

annual report

2003-04

providing assurance
improving performance
adding value

>> assurance



↑ performance

value



AUDITOR GENERAL
VICTORIA

Auditing in the Public Interest

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Snapshot of our Office

Our history

The Victorian Auditor-General's Office was established in July 1851 and, to this day, continues to play a key role in providing parliament and the Victorian community with assurances on the financial integrity of the state.

In the early 1980s, we expanded our financial statement auditing activities to include performance auditing, which evaluates whether public sector agencies use their resources properly, to meet their objectives.

In 2000, legislative changes relating to the appointment, independence and tenure of the Auditor-General were enshrined in the state's Constitution Act.

Principal legislation

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

Audit responsibilities

The Auditor-General is responsible for:

- auditing the Annual Financial Report of the state
- reviewing the Estimated Financial Statements within the state budget
- conducting financial statement audits for some 600 state public sector organisations, including parliament, government departments, public bodies, educational institutions, public hospitals and municipal councils
- undertaking wide-ranging performance audits concerned with the economic, efficient and effective use of public resources applied to achieve public program objectives
- undertaking special investigations or examination of events, transactions or activities which merit audit attention
- reporting the results of audits or investigations to parliament in an objective, competent, insightful and timely manner.

Operating environment

Agencies audited:

- collect approximately \$40 billion in revenue
- spend about \$40 billion
- hold over \$147 billion in assets.

Available resources

At 30 June 2004, we:

- had 127 in-house staff (129 at 30 June 2003)
- engaged 46 external audit service providers (47 during 2002-03)
- received \$24.3 million in funding from parliament (\$23.6 million in 2002-03).

Office information

Victorian Auditor-General's Office
Level 34, 140 William Street
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Telephone: (03) 8601 7000

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Hours of business: 8.30 am – 5.30 pm

providing assurance improving performance adding value

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 and behaviours

We value:

- Respect
- Excellence
- Integrity.

We are committed to the following behaviours that constantly uphold our values:

- Working together
- Openness to new ideas
- Leading by example
- Influencing change
- Celebrating success
- Communicating honestly.

2003-04 corporate focus

Our prime corporate focus for 2003-04 was directed towards providing assurance, improving performance and adding value – not only for parliament and our broad range of stakeholders, but also within our Office. We:

- provided a range of parliamentary reports and services, and assured parliament on the financial integrity of the state's finances
- implemented better business management practices within our Office, streamlining our internal systems and, where possible, improving our performance
- added value, through our timely parliamentary reports and responsive auditing services, to agencies' operations.

The 2003-04 year marks the end of our current 3-year corporate plan. Our new 2004-05 to 2006-07 corporate plan will reinforce our commitment to improve performance and accountability in the Victorian public sector.



Highlights for 2003-04

Accountability to parliament

- The Office's annual report – our prime accountability document to parliament, received a Gold Award for achieving a high standard of excellence in reporting (see page 7).
- An independent performance audit of the Office commenced in June 2004 (see page 7).

Parliamentary reports and services

- Presented 16 major audit reports (target of 15) to parliament, as well as 3 good practice guides and an occasional paper (see page 10).
- Received an 84 per cent satisfaction rating (target of 80 per cent) from stakeholders on our parliamentary reports (see page 23).
- Introduced plain English principles to, and improved the structure of, our parliamentary reports (see page 23).

Audit reports on financial statements

- Issued 611 audit opinions on agency financial statements (587 audit opinions in 2002-03) (see page 27).
- Issued 98 per cent (96 per cent in 2002-03) of audit opinions within statutory deadlines (see page 28).
- Issued 86 per cent (74 per cent in 2002-03) of management letters to client agencies, and 100 per cent (90 per cent in 2002-03) of reports to ministers within our targeted time frame (see page 28).

Managing our Office

- Completed our 2001-02 to 2003-04 corporate plan – largely achieving the plan's goals, and developed a new corporate plan (see page 40).
- Developed a new 3-year IT strategic plan (see page 41).
- Captured business opportunities offered through stage 2 of our new practice management system (MARS) (see page 42).
- Launched a knowledge management and revised corporate communications strategy (see page 43).
- Updated our audit methodologies for financial and performance audits, and special reviews (see page 44).
- Introduced a revised reward and recognition scheme for staff (see page 47).

