requires staff to develop performance goals linked to our Corporate Plan. It helps identify development needs and performance expectations, and will align with the new VPS Careers Structure Framework.

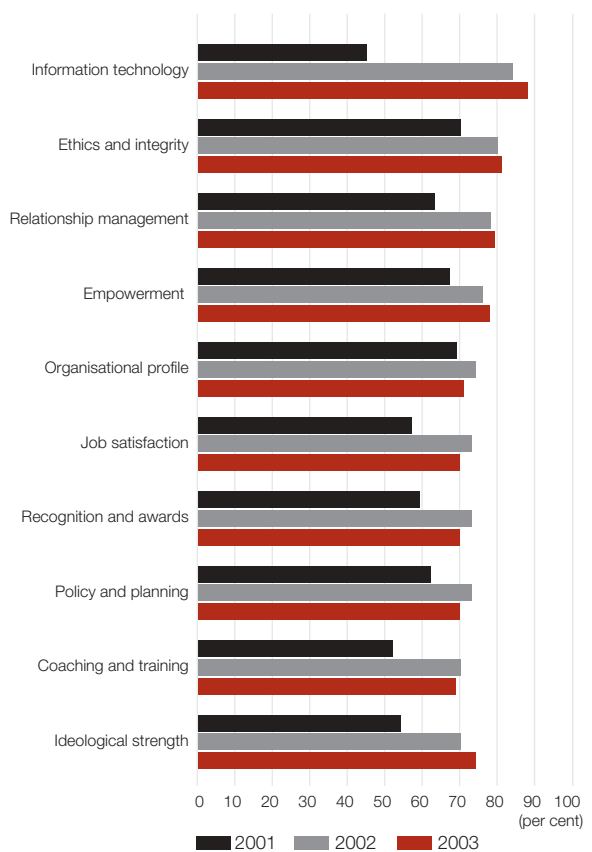
Reward and Recognition Scheme

A review of ways in which we can reward and recognise our staff was undertaken during the year. A number of strategies were identified which have had success in other government agencies. Further work will be undertaken in 2003-04 to apply some of these strategies to our work environment.

Staff survey

One of the ways we identify whether we are a preferred employer is through an annual staff survey. This is the third year of the survey. The survey asks staff about our organisational effectiveness to help assess our organisational development needs. Our performance target is to receive increasingly positive responses from staff results for key organisation indicators.

STAFF SURVEY, RESULTS FOR KEY ORGANISATION INDICATORS



OVERALL RESULTS EXPRESSED AS A PERCENTAGE OF SATISFACTION

2000-01	2001-02	2002-03
53.5%	67.6%	64.6%

This year's survey results show a slight downward trend overall, compared with last year's survey. The key organisational indicators have moved slightly in both directions by a few percentage points. We received positive ratings for our IT services and equipment, our high ethical standards, our strong working relationships with others, and our empowering of staff.

However, the survey showed a decrease in other areas of organisational effectiveness. The Office intends to develop appropriate strategies to improve the ratings in these areas.

The survey identified some areas for improvement:

- continuing to build on relationships between the Leadership Team and staff;
- greater emphasis on using our values in decision-making;
- the value of the alignment of our organisational structure;
- improving knowledge sharing, especially between groups;
- focusing on demonstrating that one's career will benefit by staying at the Office; and
- greater emphasis on integrating career planning with the performance management process.

Acknowledging staff achievements

Auditor-General's Innovation Award

Now in its second year, the Innovation Award recognises innovation as a positive way to build on our successes in developing a highly efficient Office. The Award recognises individuals and teams for their contribution to improving Office operations.



Innovation Award recipients with Wayne Cameron, Auditor-General. From left: Dianne Ryan, Simon Tyrrell, Michelle Kaye and Margaret Frewin.

Recipient of the Innovation Award

Simon Tyrrell received the 2003 Innovation Award for work associated with integrating Lotus Notes and our records management system, and his contribution to developing the new intranet site.

Certificates of Recognition

The following staff members received Certificates of Recognition for Innovation:

- Dianne Ryan for her contribution to the records management system upgrade;
- Michelle Kaye for her contribution to developing a financial audit strategy model; and
- Margaret Frewin for her contribution to the new intranet site.

Green Office Action Plan



Lisa Brocker, a member of the Office's Green Office Interest Group.

The Green Office team continues to lead us in reducing our impact on the environment. This year, we focused on reducing and recycling waste and conserving energy.

In 2002-03, we began to print and photocopy double-sided, and recycled glass and plastic bottles, cartons and aluminium cans. We also encouraged office appliance use that saves energy consumption.

Cut-out switches have been installed that turn off lights at a designated time.

Late last year, we joined the "Close the Loop" program and now recycle our toner cartridges. We also continue to fulfil our duties as a "Waste Wise Organisation" under EcoRecycle Victoria's requirements.

In the coming year, we will continue to find new ways to reduce and recycle waste, and increase general environmental awareness. We will also encourage senior management to lead by example.

Performance monitoring

Financial performance

Some key indicators of our financial performance during 2002-03 included:

- a net surplus for the period of \$298 000 (2001-02, \$916 000); and
- net assets at balance date of \$4.6 million (2000-01, \$4.4 million).

Office operating performance and financial position

This is the third full-year since the Office consolidated Audit Victoria within the Victorian Auditor-General's Office.

The Office's operating performance and financial position over the last 3 years are:

OPERATING RESULT (\$'000)

ITEM	ACTUAL 2000-01	ACTUAL 2001-02	ACTUAL 2002-03	TARGET 2003-04
Appropriation	22 363	22 969	23 762	24 069
Expenditure	20 636	22 053	23 464	24 069
Operating result before extraordinary items	1 727	916	298	–
Extraordinary items and others	332	–	–	–
Operating result	2 059	916	298	–
Net assets at year-end	3 374	4 363	4 628	4 400

Appropriation from Parliament increased as a result of increases in Output Group 2 – *Audit reports on financial statements*, salary supplementations and factoring for productivity gains, and cost of living adjustments.

Movements in expenditure

ITEM	ACTUAL 2000-01	ACTUAL 2001-02	ACTUAL 2002-03	ESTIMATED 2003-04
	(\$m)	(\$m)	(\$m)	(\$m)
Employees	9.8	10.4	10.9	11.2
Contract audits	6.9	7.4	8.4	7.7
Consumables	2.1	2.6	2.1	2.7
Rental expenses	1.2	0.9	1.1	1.2
Depreciation and amortisation	0.6	0.7	0.8	1.1
Capital charge	0.1	0.1	0.1	0.2
Total	20.7	22.1	23.4	24.1

Employee costs have also risen with salary increases resulting from government-negotiated certified agreements.



Charles Tambiah (left) and Lorenz Senn, Manager, Finance and Administration, reviewing the Office's 2002-03 financial statements.

In 2002-03, expenditure rose because of a government-negotiated certified agreement salary increase, general increases in operating expenses, and additional payments to external audit service providers.

The increase in payments to contractors is reflected in the favourable increase in audit fees which rose to \$14.1 million (2001-02, \$13.1 million).

Financial position

ITEM	ACTUAL 2000-01	ACTUAL 2001-02	ACTUAL 2002-03	ESTIMATED 2003-04
	(\$m)	(\$m)	(\$m)	(\$m)
Assets -				
Current assets	6.20	3.18	2.90	1.95
Non-current assets	1.87	6.21	6.54	6.30
Total assets	8.07	9.39	9.44	8.25
Liabilities -				
Current liabilities	2.79	3.02	2.83	1.65
Non-current liabilities	1.90	2.00	1.98	2.20
Total liabilities	4.69	5.02	4.81	3.85
Net assets	3.38	4.37	4.63	4.40

Trends

Our net assets have increased as a result of operating surpluses. The major component of our net assets are held on our behalf by the Government and can be accessed to meet our liabilities for such things as long service and annual leave, and on a case-by-case basis for other initiatives such as major capital replacement programs.

Administered items

ITEM	ACTUAL 2000-01	ACTUAL 2001-02	ACTUAL 2002-03	ESTIMATED 2003-04
	(\$m)	(\$m)	(\$m)	(\$m)
Revenues	11.61	13.13	14.05	14.19
Funds transferred to Consolidated Fund	11.61	13.13	14.05	14.19

The Office raises fees for the conduct of its financial statement audits. These fees are paid into the Consolidated Fund and do not form part of the Office's revenue base. Over the years, the number of financial statement audits has grown and so too have the costs, and this has translated into an increase in the fees raised.

Consultancies

The Office engaged consultants on 9 major projects during the year. This cost \$260 000. The major project undertaken during the year was the upgrade of the practice management system. Synthesis Consultancies and Services provided the project manager (\$193 000).

Change to funding arrangement

With our agreement and the support of Parliament's Public Accounts and Estimates Committee, the Government approved changes to the arrangement for funding the cost of financial statement audits from 1 July 2003.

The new arrangement will help the Office directly manage the revenue and costs of its financial audit operations.

Previously, the Office's Annual Output Appropriation, which the Government's annual budget process set, covered the costs of financial statement audits. We recovered the costs of financial statement audits from agencies and paid the revenue from agencies' audit fees to the State's Consolidated Fund.

For 2003-04, appropriation authority for financial statement audits will be obtained through an arrangement under section 29 of the *Financial Management Act* 1994. This arrangement provides for the establishment of a facility where the revenue collected from financial audits establishes the appropriation authority to enable the Office to incur expenditure. This new arrangement enables the Auditor-General to better manage the resource implications of undertaking audits of newly established public sector bodies without the need to seek additional funding from the Executive. The new approach enhances the independence of the Auditor-General.

The new arrangement adds an important management challenge to the Office in 2003-04 as the timely collection of audit fees establishes the level of available parliamentary appropriation.



Financial statements, for the year ended 30 June 2003

Contents

Statement of financial performance	64
Statement of financial position	65
Statement of cash flows	66
Notes to the financial statements	
Significant accounting policies	67
Output groups of the Office	71
Summary of compliance with annual parliamentary appropriations	74
Summary of compliance with special appropriation	74
Revenue	75
Results for the reporting period	76
Cash	76
Receivables	77
Other financial assets	77
Property, plant and equipment	78
Payables	80
Provisions	80
Equity and movements in equity	81
Auditor's remuneration	82
Commitments	
Operating leases	82
Contract audits	82
Executive officers' remuneration	83
Financial instruments	84
Reconciliation of results from ordinary activities to net cash inflow from operating activities	85
Disclosures relating to Ministers and Accountable Officers	85
Administered items	86
Declaration by Accountable and Chief Finance Officers	87
Independent auditor's report	88

Statement of Financial Performance

For the year ended 30 June 2003

	Notes	2002-03	2001-02
		(\$)	(\$)
Revenues from ordinary activities			
Output appropriations		23 380 000	22 613 000
Special appropriations		231 000	211 442
Revenue from other parties		131 316	126 482
Resources received free of charge		20 000	19 000
	4	23 762 316	22 969 924
Expenses from ordinary activities			
Employee benefits		10 923 542	10 399 653
Contract audits		8 360 451	7 382 512
Consumables		2 102 489	2 549 189
Rental expenses		1 137 974	929 086
Depreciation and amortisation		794 885	664 370
Capital assets charge		143 938	127 255
Assets written-off		1 333	1 203
	5	23 464 612	22 053 268
Surplus from ordinary activities		297 704	916 656
Adjustment to accumulated surpluses at 1 July 2002 as a result of the adoption of revised standard AASB 1028	1(r), 12(a)	(32 994)	-
Total revenue, expense and valuation adjustments recognised directly in equity		(32 994)	-
Total changes in equity other than those resulting from transactions with Victorian State Government in its capacity as owner		12 264 710	916 656

The above statement of financial performance should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2003