Financial performance

- Our net financial result for the year was a surplus of \$1.041 million (\$298 000, 2002-03) (see page 53).
- Audit fee income for the year was \$14.3 million (\$14.1 million, 2002-03) (see page 78).

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Auditor-General's review

"It has been a year of achievement, and of change, but always for the good of parliament and the community."



This year marks the end of my first corporate plan, for 2001-04, following changes to audit legislation and restructuring of the Office in early 2000. That plan sought to establish a new organisation with a new culture, and new directions. It also sought to reassert the importance of the constitutional role of the Auditor-General, and to be more efficient and effective.

Increased business efficiency

I look back on the last 4 years with satisfaction. We have largely achieved that plan's goals. We have developed the organisation and increased our efficiency and effectiveness. We are undertaking more audits than ever before and are doing so in a more timely fashion. This has been achieved through better specification and conduct of audits as well as paying attention to the structure and language of our parliamentary reports. We have also extended the range of our outputs, for instance by producing 3 good practice guides and industry newsletters on accounting and auditing matters.

Output targets were achieved or exceeded with 16 major reports presented to parliament and 611 financial statement audits completed. This was accompanied by all important improvements in the timely completion of audits within statutory deadline and substantial improvement in the timely completion of reports flowing from financial statement audits. Feedback from our audit stakeholders is increasingly positive and the uptake on audit recommendations is at an all time high.

Changes to the way that contracted financial audits were managed improved our efficiency considerably, and stakeholders were much more satisfied with our financial audit processes. We also successfully implemented the MARS practice management system, resulting in better internal information and management systems.

Improving responsiveness and impact

We have recently launched our 2004-07 corporate plan. That plan requires us to be more responsive and to increase the influence of our reports. Our audits of public sector accountability and resource use are of little value unless audit observations and recommendations lead to positive change.

I notice that agencies have become much more aware of our performance audit program, which is published at the start of each year. There is increasing evidence that some agencies take pre-emptive action in anticipation of these audits. Where that action results in improved public administration, I applaud it. It does, however, frequently lead to postponement of planned audits until the outcome of any agency activity is known and had time to be put into effect.

The year ahead

It is close to 6 years since we substantially revised our financial audit methodology, and the time has come to review it completely. We are discussing with the Queensland Audit Office ways to jointly develop a new financial audit methodology. This is a major undertaking for us and will require considerable coordination and commitment to ensure a successful outcome.

The greatest challenge financial managers and auditors in the public sector will face next year will be the implementation of an entirely new set of accounting standards from 1 January 2005, following the decision of Australia to adopt International Accounting Standards. It is too early to tell how much work will be required by agencies, their advisors and this Office in implementing these changes, but they do represent one of the most extensive changes faced by accountants and auditors in recent years. This is a challenge we must all prepare for, and rise to, if confusion and adverse outcomes are to be avoided.

Importance of staff and service providers

It has been a year of achievement, and of change, but always for the good of parliament and the community. None of this could be achieved without the commitment and dedication of staff and our external audit service providers, and I should like to record my gratitude for their work over the year.



JW Cameron
Auditor-General

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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 Auditor-General has a legislative mandate under the *Audit Act 1994* to externally audit around 600 public sector organisations and report the results of all audits directly to parliament.

The Auditor-General or his/her delegate must provide an audit opinion on the annual financial statements of all audited agencies, and on the Annual Financial Report 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 advises agencies to help them improve their future performance.

In combination, these functions help to maximise the value of the Auditor-General's contribution to upholding accountability and improving performance.

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 the Auditor-General also requires accountability directly to parliament.

We presented our annual plan for 2003-04 to parliament on 27 June 2003. It set out:

- our planned delivery of products and services
- the organisational developments of the Office for the year.

This annual report provides an account of our implementation of the *2003-04 Annual Plan*. It is the key accountability document to parliament on our performance during the year.