	Notes	2002-03	2001-02
		(\$)	(\$)
Assets			
Current assets			
Cash	6	900	900
Receivables	7	2 785 197	2 912 117
Prepayments		39 488	48 568
Other financial assets	8	72 314	218 745
Total current assets		2 897 899	3 180 330
Non-current assets			
Receivables	7	4 502 883	4 368 647
Property, plant and equipment	9	2 040 116	1 838 900
Total non-current assets		6 542 999	6 207 547
Total assets		9 440 898	9 387 877
Liabilities			
Current liabilities			
Payables	10	1 626 683	1 990 540
Provisions	11	1 203 369	1 035 439
Total current liabilities		2 830 052	3 025 979
Non-current liabilities			
Provisions	11	1 983 197	1 998 959
Total non-current liabilities		1 983 197	1 998 959
Total liabilities		4 813 249	5 024 938
Net assets		4 627 649	4 362 939
Equity			
Contributed capital		350 127	350 127
Accumulated surplus		4 277 522	4 012 812
Total equity	12	4 627 649	4 362 939

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2003

	Notes	2002-03	2001-02
		(\$)	(\$)
Cash flow from operating activities			
Receipts from Government		23 613 968	21 273 429
Receipts from other parties		126 096	134 819
Payments to suppliers and employees		(24 349 911)	(22 095 207)
Capital asset charge		(143 938)	(127 255)
Goods and Services Tax recovered from the ATO		1 604 788	1 267 145
Net cash inflow from operating activities	17	851 003	452 931
Cash flows from investing activities			
Payments for plant and equipment		(997 434)	(635 632)
Redemption of investments		146 431	108 701
Net cash (outflow) from investing activities		(851 003)	(526 931)
Cash flows from financing activities			
Proceeds from capital contributions by the Government		-	74 000
		-	-
Net increase/(decrease) in cash held		-	-
Cash at beginning of the financial year		900	900
Cash at end of the financial year	6	900	900

*The statement of cash flows is inclusive of the Goods and Services Tax, where applicable.
The above statement of cash flows should be read in conjunction with the accompanying notes.*

Notes to the Financial Statements

For the year ended 30 June 2003

1. Significant Accounting Policies

This financial report is a general purpose financial report that has been prepared in accordance with the *Financial Management Act 1994*, Australian Accounting Standards, Statements of Accounting Concepts and Urgent Issues Group Consensus Views.

The financial report is prepared on an accrual accounting basis and in accordance with the historical cost convention, except for certain assets, which, as noted, are at deemed cost.

The accounting policies adopted, and the classification and presentation of items, are consistent with those of the previous year, except where a change is required to comply with an Australian Accounting Standard or Urgent Issues Group Consensus View, or an alternative accounting policy or an alternative presentation or classification of an item, as permitted by an Australian Accounting Standard, is adopted to improve the relevance and reliability of the financial report. Where practicable, comparative amounts are presented and classified on a basis consistent with the current year.

The significant policies which have been adopted in the preparation of the financial statements are:

(a) Reporting Entity

The financial statements include all the controlled activities of the Victorian Auditor-General's Office.

Administered resources

The Victorian Auditor-General's Office administers but does not control certain resources on behalf of the State. It is accountable for the transactions involving those administered resources, but does not have the discretion to deploy those resources to achieve the Office's objectives. For these resources, the Office acts only on behalf of the State. The accrual basis of accounting has been used in accounting for administered resources.

The administered resources of the Office are primarily audit fees raised from performing financial statement audits and relate to the activities of Output Group 2 (also refer to note 2).

Transactions and balances relating to these administered resources are not recognised as the Office's revenues, expenses, assets or liabilities, and are disclosed in note 19.

Non-current assets

All non-current assets controlled by the Office are reported in the statement of financial position. Non-current assets which the Office administers on behalf of the State are reported as administered resources.

(b) Objectives and Funding

The primary objectives of the Office are to assure Parliament that the public sector agencies are delivering their services effectively, and doing so efficiently and economically, have operated lawfully and ethically, and have reported their performance fairly.

The Office is predominantly funded by parliamentary appropriations for the provision of pre-agreed outputs. Its financial audit function is provided on a fee-for-service basis and the revenue generated is treated as administered items.

(c) Outputs of the Office

Information about the Office's output groups is set out in the Output Groups of the Office (note 2).

(d) Acquisitions of assets

The cost method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition, plus incidental costs directly attributable to the acquisition.

(e) Revenue Recognition

Revenue becomes controlled by the Office when it has been appropriated by the Victorian Parliament and the appropriation is applied by the relevant Minister.

Other revenues received by the Office are generally required to be paid into the Consolidated Fund and are treated as administered funds and disclosed in note 19.

(f) Receivables

Receivables mainly represent amounts owing from Victorian Government. Receivables related to audit fees raised are reported as administered items in note 19.

(g) Valuation of Non-Current Assets

Non-current assets are measured at cost.

In the previous financial year ending on 30 June 2002, to comply with the accounting requirements of AASB 1041 and the Department of Treasury and Finance Policy Paper, *Valuation of Non-Current Physical Assets*, the Office elected to revert to the cost basis for measuring all plant and equipment. In changing from a deprival basis to the cost basis, the carrying amount for plant and equipment at 1 July 2001 was deemed to equal the cost of assets and the asset revaluation reserve was transferred to accumulated surplus.

(h) Other Financial Assets - Investments

Investments represent funds held in the "Performance Incentive Payments Trust Account". The proceeds of this account are invested with the Treasury Corporation of Victoria. Interest income on these investments is recognised in the statement of financial performance.

(i) Depreciation and Amortisation of Non-Current Assets

Non-current assets are depreciated on a straight line basis to write-off the net cost or revalued amount of each asset group over its expected useful life to the Office. The expected useful lives, consistent with year ended 30 June 2003, are as follows:

Furniture and fittings	Between 4 to 10 years
Computer equipment	3 years
Computer software	2.5 years
Office equipment	4 years

(j) Leasehold Improvements

The cost of improvements to or on leased properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Office, whichever is the lesser.

In the previous year, the Office elected to exercise the option under the lease agreement to extend the lease for a further term of 4 years. Accordingly, from 1 July 2001 the leasehold improvements are being amortised on a straight-line basis over the remaining extended term of the lease.

(k) Leased Non-Current Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Operating leases are charged to the statement of financial performance in the period in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

The Office has no finance leases.

(l) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the Office prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(m) Employee Entitlements**(i) Salaries and annual leave**

Liabilities for salaries are recognised, and are measured as the amount unpaid at the reporting date at current pay rates, including on-costs, in respect of employees' services up to that date.

Liabilities for annual leave are recognised and measured as the amount unpaid at the reporting date, at rates the Office expects to pay when the liabilities are to be settled.

(ii) Provision for long service leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments 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 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 national 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 statement of financial position.

The following assumptions were adopted in measuring the present value of liability for long service leave:

	2002-03	2001-02
Weighted average rates of increase in annual employee entitlements to settlement of the liabilities	4.50%	4.50%
Weighted average discount rates	4.14%	5.19%
Weighted average terms to settlement of the liabilities	12.31 years	12.51 years

(iii) Performance incentive payments

The executive officers' performance incentive entitlements for the performance review period to 30 June 2003, payable within the next financial year, are classified as a current liability in the statement of financial position.

(iv) Superannuation

The amount charged to the statement of financial performance for employee superannuation represents the contributions made by the Office to superannuation funds.

No liability is recognised in the statement of financial position for the Office's share of the State's unfunded superannuation liability. The State's unfunded superannuation liability has been reflected in the financial statements of the Department of Treasury and Finance.

(n) Capital Asset Charge

A capital asset charge imposed by the Department of Treasury and Finance represents the opportunity costs of capital invested in the non-current physical assets used in the provision of outputs. The charge (8 per cent in 2002-03 and 2001-02) is calculated on the carrying amount of non-current physical assets.

(o) Resources Provided and Received Free of Charge

Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not donated.

(p) Contributed Capital

Consistent with Urgent Issues Group Abstract 38 and Department of Treasury and Finance's Accounting and Financial Reporting Bulletin 39 appropriations for additions to net assets have been designated as contributed capital.

Based on Department of Treasury and Finance's Accounting and Financial Reporting Bulletin 40, the Office has determined a part of its accumulated surplus as at 1 July 2001 as the opening balance of contributed capital and the details are disclosed in note 12.

(q) 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.

(r) Change in Accounting Policies

There were changes in accounting policies in relation to measuring annual leave liabilities. As required by the revised standard AASB1028, annual leave liabilities are calculated at rates the Office expects to pay when the liabilities are to be settled. The overall impact of this change in policy is \$35 233 of which \$2 239 relates to 2002-03. The balance \$32 994 relates to the opening balance of annual leave provision.

The details of these are disclosed in note 12.

2. Output Groups of the Office

The Office has 2 major output groups: (1) the provision of reports and services to Parliament; and (2) the conduct of financial statement audits.

(1) The provision of reports and advice to Parliament resulting from:

- (i) major programmed audit studies;
- (ii) other studies on specific issues;
- (iii) an examination of the State's finances;
- (iv) the results of annual financial statements audits;
- (v) any investigations following inquiries by Members of Parliament and the general public;
- (vi) other matters that merit investigation by this Office; and
- (vii) broader contributions to enhancing public accountability.

(2) The conduct of financial statement audits resulting from:

- (i) the conduct of audits on the financial statements of the State and its agencies;
- (ii) the review of the estimated financial statements incorporated within the State's annual budget; and
- (iii) matters arising out of the annual financial statement audit process that are reported to the responsible minister and senior agency management.

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 Parliament. External contractors are appointed by the Auditor-General, following a process of contestability, to assist in the conduct of performance and financial audits. Audit fee income arising from financial statement audits is required under the *Financial Management Act 1994* to be paid into the Consolidated Fund and is treated as an Administered Item.

Output groups schedule controlled revenue and expenses

For the year ended 30 June 2003

	Output Group 1: Reports and advice to Parliament		Output Group 2: Financial Audits		Total for the Office	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue						
Output appropriations	9 818 378	9 701 125	13 561 622	12 911 875	23 380 000	22 613 000
Special appropriations	97 008	98 875	133 992	112 567	231 000	211 442
Revenue from other parties	55 146	54 307	76 170	72 175	131 316	126 482
Resources received free of charge	8 399	8 613	11 601	10 387	20 000	19 000
	9 978 931	9 862 920	13 783 385	13 107 004	23 762 316	22 969 924
Expenses						
Employee benefits	5 957 649	5 439 454	4 965 893	4 960 199	10 923 542	10 399 653
Contract audits	1 521 483	866 205	6 838 968	6 516 307	8 360 451	7 382 512
Consumables	1 054 622	1 261 042	879 061	1 149 936	1 933 683	2 410 978
Rental expenses	712 712	558 241	594 068	509 056	1 306 780	1 067 297
Depreciation and amortisation	433 527	347 493	361 358	316 877	794 885	664 370
Capital assets charge	78 503	66 560	65 435	60 695	143 938	127 255
Assets written-off	684	629	649	574	1 333	1 203
	9 759 180	8 539 624	13 705 432	13 513 644	23 464 612	22 053 268
Operating surplus/(Deficit)	219 751	1 323 296	77 953	(406 640)	297 704	916 656

Controlled assets and liabilities

For the year ended 30 June 2003

	Output Group 1: Reports and advice to Parliament		Output Group 2: Financial Audits		Total for the Office	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Assets						
Current assets	1 580 501	1 526 558	1 317 398	1 653 772	2 897 899	3 180 330
Non-current assets	3 568 896	2 979 623	2 974 790	3 227 924	6 543 686	6 207 547
Total assets	5 149 397	4 506 181	4 292 188	4 881 696	9 441 585	9 387 877
Liabilities						
Current liabilities	1 543 497	1 573 509	1 286 555	1 452 470	2 830 052	3 025 979
Non-current liabilities	1 081 626	1 039 459	901 571	959 500	1 983 197	1 998 959
Total liabilities	2 625 123	2 612 968	2 188 126	2 411 970	4 813 249	5 024 938
Net assets	2 524 274	1 893 213	2 104 062	2 469 726	4 628 336	4 362 939

3. Summary of compliance with Annual Parliamentary Appropriations

(a) Summary of compliance with annual parliamentary appropriations

The following tables disclose the details of the various parliamentary appropriations received by the Office for the year. In accordance with accrual output-based management procedures "Provision for outputs" and "Additions to net assets" are disclosed as "controlled" activities of the Office.

	Appropriation Act													
	Annual appropriation		Advance from Treasurer		Section3 (2)		Financial Management Act 1994, section 32*		Total parliamentary authority		Appropriations applied		Variance*	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Controlled														
Provision for outputs	23 110 000	22 239 000	-	143 000	-	251 000	665 000	645 000	23 775 000	23 278 000	23 380 000	22 613 000	395 000	665 000
Additions to net assets	-	-	-	-	-	-	-	74 000	-	74 000	-	74 000	-	-
TOTAL	23 110 000	22 239 000	-	143 000	-	251 000	665 000	719 000	23 775 000	23 352 000	23 380 000	22 687 000	395 000	665 000

* The Office brought forward \$665 000 (2001-02, \$645 000) from its previous year's appropriation for provision for outputs as permitted under the Financial Management Act 1994, section 32.

The variance in Provision for outputs of \$395 000 (\$665 000, in 2001-02) represents the current year's appropriation carried forward into the next financial year and was attributable to the following timing factors:

- certain performance audits that were initially planned for completion in year 2002-03 were still in progress as at 30 June 2003; and
- delays in external service providers completing certain work as at 30 June 2003.

(b) Summary of compliance with special appropriation

Authority	Purpose	2002-03	2001-02
		(\$)	(\$)
Section 94A(6) of the <i>Constitution Act 1975</i>	Costs associated with Auditor-General (a)	231 000	211 442

(a) The above figures include salaries and on-costs, such as payroll tax and WorkCover levies of \$11 749 (2001-02, \$10 664) and leave entitlements of \$7 176 (2001-02, \$4 046).

4. Revenue

	Operating		Non-operating	
	2002-03	2001-02	2002-03	2001-02
	(\$)	(\$)	(\$)	(\$)
Revenue by source				
Revenue from government				
Output appropriations	23 380 000	22 613 000	-	-
Special appropriations	231 000	211 442	-	-
Resources provided free of charge (a)	-	-	20 000	19 000
	23 611 000	22 824 442	20 000	19 000
Revenue from other parties				
Interest received from Performance Incentive Payments Trust Account	-	-	5 113	11 829
Other				
Secondment of staff	96 237	90 998	-	-
Sale of parliamentary reports	23 966	14 905	-	-
Royal Melbourne Show grant	6 000	8 750	-	-
	126 203	114 653	5 113	11 829
Total income	23 737 203	22 939 095	25 113	30 829

(a) This represents the cost of the external audit of the Victorian Auditor-General's Office. The auditor is appointed by Parliament and paid by the Public Accounts and Estimates Committee in accordance with the Audit Act 1994.

5. Results for the Reporting Period

(a) Expenses from ordinary activities

	2002-03	2001-02
	(\$)	(\$)
Expenses		
Depreciation		
Furniture and fittings	106 761	105 646
Computer equipment and software	465 970	348 771
Office equipment	49 689	36 686
Total depreciation	622 420	491 103
Amortisation of -		
Leasehold improvements	172 465	173 267
Total depreciation and amortisation	794 885	664 370
Capital charge on assets	143 938	127 255
Net losses on disposal of plant and equipment	1 333	1 203
Employee benefits	10 923 542	10 399 653
Contract audits	8 360 451	7 382 512
Rental expenses	1 137 974	929 086
Consumables	2 102 489	2 549 189
Total expenses	23 464 612	22 053 268

(b) Revisions of accounting estimates

There were no revision of estimates during the year.

6. Cash

	2002-03	2001-02
	(\$)	(\$)
Cash on hand	900	900
Balance per statement of cash flows	900	900

7. Receivables

	2002-03	2001-02
	(\$)	(\$)
Current		
Amounts owing from Victorian Government	2 745 238	2 892 593
GST receivable	13 072	11 775
Other debtors	26 887	7 749
	2 785 197	2 912 117
Non-current		
Amounts owing from Victorian Government	4 502 883	4 368 647
	4 502 883	4 368 647

The amount owing from the Victorian Government comprises previously applied parliamentary appropriations not yet drawn down. The balance is represented by accumulated surpluses, payables, movements in provisions, and accumulated depreciation and amortisation net of asset acquisition.

The total amount owed by the Government was \$7 248 121 (2001-02, \$7 261 240) of which \$2 745 238 (2001-02, \$2 892 593) is likely to be drawn in the next financial year and reported accordingly as a current receivable.

8. Other Financial Assets

	2002-03	2001-02
	(\$)	(\$)
Current	72 314	218 745

In accordance with the terms of the *Public Sector Management and Employment Act 1998* a total of \$72 314 (2001-02, \$218 745) is available for executive officers' performance pay entitlements. These funds are held in the "Performance Incentive Payments Trust Account". The proceeds of this Account are invested with the Treasury Corporation of Victoria. (Also refer to note 11.)

Since performance pay entitlements are now paid on an annual basis, no further transfer of funds will be made to the investment account. It is expected that the available funds will be fully utilised by the end of 2003-04 financial year.

9(a). Property, Plant and Equipment

	2002-03	2001-02
	(\$)	(\$)
Leasehold improvements		
At cost	1 708 276	1 708 276
Less: Accumulated amortisation	(1 061 531)	(889 066)
Total leasehold improvements	<u>646 745</u>	<u>819 210</u>
Furniture and fittings		
At cost	428 111	422 580
Less: Accumulated depreciation	(344 464)	(237 703)
Total furniture and fittings	<u>83 647</u>	<u>184 877</u>
Computer software		
At cost	652 824	182 584
Less: Accumulated depreciation	(203 466)	(154 904)
Total computer software	<u>449 358</u>	<u>27 680</u>
Computer hardware		
At cost	1 238 621	1 067 065
Less: Accumulated depreciation	(458 181)	(315 719)
Total computer hardware	<u>780 440</u>	<u>751 346</u>
Office equipment		
At cost	166 302	92 474
Less: Accumulated depreciation	(86 376)	(36 687)
Total office equipment	<u>79 926</u>	<u>55 787</u>
	<u>2 040 116</u>	<u>1 838 900</u>

9(b). Property, Plant and Equipment

	Leasehold improvements	Furniture and fittings	Computer software	Computer hardware	Office equipment	Total
2002-03						
Carrying amount at start of year	819 210	184 877	27 680	751 346	55 787	1 838 900
Additions	-	5 531	458 742	459 333	73 828	997 434
Depreciation/amortisation expense	(172 465)	(106 761)	(37 064)	(428 906)	(49 689)	(794 885)
Write-off of assets	-	-	-	(1 333)	-	(1 333)
Carrying amount at end of year	646 745	83 647	449 358	780 440	79 926	2 040 116
2001-02						
Carrying amount at start of year	1 280 248	4 063	54 341	486 247	43 942	1 868 841
Transfer between classes (a)	(293 022)	286 460	-	-	6 562	-
Additions	5 251	-	3 735	584 677	41 969	635 632
Depreciation/amortisation expense	(173 267)	(105 646)	(30 396)	(318 375)	(36 686)	(664 370)
Write-off of assets	-	-	-	(1 203)	-	(1 203)
Carrying amount at end of year	819 210	184 877	27 680	751 346	55 787	1 838 900

(a) In 2001-02, certain Leasehold improvements were reclassified as Furniture and fittings and Office equipment.

10. Payables

	2002-03	2001-02
	(\$)	(\$)
Creditors	1 125 540	1 758 712
Other payables	501 143	231 828
Total	1 626 683	1 990 540

11. Provisions

	2002-03	2001-02
	(\$)	(\$)
Current		
Employee entitlements		
Annual leave (a)	818 200	733 165
Long service leave (a)	222 669	168 888
Performance Incentive Scheme	162 500	133 386
	1 203 369	1 035 439
Non-current		
Employee entitlements		
Long service leave (a)	1 983 197	1 998 959
	1 983 197	1 998 959
Aggregate carrying amount of provisions		
Current	1 203 369	1 035 439
Non-current	1 983 197	1 998 959
Total employee entitlements	3 186 566	3 034 398

(a) Refer note 1(m).

12. Equity and Movements in Equity

	2002-03	2001-02
	(\$)	(\$)
(a) Accumulated surplus		
Balance at beginning of the year	4 012 812	3 146 392
Adjustments for prior year (i)	(32 994)	-
Adjustments for administered items	-	(1 860)
Transferred from reserves (refer note 1g)	-	227 751
Transferred to Contributed Capital (ii)	-	(276 127)
Adjusted balance at beginning of the year	3 979 818	3 096 156
Operating surplus for the year	297 704	916 656
Balance at end of the year	4 277 522	4 012 812
(b) Asset revaluation reserve		
Balance at beginning of the year	-	227 751
Transferred to accumulated surplus	-	(227 751)
Adjusted balance at beginning and end of the year	-	-
(c) Contributed capital		
Balance at beginning of the year	350 127	-
Transferred from accumulated surplus (ii)	-	276 127
Adjusted balance at beginning of the year	350 127	276 127
Capital contribution by Victorian Government	-	74 000
Balance at end of the year	350 127	350 127
Total equity at the end of the financial year	4 627 649	4 362 939

(i) In accordance with revised standard AASB 1028 on Employee Benefits, the provision for annual leave is required to be calculated at rates an entity expects to pay when the liabilities are to be settled. The adjustment to reflect the opening balance of the annual leave provision calculated in accordance with revised standard has been applied against opening balance of Accumulated Surplus.

(ii) In the reporting period ending 30 June 2002, the Office determined that \$276 127 of its accumulated surplus was to form the opening balance for contributed capital. This accounting treatment is to comply with Urgent Issues Abstract 38, Contributions by Owners Made to Wholly-Owned Public Sector Entities, Accounting and Financial Reporting Bulletin No.39, Accounting for Contributed Capital and No.40, Establishment of Opening Balances and Formal Designation for Contributed Capital.

13. Auditor's Remuneration

	2002-03	2001-02
	(\$)	(\$)
Audit fees	20 000	19 000

The auditor of the Victorian Auditor-General's Office is appointed by Parliament and paid by the Public Accounts and Estimates Committee in accordance with the *Audit Act* 1994. Mr Graeme Ross was appointed to this position in 2001. A condition of his appointment is that he does not provide other services to the Office, including contract financial statement audits.

Mr Ross is a principal of WHK Day Neilson, a firm associated with the Investor Group Limited. Other principals of WHK Day Neilson and associated firms of the Investor Group Limited provide contract audit services to the Office. Fees paid to firms associated with the Investor Group Limited for these contract audit services totalled \$824 033 (2001-02, \$1 048 500).

14. Commitments

(a) Operating leases

	2002-03	2001-02
	(\$)	(\$)
Not later than 1 year	1 599 866	1 368 395
Later than 1 year but less than 5 years	4 203 462	4 900 386
Later than 5 years	-	912 711
Total	5 803 328	7 181 492

The above operating leases relate primarily to leasing costs associated with the Office's accommodation valued at current rental rates.

(b) Contract audits

	2002-03	2001-02
	(\$)	(\$)
Commitments for the payment of future auditing services under contracts in existence at the reporting date, payable as follows -		
Not later than 1 year	6 017 668	4 528 968
Later than 1 year but less than 5 years	1 363 770	8 498 860
Total	7 381 438	13 027 828

The total amount committed for contract audit services was less compared to the previous year, due to the timing of the rolling tender programme.