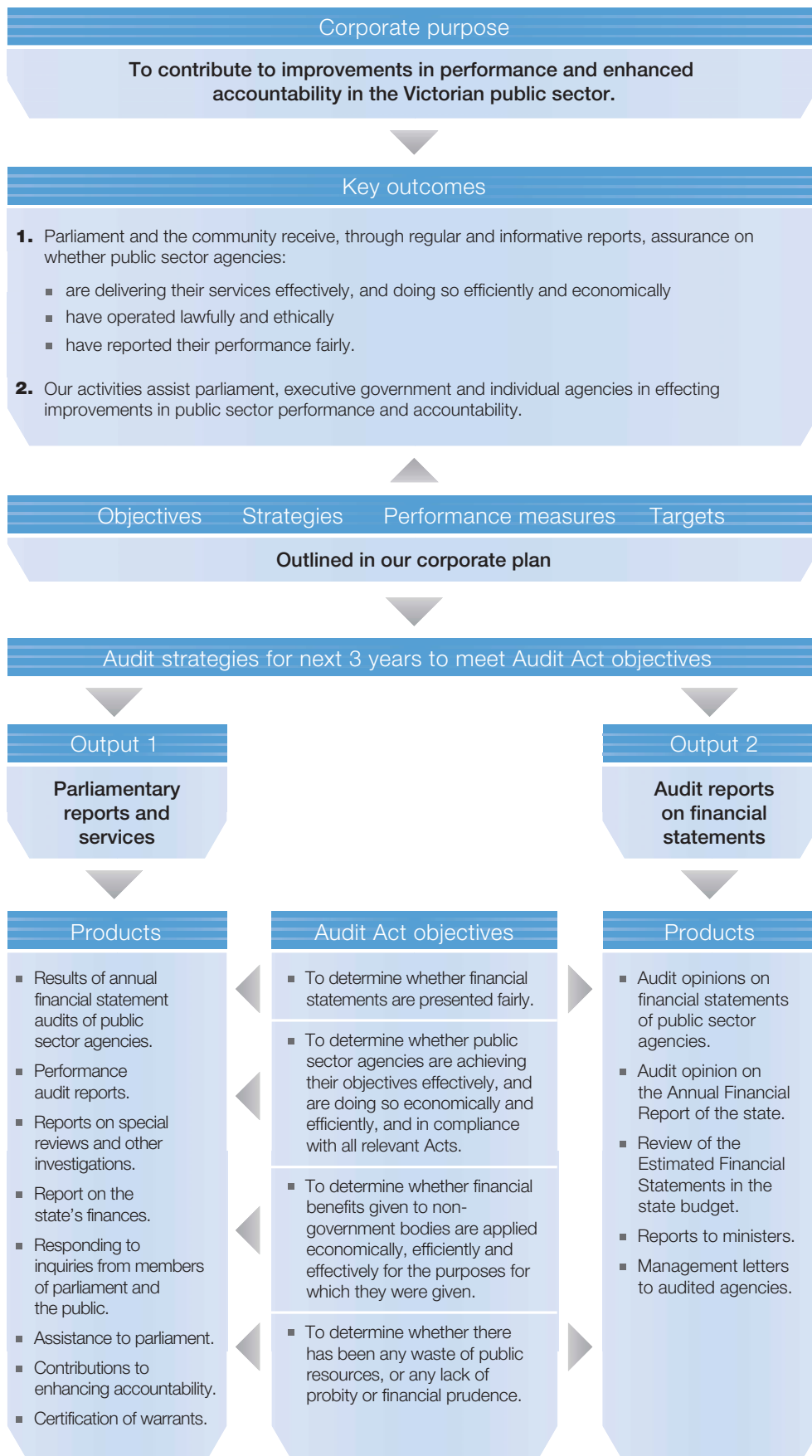


Our outputs and products

Under Victoria's output management system, the state budget allocates resources to the Office according to the outputs to be delivered. Our outputs and associated products fall into 2 output groups:

- parliamentary reports and services
- audit reports on financial statements.

The following diagram links our key desired outcomes with products we delivered. It also shows the relationship of those products with our legislative mandate.



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Gold Award for 2002-03 Annual Report

Our annual report is our prime accountability document to parliament. We take great pride in our annual report and ensure that it achieves a high level of disclosure and accountability for the resources entrusted to us.

Our 2002-03 *Annual Report* received a Gold Award for the third consecutive year in the Australasian Reporting Awards. The awards, hosted by Australasian Reporting Awards (ARA) Inc., recognise best practice in annual reporting. Entries in the awards are received from Australasian-wide listed companies, government agencies, community groups and not-for-profit organisations.