15. Executive Officers' Remuneration

(i) The numbers of executive officers, other than accountable officers, whose total remuneration exceeded \$100 000 during the reporting period are shown in the first 2 columns in the table below in their relevant income bands. The base remuneration of executive officers receiving more than \$100 000 remuneration is shown in the third and fourth columns. Base remuneration includes cash salary, superannuation and fringe benefits. Total remuneration incorporates base remuneration plus any bonus entitlements, long service leave and retirements entitlements paid.

Several factors have affected the total remuneration payable to executives over the year. Three employment contracts were terminated and 2 new employment contracts were negotiated. All contracts with executive officers now provide for annual payment of bonuses.

Income band	Total remuneration		Base remuneration	
	2002-03	2001-02	2002-03	2001-02
	No.	No.	No.	No.
\$90 000 to \$99 999	-	-	1	1
\$100 000 to \$109 999	2	3	7	7
\$110 000 to \$119 999	6	4	5	4
\$120 000 to \$129 999	5	4	3	1
\$130 000 to \$139 999	2	1	-	1
\$140 000 to \$149 999	-	2	1	2
\$150 000 to \$159 999	3	2	2	3
\$160 000 to \$169 999	1	2	1	-
\$170 000 to \$179 999	1	1	1	-
\$190 000 to \$199 999	1	-	-	-
Total numbers	21	19	21	19
Total amount	\$2 797 541	\$2 495 559	\$2 572 252	\$2 320 897

16. 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		
Amounts owing from Victorian Government	Receivables from the Public Account are carried at nominal amounts.	Details of the terms and conditions are set out in note 7.
Debtors	Debtors 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 financial performance when earned.	Details of the terms and conditions are set out in note 8. The investment held at balance date totalling \$72 314 (2001-02, \$218 745) earned weighted average interest of 4.3 per cent (2001-02, 4.93 per cent) received semi-annually in November and May.
(b) Financial liabilities		
Creditors and other payables	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 16(i)(a) above.

(iii) Net fair values

The carrying amounts of financial assets and financial liabilities recognised at the balance date, consisting of debtors, investments, creditors and accruals approximate 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.

17. Reconciliation of Results from Ordinary Activities to Net Cash Inflow from Operating Activities

Item	2002-03	2001-02
	(\$)	(\$)
Result from ordinary activities	297 704	916 656
Depreciation and amortisation	794 885	664 370
Net gains/(losses) on disposal of non-current assets	1 333	1 203
Changes in operating assets and liabilities		
Decrease (increase) in receivables	(7 316)	(1 559 303)
Decrease (increase) in prepayments	9 080	96 894
Increase (decrease) in payables	(363 857)	248 843
Increase (decrease) in provisions	119 174	84 268
Net cash inflow from operating activities	851 003	452 931

18. 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. The following disclosures are made relating to the 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 position in relation to the Office at any time during the reporting period are:

Accountable Officer

Mr Wayne Cameron - Auditor-General

Mr Edward Hay (acting, for 23 days during the period 1 July 2002 to 30 June 2003)

(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:

\$210 000 - \$219 999 (2000-01, \$190 000 - \$199 999)

The amount relating to the Acting Accountable Officers is included in "Executive officers' remuneration" (note 15)

(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.

19. Administered Items

	2002-03	2001-02
	(\$)	(\$)
Administered revenues		
Audit fees	14 030 335	13 123 125
Sale of fixed assets	10 052	-
Other	11 084	8 566
Total revenues	14 051 471	13 131 691
Administered expenses		
Payments into the Consolidated Fund	14 051 471	13 129 741
Bad debts	-	1 950
Total expenses	14 051 471	13 131 691
Revenue less expenses	-	-
Administered assets		
Debtors	2 891 524	2 945 219
Work-in-progress	672 906	127 570
Provision for doubtful debts	-	(23 307)
	3 564 430	3 049 482
Administered liabilities		
Amounts owing to the State	3 564 430	3 049 482
	3 564 430	3 049 482

The Victorian Auditor-General's Office administers, but does not control, certain resources on behalf of the State. It is accountable for the transactions involving those administered resources, but does not have the discretion to deploy the resources for achievement of the Office's objectives. For these resources, the Office acts only on behalf of the State. The accrual basis of accounting has been used in accounting for administered resources.

The accounting policies adopted by the Office for administered items are consistent with those applied to items it controls.

Declaration by Accountable and Chief Finance Officers

We certify that the attached financial statements for the Victorian Auditor-General's Office have been prepared in accordance with the Directions of the Minister of Finance under the *Financial Management Act 1994*, applicable Australian Accounting Standards and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the statement of financial performance, statement of financial position, statement of cash flows and notes to and forming part of the financial statements, present fairly the financial transactions during the year ended 30 June 2003 and financial position of the Office as at 30 June 2003.

We are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.



Wayne Cameron
Auditor-General
Victorian Auditor-General's Office

Melbourne
8 September 2003



Lorenz Senn
Chief Finance Officer
Victorian Auditor-General's Office

Melbourne
8 September 2003

Independent Auditor's Report

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report of the Victorian Auditor-General's Office for the financial year ended 30 June 2003, comprising the statement of financial performance, statement of financial position, statement of cash flow, the accompanying notes and the declaration by accountable and chief financial officers (as set out on pages 64 to 87) included on the Victorian Auditor-General's Office's website. The Auditor-General is responsible for the integrity of the Victorian Auditor-General's Office's website. I have not been engaged to report on the integrity of the Victorian Auditor-General's Office's website. The audit report refers only to the statements named below. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this website.

Scope

We have audited the financial report of the Victorian Auditor-General's Office for the year ended 30 June 2003, comprising the statement of financial performance, statement of financial position, statement of cash flows, the accompanying notes and the declaration by accountable and chief financial officers (as set out on pages 64 to 87). The Auditor-General is responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it in accordance with the *Audit Act 1994*.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, 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 Victorian Auditor-General's Office's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report presents fairly the financial position of the Victorian Auditor-General's Office as at 30 June 2003 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards and other mandatory professional reporting requirements and complies with the requirements of the *Financial Management Act 1994*.

Signed at Melbourne this 8th day of September 2003.



WHK Day Neilson
Accountants and advisers



Graeme T. Ross
Principal



Appendixes

Appendix 1

Our action on recommendations of performance auditor	90
---	----

Appendix 2

Office publications	96
---------------------	----

Appendix 3

Audit responsibilities	97
------------------------	----

Appendix 4

Delegation for signing audit opinions	104
---------------------------------------	-----

Appendix 5

Composition of the Senior Management Group	106
--	-----

Appendix 6

Additional staff statistics	107
-----------------------------	-----

Appendix 7

Glossary of terms	108
-------------------	-----

Appendix 1

Our action on recommendations of performance auditor

STRUCTURE AND MANAGEMENT OF THE OFFICE	
Recommendation	Status at date of this Annual Report
Additional appointment to Office's Audit Committee be pursued to provide a further and fresh external perspective to the Auditor-General to assist in the discharge of the position's responsibilities.	Recommendation adopted. Additional external member appointed to Audit Committee in May 2002.
The conduct of a risk assessment as part of the planning activities of the Office would be informative to the Audit Committee and would assist them in directing and focussing the internal audit resources.	Recommendation adopted. Risk management is now a key element of Office's corporate governance. The risk management policy and plan have operated since July 2002.
Declarations regarding Independence and Conflicts of Interest should be obtained at the point of employment and kept up-to-date for all employees of the Office.	Recommendation partly adopted. Requirement for declarations from executive officers have been continued. For other staff, expanded guidance on independence and avoidance of potential or actual conflicts of interest has been incorporated in the Office's Code of Conduct.
To achieve its objectives to be identified as a preferred employer, the Office must develop innovative new recruitment and retention strategies that differentiate it from other employers and demonstrate attractive career progression.	Recommendation adopted. Several initiatives have been implemented to enhance our recruitment strategies such as installation of an interactive web-based recruitment opportunities link on our home page and advertising our graduate recruitment program through the Australia-wide Graduate Opportunities Guide. We have also further expanded our staff learning and development program.
The Office must give consideration to the nature of applications needed in the future to support its administrative systems as well as its audit practice.	Recommendation substantially adopted. Our recent completed actions have been an upgrading of IT infrastructure, replacement of practice management system, redevelopment of website and implementation of Windows 2000. Development of new IT strategic plan is in course.
The current practice of purchasing hardware outright should be reviewed to determine whether the more common practice of leasing IT assets might provide a more cost-effective solution to maintaining a current IT environment.	Recommendation noted. Cost-effectiveness of funding for our IT capital needs is determined by the Government in the formulation of its budgetary strategies.
There is currently no designated backup facility available in the event of a disaster at the William Street site. An appropriate backup facility should be identified.	Recommendation adopted. A disaster recovery site facility was established during our IT infrastructure project.

STRUCTURE AND MANAGEMENT OF THE OFFICE – *continued*

Recommendation	Status at date of this Annual Report
A formal security review of access controls (including some form of attack and penetration exercise with respect to remote access controls) should be considered to ensure that the documented controls are comprehensive and that security policies are being kept up-to-date with best practice.	Recommendation adopted. External testing of our access controls, as part of a government-wide assessment of network security, conducted in June 2003.
A compliance statement acknowledging acceptance of all IT policies and procedures in relation to internet use should be completed by employees on an annual basis.	Recommendation adopted. Compliance statement now in place.
The usefulness of financial statements submitted to the Board (now Senior Management Group) could be enhanced by the inclusion of commentary to also explain the reasons for major variances arising.	Recommendation adopted. Our periodic management report considered by the Senior Management Group now includes specific explanation for any major variations.
An alternative to the introduction of a system of billing dates and responsibilities within each month would be to schedule billing dates as part of the audit engagement planning process. This would facilitate administrative assistants raising billings at prearranged dates and remove some of the administrative burden from the audit directors.	Recommendation adopted. We introduced a new billing policy for fees in August 2002.
<p>Serious consideration is being given to replacing the current Audit Management Information System (AMIS). This initiative is supported and, in doing so, consideration could also be given to:</p> <ul style="list-style-type: none"> ■ reporting actual time spent by all staff groups on a consistent basis against the resource plan; ■ enhancing productivity management by developing productivity and variance management goals as output performance indicators for all staff; and ■ requiring groups such as Accounting and Audit Policy and Sector Liaison to charge their time to specific audit engagements. 	Recommendation adopted. These matters have been addressed in our new MARS system which replaced AMIS on 1 July 2003.
More attention should be given to the establishment and use of utilisation percentages as performance indicators.	Recommendation adopted. Productivity reports incorporating utilisation percentages are now submitted to meetings of the Senior Management Group.
Activities relating to the review of the Estimated Financial Statements is not re-charged by the Office. Consideration should be given (through legislative change) to arranging for these costs to be borne by the Department of Treasury and Finance.	Recommendation now in legislation. Review of Estimated Financial Statements became a chargeable activity when Parliament amended audit legislation in June 2003.

CORPORATE AND ANNUAL PLANNING PROCESSES

Recommendation	Status at date of this Annual Report
The sector knowledge now being captured and managed through planning and liaison activities provides a competitive advantage that should be pro-actively leveraged for the benefit of the Office and its stakeholders.	Recommendation in course. As part of the development of our knowledge management, we are considering the opportunities to enhance use of sector knowledge.
In conducting the environmental scan, consideration should also be given to the internal environment of the Office by including a formal step in the planning process to undertake a risk assessment at both corporate and business unit levels.	Recommendation adopted. Business-wide assessment of risks is now undertaken under the Office's risk management plan.
Analysis of the output targets and performance measures published in the Office's Annual Plans suggest that they could be made more effective by further analysis of the objectives to which they are being related.	Recommendation in course. We reviewed performance measures and targets as part of the development of our <i>2003-04 Annual Plan</i> .
Further alignment and integration of the planning strategies into the management practices of the Office was required. This could be achieved through the enhancement of existing key performance indicators for all executives and managers within the Office as part of the performance appraisal system.	Recommendation adopted. A number of actions have been taken under our periodic reviews of the performance management system to better align the system with our planning strategies and enhance its appraisal elements.

PERFORMANCE AUDITING

Recommendation	Status at date of this Annual Report
The usefulness of information published about the Office's planning process, including that provided to the Public Accounts and Estimates Committee, would be significantly enhanced if more transparency and explanation was provided about how and why particular criteria were applied in the identification of topics and how particular topics came to be prioritised.	Recommendation adopted. Relevant information presented in our published Annual Plan has been expanded and includes the basis of our selection of identified potential future performance audits.
The Office might challenge whether all the paper collected during the course of a performance audit is necessary to support the report and whether it all needs to be permanently retained.	Recommendation noted. Our evidential information is increasingly in electronic form and will, in time, become the main repository of data relating to performance audits. Disposal action is governed by schedules developed with the Public Records Office of Victoria and by the requirements of the Victorian Electronic Records Strategy relating to the protection of electronic records.
More emphasis needs to be given to education of users of the Office's products and services through briefings and presentations provided by the Office, and also through explanatory material included in its plans, reports and other external publications to specifically address these issues.	Recommendation adopted. Post-tabling briefings on audit findings are now provided to Members of Parliament. An Office brochure describing the process of performance audits has been available for some time and an equivalent brochure for financial statement audits was prepared earlier this year.

PERFORMANCE AUDITING – *continued*

Recommendation	Status at date of this Annual Report
<p>The Office should explore other avenues for communicating the findings of performance audits. These should include general and/or specific briefings for Members of Parliament, the Public Accounts and Estimates Committee, auditees and other stakeholders involved with, or interested in, the subject matter of the reports.</p>	<p>Recommendation noted. As mentioned in the preceding item, we have introduced briefings for Members of Parliament shortly after the tabling of each report. From time-to-time, we also make presentations on report findings to external parties such as industry associations. However, we must always be cognisant of our primary role of informing Parliament.</p>
<p>More timely provision of information to Parliament as well as more effective and efficient use of audit resources would result from the ability of the Office to table audit reports during periods when Parliament is not in session.</p>	<p>Recommendation now in legislation. Parliament amended audit legislation in June 2003 to allow the Auditor-General to table reports when Parliament is in recess.</p>

FINANCIAL STATEMENT AUDITING

Recommendation	Status at date of this Annual Report
<p>While a risk-based approach is followed, enhancements to audit documentation could be made to more clearly link conclusions on risks with decisions on the extent of control testing, analytical review and detailed substantive testing. As part of these enhancements, the potential for placing greater reliance, in certain areas, on control testing and analytical review in preference to substantive testing should be considered.</p>	<p>Recommendation adopted. Recent upgrades to our financial statement audit methodology, which we will use for the June 2003 audit round, addressed these issues.</p>
<p>The Office demonstrates strong documentation practices, which could be further enhanced with more detailed documentation of audit procedures conducted for:</p> <ul style="list-style-type: none"> ■ consideration of the risk of material fraud; ■ examination of non-standard journal entries and transactions; ■ examination of subsequent events; ■ consideration of going concern/financial viability issues; and ■ consideration of the adequacy of accounting disclosures, for example by use of compliance checklists. 	<p>Recommendation adopted. Guidance and audit programs relating to these issues were incorporated in our audit methodology before the June 2002 audit round.</p>
<p>The use of an audit findings summary document would facilitate the crystallisation of issues and assist with quality assurance.</p>	<p>Recommendation adopted. A concluding memorandum was introduced for all June 2002 audits.</p>

FINANCIAL STATEMENT AUDITING – *continued*

Recommendation	Status at date of this Annual Report
<p>The Financial Audit Group directors, together with relevant sector leaders, should plan to attend the audit committee meetings of their major audit clients at both the beginning and end of the audit process.</p>	<p>Recommendation adopted. All key audit committee meetings in client agencies are attended by appropriate representatives of the Office. A new policy clarifies responsibility on this matter.</p>
<p>Audit service provider briefings need to be completed earlier, and be conducted more regularly to allow time for the issues canvassed to be raised on a timely basis at audit committee meetings of public sector entities.</p>	<p>Recommendation adopted. Briefings to audit service providers are now held in April in advance of the June audit round and in November for the December round.</p>
<p>Investment in the development of a brief, but consistent, methodology to be applied to the conduct of compliance and probity audits would provide variety to work flow of staff in the Financial Audit Group and assist in the education of contractors.</p>	<p>Recommendation in course. Instructions to audit service providers require them to consider compliance and probity issues when planning the annual financial statement audit. We started a new series of compliance and control audit reports during 2002-03.</p>
<p>Some assessment should be made as to whether the IT risks at auditees dependant upon platforms other than Unix, are being adequately addressed.</p>	<p>Recommendation adopted. Procedures are now in place to guide assessment of IT risks at clients who use platforms other than Unix.</p>
<p>An expansion in the skill sets available to the Computer Risk Management Group will be required if the Victorian Auditor-General's Office is to adequately address the emerging risks presenting in client environments.</p>	<p>Recommendation adopted. The skill sets of the Computer Risk Management Group have been expanded through the recruitment of additional specialist staff.</p>
<p>To further increase the use of audit software, the Computer Risk Management team should expand its advisory role to financial auditors by suggesting additional applications for ACL on particular audits and incorporating guidance within Office manuals on the benefits and uses of ACL.</p>	<p>Recommendation adopted. The Computer Risk Management Group now forms part of the audit team for all high risk audits and for other audits as considered necessary. Guidelines on the benefits and uses of ACL have also been issued.</p>
<p>There are some aspects associated with contract audit activity which should be addressed:</p> <ul style="list-style-type: none"> ■ contract service providers should be advised of industry-based issues and developments on a more frequent basis (through, for example, the website or email); ■ more timely briefings; ■ increased education of providers about probity and public interest issues; ■ the Office-based review process can delay the finalisation and audit reporting and the issue of financial statements; and ■ the concern for detail and absolute conformity with reporting standards can result in unbudgeted contractor time being required to address matters not viewed as significant to the audit opinion. 	<p>Recommendation adopted. As mentioned in earlier matters, expanded and more timely guidance is now issued to audit service providers. Structural changes introduced in the Office from 1 January 2003 have streamlined our review processes for contracted audits to provide a more timely and responsive service to audit clients. For high risk audits, senior staff have regular interaction with audit service providers and, for low risk audits, there is a greater emphasis placed on audit service providers assuming more direct responsibility, consistent with their contractual obligations.</p>
<p>Given the number of small, or dormant or low risk entities audited by the Office, an increase in the \$1 million net equity threshold seems warranted.</p>	<p>Recommendation now in legislation. Parliament amended our audit legislation in June 2003 to raise the delegation threshold (for signing of audit opinions) to \$5 million expenditure.</p>

FINANCIAL STATEMENT AUDITING – *continued*

Recommendation	Status at date of this Annual Report
The key issue in risk management for the Office in relation to delegated authority is the assessment of the competence of the contractor to whom the authority has been delegated. This assessment should be evidenced as part of the delegation process or established through the tender process relating to such audits.	Recommendation noted. All contractors are engaged following a public tender process that involves an assessment of the competence of the contractor. The Office's quality assurance processes review the work of all contractors on a regular basis.
Audit effort on the Government's Annual Financial Report might be reduced through the application of less conservative materiality thresholds.	Recommendation noted. Our materiality thresholds are determined annually consistent with professional auditing standards and recognise that, based on experience, the audit of certain entities may not be finalised at the time of signing the audit opinion of the Annual Financial Report.
A more rigorous and transparent application of the criteria for selecting projects (special reviews) is required. The reason for selecting an issue for examination and the criteria applied in making the selection should also be published in the report.	Recommendation substantially adopted. The selection criteria outlined in the Office's Annual Plan presented to Parliament are utilised for the selection of all projects, including special reviews. The introductory narrative for each reported special review outlines the significance of the subject matter in terms of materiality or public interest and the objective and scope of the review.

MANAGING RELATIONSHIPS WITH AUDITEES AND OTHER STAKEHOLDERS

Recommendation	Status at date of this Annual Report
I would encourage the increased use of informal meetings involving executives of the Office with auditees and other stakeholders. Such meetings produce more effective communications and reduces the reliance of the Office on survey techniques which have previously been directed significantly at measuring satisfaction, rather than the relevance or effectiveness of audit outcomes.	Recommendation adopted. Our managing stakeholder feedback policy provides for periodic face-to-face discussions with Members of Parliament, auditees and other stakeholders to supplement our regular surveys.
Consider the use of focus group meetings involving groups of stakeholders and report users (including Members of Parliament) to explore reactions to the strategies being considered; and ensure the use of open questions in surveys in preference to questions that prompt satisfaction ratings without qualifying comment.	Recommendation adopted. External consultative groups in 3 key sectors were established during 2002-03 to augment our strategic audit planning.
Industry/sector experience and knowledge should be used by the Office to facilitate communication with its clients and stakeholders, including Members of Parliament, parliamentary committees, auditee executives and members of their audit committees.	Recommendation adopted. Industry/sector experience and knowledge residing within the Office are increasingly used to facilitate communication with clients and other stakeholders.
There is a need to clarify and develop protocols for more effective communication, exchange of views and resource sharing between the Auditor-General, his executive team and the Public Accounts and Estimates Committee and its secretariat.	Recommendation adopted. The Committee and the Auditor-General formally adopted a statement of liaison protocols in July 2003.

Appendix 2

Office publications

How to obtain our publications

Copies of all reports of the Auditor-General, and the Annual Report, are available for purchase through the Information Victoria bookshop, or through the Office, at the addresses listed below.

Information on all Auditor-General's reports is also available on our website at www.audit.vic.gov.au. The website also features a "search" facility which enables users to quickly identify issues of interest on the website.

Requests for copies of reports may also be made by email at the Office's email address of comments@audit.vic.gov.au

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

- Information Victoria bookshop
356 Collins Street
Melbourne Vic. 3000
Phone: 1300 366 356 (local call cost)
Fax: (03) 9603 9920
Website: www.information.vic.gov.au
- Victorian Auditor-General's Office
Level 34, 140 William Street
Melbourne Vic. 3000
Phone: (03) 8601 7000
Fax: (03) 8601 7010
Email: comments@audit.vic.gov.au
Website: www.audit.vic.gov.au

Reports issued during 2002-03

September 2002

- Annual Plan, 2002-03

October 2002

- Report of the Auditor-General on the Finances of the State of Victoria, 2001-02
- Mental health services for people in crisis
- Management of food safety in Victoria
- Community dental services
- Annual Report of the Victorian Auditor-General's Office, 2001-02

February 2003

- Report on Public Sector Agencies – Results of special reviews and 30 June 2002 financial statement audits

March 2003

- Managing risk across the public sector
- Drug education in government schools
- Managing medical equipment in public hospitals
- Payroll management *and* Administration of the goods and services tax

April 2003

- Performance management and reporting: Progress report and a case study
- Parliamentary control and management of appropriations

May 2003

- Fire prevention and preparedness
- Report on Public Sector Agencies – Results of special reviews

June 2003

- Electronic procurement in the Victorian government
- Report on Public Sector Agencies – Results of special reviews and financial statement audits for agencies with balance dates other than 30 June 2002
- Report of the Auditor-General on RMIT's finances

Appendix 3

Audit responsibilities

Parliamentary bodies

Parliament of Victoria

State accounts

Annual Financial Report

Estimated Financial Statements

Departments and other independent budget sector agencies

Education and Training, Department of
 Emergency Communications Victoria
 Environment Protection Authority
 Equal Opportunity Commission
 Essential Services Commission
 Human Services, Department of
 Infrastructure, Department of
 Innovation, Industry and Regional Development,
 Department of
 Justice, Department of
 Office of Public Employment
 Office of the Public Advocate
 Ombudsman, Office of the
 Police, Office of the Chief Commissioner
 Premier and Cabinet, Department of
 Primary Industries, Department of
 Public Prosecutions, Office of
 Senior Master of the Supreme Court
 Sustainability and Environment, Department of
 Treasury and Finance, Department of
 Victorian Communities, Department for
 Victorian Electoral Commission
 Victorian Privacy Commissioner, Office of the

Public bodies

Accident Compensation and Conciliation Service
 Adult Community and Further Education Board
 Adult Multicultural Education Services
 Alpine Resorts Co-ordinating Council
 Architects Registration Board of Victoria
 Australian Centre for the Moving Image

Australian Food Industry Science Centre
 Australian Grand Prix Corporation
 Building Commission
 Centre for Adult Education
 Chinese Medicine Registration Board of Victoria
 Chiropractors Registration Board of Victoria
 Country Fire Authority
 Dairy Food Safety Victoria
 Dental Practice Board of Victoria
 Docklands Authority
 Domestic Building (HIH) Indemnity Fund
 EcoRecycle Victoria
 Emerald Tourist Railway Board
 Falls Creek Alpine Resort Management Board
 Film Victoria
 Gambling Research Panel
 Government Superannuation Office
 Greater Victoria Wine Grape Industry Development
 Committee
 Greyhound Racing Victoria
 Harness Racing Victoria
 Hastings Port (Holding) Corporation
 Health Purchasing Victoria
 Heritage Council
 Industry Supervision Fund
 Infertility Treatment Authority
 Lake Mountain Alpine Resort Management Board
 Legal Practice Board
 Legal Practitioners Liability Committee
 Library Board of Victoria
 Medical Practitioners Board of Victoria
 Melbourne Market Authority
 Melbourne Port Corporation
 Melbourne Water Corporation
 Mental Health Review Board of Victoria
 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 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 Commission
 Podiatrists Registration Board of Victoria
 Prince Henry's Institute for Medical Research
 Psychologists Registration Board of Victoria
 Psychosurgery Review Board
 Public Transport Corporation
 Residential Tenancies Bond Authority
 Roads Corporation
 Royal Botanic Gardens Board
 Rural Finance Corporation of Victoria
 Shrine of Remembrance Trustees
 Spencer Street Station Authority
 State Electricity Commission Victoria
 State Library of Victoria Foundation
 Surveyors Board of Victoria
 Sustainable Energy Authority Victoria
 The Cancer Council of Victoria
 Tourism Victoria
 Transport Accident Commission
 Treasury Corporation of Victoria
 Urban and Regional Land Corporation
 Veterinary Practitioners Registration Board of Victoria
 Victoria Legal Aid
 Victorian Casino and Gaming Authority
 Victorian Channels Authority
 Victorian Curriculum and Assessment Authority
 Victorian Funds Management Corporation
 Victorian Health Promotion Foundation
 Victorian Institute of Forensic Medicine
 Victorian Institute of Forensic Mental Health
 Victorian Law Reform Commission

Victorian Learning and Employment Skills Commission
 Victorian Managed Insurance Authority
 Victorian Meat Authority
 Victorian Plantations Corporation
 Victorian Qualifications Authority
 Victorian Rail Track
 Victorian Relief Committee
 Victorian Strawberry Industry Development Committee
 Victorian Tertiary Admissions Centre
 Victorian Trauma Foundation
 Victorian Trauma Foundation Pty Ltd
 Victorian WorkCover Authority
 VITS Languagelink
 Zoological Parks and Gardens Board

Universities and other educational institutions

Bendigo Regional Institute of TAFE
 Box Hill Institute of TAFE
 Central Gippsland Institute of TAFE
 Chisholm Institute of TAFE
 Deakin University
 East Gippsland Institute of TAFE
 Gordon Institute of TAFE
 Goulburn Ovens Institute of TAFE
 Holmesglen Institute of TAFE
 Kangan Batman Institute of TAFE
 La Trobe University
 Monash University
 Northern Melbourne 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
 Victorian Institute of Teaching
 William Angliss Institute of TAFE
 Wodonga Institute of TAFE

Public hospitals and ambulance services

Alexandra and District Ambulance Service
 Alexandra District Hospital

Alpine Health	Melbourne Health
Ambulance Service Victoria - Metropolitan Region	Mercy Public Hospitals Incorporated
Austin Health	Mildura Base Hospital
Bairnsdale Regional Health Service	Moyne Health Services
Ballarat Health Services	Mt Alexander Hospital
Barwon Health	Nathalia District Hospital
Bayside Health	Northeast Health Wangaratta
Beaufort and Skipton Health Service	Northern Health
Beechworth Health Service	Numurkah District Health Service
Benalla and District Memorial Hospital	O'Connell Family Centre (Grey Sisters) Inc.
Bendigo Health Care Group	Omeo District Hospital
Bethlehem Health Care Melbourne Inc.	Orbost Regional Health
Boort District Hospital	Otway Health and Community Services
Caritas Christi Hospice Ltd	Peninsula Health
Casterton Memorial Hospital	Peter MacCallum Cancer Institute
Central Gippsland Health Service	Portland and District Hospital
Cobram District Hospital	Queen Elizabeth Centre
Cohuna District Hospital	Robinvale District Health Services
Colac Area Health	Rochester and Elmore District Health Service
Coleraine District Health Services	Royal Victorian Eye and Ear Hospital
Dental Health Services Victoria	Rural Ambulance Victoria
Djerriwarrh Health Services	Rural Northwest Health
Dunmunkle Health Services	Seymour District Memorial Hospital
East Grampians Health Service	South Gippsland Hospital
East Wimmera Health Services	South West Healthcare
Eastern Health	Southern Health
Echuca Regional Health	St George's Health Service Ltd
Edenhope and District Memorial Hospital	St Vincent's Hospital (Melbourne) Ltd
Gippsland Southern Health Service	Stawell Regional Health
Goulburn Valley Health	Swan Hill District Hospital
Hepburn Health Service	Tallangatta Health Service
Hesse Rural Health Service	Terang and Mortlake Health Service
Heywood Rural Health	Timboon and District Healthcare Service
Inglewood and Districts Health Service	Tweddle Child and Family Health Service
Kerang and District Hospital	Upper Murray Health and Community Services
Kilmore and District Hospital	West Gippsland Healthcare Group
Kooweerup Regional Health Service	West Wimmera Health Service
Kyabram and District Memorial Community Hospital	Western District Health Service
Kyneton District Health Service	Western Health
Latrobe Regional Hospital	Wimmera Health Care Group
Lorne Community Hospital	Wodonga Regional Health Service
Maldon Hospital	Women's and Children's Health Care Service
Mallee Track Health and Community Service	Wonthaggi and District Hospital
Manangatang and District Hospital	Yarram and District Health Service
Mansfield District Hospital	Yarrowonga District Health Service
Maryborough District Health Service	Yea and District Memorial Hospital
Mclvor Health and Community Services	

Superannuation funds

Emergency Services Superannuation Scheme
Parliamentary Contributory Superannuation Fund
State Superannuation Fund

Companies, trusts and joint ventures

ACN 056 641 420 Pty Ltd
Agriculture Victoria Services Pty Ltd
Angliss Consulting Pty Ltd
Angliss Multimedia Pty Ltd
Angliss Solutions Pty Ltd
Australasian Human Resources Institute Pty Ltd
Australian Alpine Institute Pty Ltd
Australian International Health Institute Limited
Australian Music Exams Board (Vic) Ltd
Australian National Academy of Music Ltd
Box Hill Enterprises Ltd
Brain Sciences Institute Trust
Callista Software Services Pty Ltd
Central Highlands Region Timber Pty Ltd
Centre for Innovation and Enterprise Pty Ltd
City West Water Ltd
City Wide Service Solutions Pty Ltd
Citytech Pty Ltd
Deakin Networks Pty Ltd
Deakinprime USA
Dealdrum Pty Ltd
Dentire Pty Ltd
Driver Education Centre of Australia Ltd
Federation Square Management Pty Ltd
Food Science Australia
Footy Consortium Pty Ltd
Gas Release Co Pty Ltd
Gascor (T No. 1) Pty Ltd
Gascor (TH) Pty Ltd
Gascor EPL Pty Ltd
Gascor Holdings No.1 Pty Ltd
Gascor Holdings No.2 Pty Ltd
Gascor Holdings No.3 Pty Ltd
Gascor IEPL Pty Ltd
Gascor KEPL Pty Ltd
Gascor MAPL Pty Ltd
Gascor MGPL Pty Ltd
Gascor Pty Ltd
Gascor SAPL Pty Ltd

Gascor SNPL Pty Ltd
Gascor WAPL Pty Ltd
Gascor WPL Pty Ltd
Geelong Performing Arts Centre Trust
Hawthorn Edinburgh Ltd
Hawthorn English Language Centres (Canada) Ltd
Holmesglen International Training Services Pty Ltd
Ingenko Pty Ltd
Inquirion Pty Ltd
Inskill Limited
Institute for Innovation and Enterprise Ltd
International Fibre Centre Limited
International Training Australia Pty Ltd
John Batman Training and Consulting Pty Ltd
Kerbridge Pty Ltd
Kitaya Holdings Pty Ltd
La Trobe International Pty Ltd
La Trobe Marketing Pty Ltd
La Trobe University Housing Limited
Land Aggregation Program Trust Fund
Land and Food Services Limited
Meanjin Company Limited
Medical Centre Development Pty Ltd
Melbourne 2002 World Masters Games Limited
Melbourne 2006 Commonwealth Games Pty Ltd
Melbourne and Olympic Parks Trust
Melbourne Convention and Exhibition Trust
Melbourne Enterprises International (Taiwan) Limited
Melbourne Enterprises International Limited
Melbourne Information Management Pty Ltd
Melbourne University Private Limited
Melbourne University Private (NZ) Ltd
Melbourne Wholesale Fish Market Pty Ltd
Meltech Services Ltd
Monash Commercial Pty Ltd
Monash Digital Media Pty Ltd
Monash ED Pty Ltd
Monash International Pty Ltd
Monash Investment Holdings Pty Ltd
Monash Investment Trust
Monash IVF Pathology Services Trust
Monash IVF Pty Ltd
Monash Learningfast Pty Ltd
Monash Property Management Pty Ltd
Monash Reproductive Health Enterprises Pty Ltd
Monash Reproductive Pathology and Genetics Pty Ltd

Monash Southern Africa Pty Ltd	SouthWal Pty Ltd
Monash Ultrasound Pty Ltd	Spatial Vision Innovations Pty Ltd
Monash Ultrasound Trust	Special Power Payments Trust Fund
Monash Unicomm Pty Ltd	State Sport Centres Trust
Monash University Foundation	State Trustees Common Fund No. 1
Monash University Foundation Trust	State Trustees Common Fund No. 2
Monash University South Africa	State Trustees Common Fund No. 3
MonServe Pty Ltd	State Trustees Common Fund No. 4
Montech Pty Ltd	State Trustees Common Fund No. 5
Montores Pty Ltd	State Trustees Common Fund No. 6
Monyx Pty Ltd	State Trustees Common Fund No. 10
Moortec Limited	State Trustees Limited
MUP Services Pty Ltd	STL Financial Services Ltd
National Institute of Circus Arts Limited	Streetsahead Cleaning Service
Neurometric Systems Pty Ltd	Sustainable Melbourne Trust Fund
Overseas Projects Corporation of Victorian Ltd	Swinburne Graduate School of Integrative Medicine Pty Ltd
Paragon Trust No. 1	Swinburne Intellectual Property Trust
Paragon Trust No. 2	Swinburne Limited
Phytogene Pty Ltd	Swinburne Ventures Ltd
Prahran Market Pty Ltd	TAC Law Pty Ltd
Premium Cash Fund	Tattersall Gaming Pty Ltd
Premium Diversified Fund	Tattersall Sweeps Pty Ltd
Premium Equity Fund	Tattersall's Club Keno Pty Ltd
Premium Fixed Interest Fund	Telematics Course Development Fund Trust
Premium International Fund	The School of Forestry Creswick Ltd
Premium Mortgage Fund	The School of Mines and Industries Ballarat Ltd
Premium Property Fund	Tricontinental Corporation Ltd
Prostate Diagnostics Pty Ltd	Tricontinental Holdings Ltd
Queen Victoria Market Pty Ltd	Trust for Nature (Victoria)
Queen Victoria Women's Centre Trust	Twin Waters Resort Pty Ltd
Regent Management Company Pty Ltd	Unilink Ltd
Rinal Pty Ltd	VFM Australian Equities Trust
RMIT (Malaysia) Sdn Bhd	VFM Australian Fixed Interest Trust
RMIT Foundation	VFM Global Bond Trust
RMIT Innovation Ltd	VFM Hedged International Equities Trust
RMIT International Pty Ltd	VFM Indexed Bonds Trust
RMIT International University Vietnam	VFM International Equities Trust
RMIT Resources Limited	VFM Short Term Money Market Trust
RMIT Training Pty Ltd	Vicfleet Pty Ltd
RMIT Union	Victoria University Enterprises Pty Ltd
RMIT Vietnam Holdings Pty Ltd	Victoria University Foundation Trust
Rondole Pty Ltd	Victoria University International Pty Ltd
Securities Finance Corporation Ltd	Victoria University of Technology (Singapore) Pte Ltd
Sir John Monash Business Centre Pty Ltd	Victoria University of Technology Foundation Ltd
South East Water Ltd	Victorian Arts Centre Trust
South Eastern Medical Complex Ltd	Victorian Energy Networks Corporation

Victorian Institute of Sport Limited
 Victorian Institute of Sport Trust
 Victorian Medical Consortium Pty Ltd
 Yarra Bend Park Trust
 Yarra Valley Water Ltd

Water authorities

Barwon Region Water Authority
 Casey's Weir and Major Creek Rural 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 and 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
 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 Victorian 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
 Benalla Rural 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
 East Gippsland Shire Council
 Frankston City Council
 Gannawarra 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 City Council
 Loddon Shire Council
 Macedon Ranges Shire Council
 Manningham City Council
 Mansfield Shire Council
 Maribyrnong City Council
 Maroondah City Council
 Melbourne City Council
 Melton Shire Council
 Mildura Rural City Council
 Mitchell Shire Council
 Moira 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 library corporations

Casey-Cardinia Regional Library Corporation
 Central Highlands Regional Library Corporation
 Corangamite Regional Library Corporation
 Eastern Regional Library Corporation
 Geelong Regional Library Corporation
 Glenelg Regional Library Corporation
 Goulburn Valley Regional Library Corporation
 High Country Library Corporation
 North Central Goldfields Regional Library Corporation
 West Gippsland Regional Library Corporation
 Whitehorse-Manningham Regional Library Corporation
 Wimmera Regional Library Corporation
 Yarra Plenty Regional Library Corporation
 Yarra/Melb Regional Library Corporation

Public cemeteries

Andersons 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
 Wyndham Cemeteries Trust

Appendix 4

Delegation for signing audit opinions

**DELEGATION PROVIDED TO EXTERNAL AUDIT SERVICE PROVIDERS
FOR SIGNING OF AUDIT OPINIONS, 2002-03
(net equity less than \$1 million)**

AGENCY	AUDIT SERVICE PROVIDER	FIRM
Alexandra and District Ambulance Service	B. Potgieter	Day Neilson
Architects Registration Board of Victoria	M. Crossley	Day Neilson
Barwon Regional Waste Management Group	C. Kol	Coffey Hunt
Calder Regional Waste Management Group	R. Fraser	Day Neilson
Central Murray Regional Waste Management Group	H. McKenzie-McHarg	Johnsons MME
Chinese Medicine Registration Board of Victoria	S. O'Kane	Wernli O'Kane
Chiropractors Registration Board of Victoria	S. O'Kane	Wernli O'Kane
Desert Fringe Regional Waste Management Group	M. Gunn	Coffey Hunt
Gippsland Regional Waste Management Group	K. Wood	RSM Bird Cameron
Goulburn Valley Regional Waste Management Group	M. Crossley	Day Neilson
Grampians Regional Waste Management Group	M. Gunn	Coffey Hunt
Highlands Regional Waste Management Group	R. Fraser	Day Neilson
Ingenko Pty Ltd	M. Strickland	Risk Management and Assurance Services Pty Ltd
Melbourne 2002 World Masters Games Limited	B. Potgieter	Day Neilson
Mildura Regional Waste Management Group	S. Wight	Davidsons
Monash Foundation Pty Ltd	M. Strickland	Risk Management and Assurance Services Pty Ltd
Monash IVF Pathology Services Trust	M. Strickland	Risk Management and Assurance Services Pty Ltd
Monash Language Centre	M. Strickland	Risk Management and Assurance Services Pty Ltd
Monash Property Management	M. Strickland	Risk Management and Assurance Services Pty Ltd
Monash Reproductive Pathology and Genetics Pty Ltd	M. Strickland	Risk Management and Assurance Services Pty Ltd
Monash Reproductive Health Enterprises Pty Ltd	M. Strickland	Risk Management and Assurance Services Pty Ltd
Monash Ultrasound Pty Ltd	M. Strickland	Risk Management and Assurance Services Pty Ltd
Monash Ultrasound Trust	M. Strickland	Risk Management and Assurance Services Pty Ltd
Monash Unicom Pty Ltd	M. Strickland	Risk Management and Assurance Services Pty Ltd
Montech Medical Developments	M. Strickland	Risk Management and Assurance Services Pty Ltd
Mornington Peninsula Regional Waste Management Group	M. Crossley	Day Neilson

**DELEGATION PROVIDED TO EXTERNAL AUDIT SERVICE PROVIDERS
FOR SIGNING OF AUDIT OPINIONS, 2002-03 – continued
(net equity less than \$1 million)**

AGENCY	AUDIT SERVICE PROVIDER	FIRM
Murray Valley Wine Grape Industry Development Committee	S. Wight	Davidsons
North East Victorian Regional Waste Management Group	R. Lindner	Haines Norton
Northern Regional Waste Management Group	R. Lindner	Haines Norton
Northern Victorian Fresh Tomato Industry Development Committee	S. Naylor	Stockford Accounting Services Pty Ltd
Osteopaths Registration Board of Victoria	S. O'Kane	Wernli O'Kane
Podiatrists Registration Board of Victoria	S. O'Kane	Wernli O'Kane
Prostate Diagnostics	M. Strickland	Risk Management and Assurance Services Pty Ltd
Psychologists Registration Board of Victoria	S. O'Kane	Wernli O'Kane
Sir John Monash	M. Strickland	Risk Management and Assurance Services Pty Ltd
South Western Regional Waste Management Group	M. Gunn	Coffey Hunt
Victorian Institute of Sport Limited	I. Blencowe	Haines Norton
Victorian Institute of Sport Trust	I. Blencowe	Haines Norton
Victorian Meat Authority	D. Nairn	MGI Meyrick Webster
Victorian Strawberry Industry Development Committee	S. Naylor	Stockford Accounting Services Pty Ltd
Western Regional Waste Management Group	M. Crossley	Day Neilson

Appendix 5

Composition of the Senior Management Group

Wayne Cameron

(BCOM, FCA [NZ], FCPA, CA [AUST.], FIPA)

Auditor-General of Victoria

Wayne Cameron began his tenure as Auditor-General of Victoria in September 1999. His appointment is for 7 years. He is responsible to the Victorian Parliament for the exercise of the audit powers and functions under the *Constitution Act 1975* and the *Audit Act 1994*. He is also responsible for the overall management of the Office.

Edward M. Hay

(BA [ACCOUNTING], CA)

Deputy Auditor-General

Edward Hay began as Deputy Auditor-General in November 2001. He reports directly to the Auditor-General on the management and performance of the Office. He oversees the co-ordination of audit operational and internal support, and helps the Office foster a positive and constructive professional relationship with audited agencies and the auditing profession.

Russell A. Walker

(GRAD DIP [GOVT. ACCOUNTING], FCPA [AUDITING])

Assistant Auditor-General, Strategic Planning and Sector Liaison

Russell Walker began as Assistant Auditor-General in 1987. He took on responsibility for the Strategic Planning and Sector Liaison Group in April 2000. In part, this Group identifies medium to long-term issues across the various elements of the public sector, particularly accountability and performance matters around government agencies and programs. The Group also helps supervise, and advises on, the planning and running of high-risk financial audits, performance audits and special reviews.

Joe Manders

(GRAD DIP [ACCOUNTING], FCPA [AUDITING])

Assistant Auditor-General, Corporate Planning and Parliamentary Liaison

Joe Manders has been an Assistant Auditor-General since 1989. He assumed responsibility for Corporate Planning and Parliamentary Liaison in April 2000. He is responsible for co-ordinating the Office's corporate and annual planning processes, and for advising the Auditor-General on parliamentary matters and developments in audit legislation.

David Reid

(BCOM, FCPA)

General Manager, Financial Audit Group

David Reid took the position of General Manager, Financial Audit Group in May 2000. His responsibilities cover the management of all of the Office's financial statement audits, including overseeing audits contracted to external audit service providers.

Pamela Williams

(BEC, [HONS])

General Manager, Performance Audit Group

Pamela Williams began as General Manager, Performance Audit Group in 2000. She is responsible for managing the Office's annual performance audit program, including preparing each year a series of major performance audit reports which the Auditor-General presents to Parliament.

Andrew Prestage

(GRAD DIP BUS, MBUS)

Manager, Organisational Development and Human Resources

Andrew Prestage started as Manager, Organisational Development and Human Resources in 2001. He is responsible for managing the Human Resources Unit. The Unit makes sure that the Office maximises its potential in human resources, and that it reflects best practice in managing its people.

Lorensz Senn

(MBA, CPA)

Manager, Finance and Administration

Lorensz Senn became Manager, Finance and Administration in 2000. He is responsible for all financial management within the Office, including preparing internal and external financial reports, and general administration.

Justine Hyde

(B APP SCI [INFORMATION])

Chief Information Officer

Justine Hyde took office as Chief Information Officer in 2002. She is responsible for the Office's information management and corporate communications, and developing and implementing our knowledge management strategy.

Appendix 6

Additional staff statistics

NUMBER OF EXECUTIVES AND EXECUTIVE VACANCIES, (at 30 June 2003)

	ONGOING EXECUTIVE OFFICERS	SPECIAL PROJECTS EXECUTIVE OFFICERS	TOTAL
Executives employed	23	-	23
Vacancies being filled	1	-	1

RECONCILIATION WITH EXECUTIVE NUMBERS (at 30 June 2003)

	2000-01	2001-02	2002-03
Executives with remuneration over \$100 000	16	19	20
Add			
Recruiting for vacant positions	5	1	1
Executives employed with total remuneration below \$100 000	3	6	3
Accountable Officers (a)	-	-	-
Total Executive numbers at 30 June	24	26	24

(a) This position is held by the Auditor-General who is an Officer of Parliament and not an executive officer.

EXEMPTIONS FROM NOTIFICATION OF VACANCY

NUMBER OF EXEMPTIONS	CLASSIFICATION	CIRCUMSTANCES AS DEFINED IN OFFICE POLICY
-	-	-

Appendix 7

Glossary of terms

External audit service provider

An external audit service provider is a private sector auditor engaged by the Auditor-General under contractual arrangements, and appointed following a contestability process, to carry out audits on his behalf.

Financial statement audit

A financial statement audit is an audit assignment which directly relates to the objective of forming an opinion on the financial statements of an agency. The auditor's objective is to provide a high level of assurance to Parliament and the community regarding the fair presentation of the financial information contained in the published statements of agencies.

Governance

The term "governance" describes the role of persons entrusted with the supervision, control and direction of an entity. Those charged with governance ordinarily are accountable for ensuring that the entity achieves its objectives, financial reporting, and reporting to interested parties.

Management letter

A management letter is a letter that draws to the attention of an entity's senior management the significant findings and recommendations from the audit of an entity's financial report, in particular, internal control and other accounting matters.

Opinion on financial statements

This is the vehicle used to convey the Auditor-General's opinion as to whether the financial statements have been prepared in accordance with applicable legislation and present fairly in accordance with applicable accounting standards, and other mandatory professional reporting requirements.

Performance audit

A performance audit evaluates whether an organisation is effectively meeting its objectives, and using its resources economically and efficiently. It can cover all or part of the activities of an agency, or a number of agencies.

Performance statement (Local Government)

Pursuant to the *Local Government Act 1989* each municipal council prepares an Annual Business Plan for the next financial year. The performance statement shows the extent to which the council has achieved the objectives stated in the Annual Business Plan usually expressed as a unit, index or ratio.

Practice management system

This is the term used to refer to the part of our information system that controls client billing and work in progress.

Qualified opinion

A qualified opinion is expressed when the audit results in a significant disagreement with management regarding the financial statements, a material conflict between applicable financial reporting frameworks or an unavoidable limitation on the scope of the audit work.

Special review (audit)

Special reviews focus on specific issues across the Victorian public sector and are identified either as part of ongoing audit activities or through inquiries directed to the Auditor-General by Members of Parliament or the general public. The findings and recommendations from these reviews are aimed at presenting value-adding and constructive suggestions for better financial and resource management of the Victoria public sector.

Warrant

A warrant is the instrument which authorises the draw-down of funds from the Consolidated Fund. The *Constitution Act 1975*, together with a complementary requirement in the *Financial Management Act 1994*, provides that the Government shall not issue any moneys from the Consolidated Fund (the account into which all Consolidated Revenue is paid) unless authorised by warrants approved by the Governor. Warrants are prepared by the Treasurer and examined by the Auditor-General, to determine whether the requested funds are legally available, prior to approval by the Governor for the release of funds from the Consolidated Fund.



Indexes

Compliance index	110
Alphabetical index	112

Compliance index

The Annual Report of the Victorian Auditor-General's Office is prepared in accordance with the *Financial Management Act* 1994 and the Directions of the Minister for Finance. This index facilitates identification of the Office's compliance with the Directions of the Minister for Finance by listing references to disclosures in this Annual Report.

CLAUSE	REQUIREMENT	PAGE
Report of operations		
Charter and purpose		
9.1.3 (i)(a)	Manner of establishment and Minister	1
9.1.3 (i)(b)	Objectives, functions, powers and duties	1
9.1.3 (i)(c)	Nature and range of services provided	1
Management and structure		
9.1.3 (i)(d)(i)	Name of Chief Executive Officer	43, 106
9.1.3 (i)(d)(ii)	Names of senior office holders and brief description of responsibility	106
9.1.3 (i)(d)(iii)	Organisational structure	43
Financial and other information		
9.1.3 (i)(e)	Statement of work force data, and merit and equity	55
9.1.3 (ii)(a)	Summary of financial results for the year	59
9.1.3 (ii)(b)	Significant changes in financial position during the year	60
9.1.3 (ii)(c)	Operational and budgetary objectives, and performance against objectives	11, 34, 42
9.1.3 (ii)(d)	Major changes or factors affecting achievement	3
9.1.3 (ii)(e)	Subsequent events	n.a.
9.1.3 (i)(f)	Application and operation of <i>Freedom of Information Act</i> 1982	52
9.1.3 (ii)(f)	Details of consultancies over \$100 000	61
9.1.3 (ii)(g)	Details of consultancies under \$100 000	61
9.1.3 (ii)(i)	Where applicable, information listed in Part 9.1.3 (iv) of the Treasury and Finance guidelines is provided throughout the Annual Report	n.a.
9.6.2 (i)(iv)	Disclosure of major contracts	104
9.1.3 (ii)(j)	Compliance index	110
Financial statements		
Basis on which financial statements have been prepared and other compliance details		
9.2.2 (ii)(a)	Accrual basis of accounting	67
9.2.2 (ii)(b)	Compliance with AASs and other authoritative pronouncements	67
9.2.2 (ii)(c)	Compliance with Ministerial Directions and AFRBs	67
9.2.2 (ii)(d)	Adoption of the historical cost convention, except for specified assets	67
Clause requirement page		
9.2.2 (iii)	Rounding of amounts	71
9.2.2 (i)(d)	Notes to the financial statements (contents page)	63
9.2.2 (iv)	Accountable officer's declaration	87

CLAUSE	REQUIREMENT	PAGE
Statement of financial performance		
9.2.2 (i)(a)	Statement of financial performance	64
9.2.3 (ii)(a)	Operating revenue by class	75
9.2.3 (ii)(b)	Investment income by class	75
9.2.3 (ii)(c)	Other material revenue, including disposal of non-current assets	75
9.2.3 (ii)(e)	Depreciation	76
9.2.3 (ii)(f)	Bad and doubtful debts	86
9.2.3 (ii)(g)	Financing costs	76
9.2.3 (ii)(h)	Net increment or decrement on revaluation recognised in the statement of financial performance	n.a.
9.2.3 (ii)(i)	Audit expense	82
9.7.2 (i)(ii)	Lease commitments	82
Statement of financial position		
9.2.2 (i)(b)	Statement of financial position	65
9.2.3 (iii)(a)(i)	Cash at bank and funds held in trust	76
9.2.3 (iii)(a)(ii)	Inventories by class	n.a.
9.2.3 (iii)(a)(iii)	Receivables, including trade debtors, loans and other debtors	77, 86
9.2.3 (iii)(a)(iv)	Other assets, including prepayments	65
9.2.3 (iii)(a)(v)	Other financial assets	77
9.2.3 (iii)(a)(vi)	Property, plant and equipment	78, 79
9.2.3 (iii)(a)(vii)	Intangible assets	n.a.
9.2.3 (iii)(b)(iii)	Trade and other creditors	80
9.2.3 (iii)(b)(iv)	Finance lease liabilities	n.a.
9.2.3 (iii)(b)(v)	Provisions, including employee entitlements	80
9.2.3 (iii)(c)(i)(ii)	Contributed capital	81
9.2.3(iii)(d)(i)(iv)	Equity and movement in equity	81
Statement of cash flows		
9.2.2 (i)(c)	Statement of cash flows for the year	66
Other disclosures in notes to the financial statements		
9.2.3 (iv)(a)	Liability secured by a charge over assets	n.a.
9.2.3 (iv)(b)	Contingent liabilities	n.a.
9.2.3 (iv)(c)	Commitments for expenditure	82
9.2.3 (iv)(d)	Government grants received or receivable	75
9.2.3 (iv)(e)	Employee superannuation funds	70
9.4	Responsible person-related disclosures	85

Alphabetical index

Accountability, enhancing	29	Organisational chart	43
Annual Plan -	45	Parliament -	
Performance against	5	Accountability to	5
Annual Report Award	9	Assistance to	29
Audit Committee	44	Inquiries from Members of	29
Audit legislation, enhancements to	7	Parliamentary reports and services -	
Audit methodology	49, 50	Output targets, performance against -	
Audit opinions, delegations for signing	104	Cost targets	11
Audit reports on financial statements -	32	Quality targets	27
Output targets, performance against -		Quantity targets	12
Cost targets	34	Timeliness targets	27
Quality targets	37	Parliamentary reports	12
Quantity targets	35	Parliamentary services	29
Timeliness targets	36	Performance audit of the Office, our action on recommendations	7, 90
Audit responsibilities, range of	33, 97	Performance, our, independent assessment of	7
Auditor-General, role of	5	Professional development	56
Auditor-General's review	3	Public Accounts and Estimates Committee, liaison with	29
Australasian Council of Auditors-General	31	Public sector agencies, reports on	24
Awards received	9	Publications of the Office	96
Committees of the Office	43	Purpose of the Office	<i>inside front cover</i>
Compliance and accountability	49	Quality assurance practices	49
Compliance index	110	Risk management	45
Consultancies	61	Senior Management Group	106
Corporate focus, 2002-03	<i>inside front cover</i>	Snapshot of our Office	1
Corporate governance	41	Staff -	
Corporate Plan	45	Achievements, awards	58
Environment, Green Office Action Plan	58	Corporate targets	53
Financial performance	59	Employee behaviour and wellbeing	55
Financial statement audits -		Health and safety	56
Future directions for	39	Recruitment and retention	54
Resourcing of	37	Satisfaction survey, results	57
Financial statements of the Office	62	Statistics	55, 107
Freedom of information	52	State's finances, report on	26
Funding arrangement, change to	61	Statistics, three-year	<i>inside back cover</i>
Glossary of terms	108	Structures and relationships, corporate strategies	52
Highlights, 2002-03	2	Values of the Office	<i>inside front cover</i>
History of the Office	1	Vision of the Office	<i>inside front cover</i>
Industrial relations	56	Warrants, examination and certification of	31
Information technology	46	Whistleblowers legislation	51
Interstate organisations and international delegations	30		
Managing our Office -	40		
Corporate targets, performance against	42		
Strategy and direction	45		

Also refer to Compliance index on page 110.

Three-Year Statistics

		2000-01	2001-02	2002-03
Parliamentary reports and services				
Reports tabled in Parliament -				
Performance audit reports	(number)	7	9	9
Other parliamentary reports	(number)	2	3	7
Client satisfaction with parliamentary reports	(percentage)	81	80	77
Audit reports on financial statements				
Audit responsibilities (entities at report date)	(number)	551	566	588
Audit reports on financial statements -				
Unqualified opinions issued during reporting year	(number)	486	515	558
Qualified opinions issued during reporting year	(number)	63	49	29
Total opinions issued during reporting year	(number)	549	564	587
Audit reports on local government performance statements -				
Unqualified opinions issued during reporting year	(number)	70	68	69
Qualified opinions issued during reporting year	(number)	8	10	9
Total opinions issued during reporting year	(number)	78	78	78
Audit opinions issued within time limit	(percentage)	88	90	96
Client satisfaction with audit services	(percentage)	71	70	75
Resources				
In-house staff	(number)	118	127	129
External audit service providers	(number)	50	48	47
Days sick leave per employee	(number)	8.4	16.2	5
Workers compensation claims	(number)	-	2	-
Injuries reported	(number)	1	6	7
Grievances lodged	(number)	-	-	-
Staff training and professional development -				
Days per employee	(number)	2.1	9.4	9.5
Industrial disputes	(number)	-	-	-
Financial management				
Expenditure on audit service providers	(\$million)	5.77	6.52	6.84
Revenue from audit fees	(\$million)	11.57	13.12	14.03
Operating surplus/(deficit)	(\$million)	2.06	0.92	0.30
Assets	(\$million)	8.07	9.39	9.44
Liabilities	(\$million)	4.69	5.02	4.81
Financial audit costs recovered from clients	(percentage)	95	97	102



AUDITOR GENERAL
VICTORIA

Auditing in the Public Interest