The Gold Award represents the highest standard of excellence in reporting. ARA commended our 2002-03 *Annual Report* for its strong alignment with ARA criteria, and for its emphasis on good governance. The report was also praised for highlighting the value-adding aspects of the Office's work for its stakeholders and the Victorian community.

The Gold Award was presented at a formal awards ceremony held in Sydney in May 2004.



Independent assessment of our performance

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 John Phillips of Acumen Alliance was appointed in June 2004 to undertake the performance audit and to report to parliament in October 2004. Appendix 1 of this annual report contains the terms of reference for this audit.

This is the second independent performance audit conducted since Wayne Cameron became Auditor-General in 1999. We took prompt action to implement the recommendations made in that report and reported these actions in previous annual reports. We look forward to the performance auditor's report, and any recommendations to improve the performance and service delivery of the Office.



Gabrielle Levine, General Manager, Performance Audit, accepted the Gold Award on behalf of the Office.

"... the Auditor-General's approach to performance reporting [in the annual report] has set a benchmark for other Departments and Agencies in the Victorian Public Sector. The report is focused on accountability for performance outcomes."

Public Accounts and Estimates Committee, Fifty-sixth Report to Parliament, April 2004, p. 474.

Parliamentary reports and services

Through our parliamentary reports and services, we seek to meet the needs of both parliament and the community. The Victorian Parliament is our main client, and our parliamentary reports assess whether the public sector manages its resources soundly and efficiently. Our reports also suggest how public agencies can improve their

performance and enhance their accountability. We give advice to parliament on public sector developments.

The following tables show how the Office performed against its Parliamentary Reports and Services Output Group (Output Group 1) 2003-04 targets set out in our annual plan and budget documents.

Performance against output targets

Performance measures	Unit of measure	Target 2003-04	Achievement 2003-04	Target 2004-05
Cost				
Delivering reports and services (see page 8)	\$million	9.88	9.03	10.52
Quantity				
Major audit reports (see page 10)	number	15	16	16
Quality				
External satisfaction with major audit reports (see page 23)	per cent	80	84	80
Timeliness				
Finishing reports within time frames (see page 22)	per cent	100	75	100
Acknowledging inquiries from members of parliament and the public within 7 days (see page 24)	per cent	(a)	65	95
Responding to inquiries within 4 weeks (see page 24)	per cent	(a)	80	95

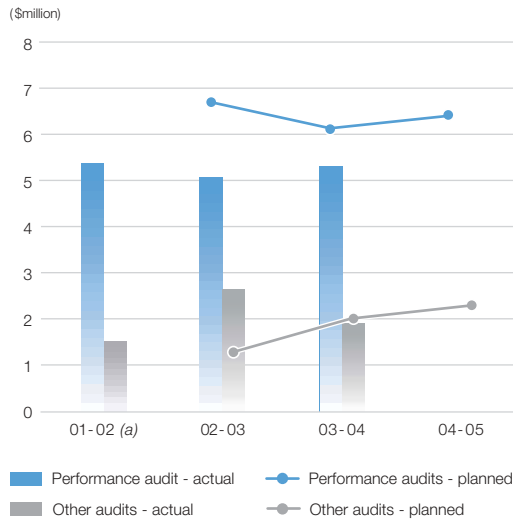
(a) Refers to new measure.

Performance against cost targets

Product	Target 2002-03	Actual 2003-04	Target 2003-04
	(\$m)	(\$m)	(\$m)
Parliamentary reports			
Performance audits	6.16	5.31	6.41
Special reviews, other investigations and results of annual financial statement audits	2.00	1.90	2.36
Report on the state's finances for 2002-03	0.44	0.35	0.36
Parliamentary services			
Assistance to parliament	0.20	0.33	0.30
Responding to inquiries from members of parliament and the public	0.20	0.13	0.21
Contributions to enhancing accountability	0.70	0.92	0.70
Liaison with international and interstate organisations	0.15	0.07	0.15
Examination and certification of warrants	0.03	0.02	0.03
Aggregate output costs	9.88	9.03	10.52

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COST OF PARLIAMENTARY REPORTS AND SERVICES



(a) The planned break-up of the target was first published in our 2002-03 Annual Plan.

We spent less on performance audits in 2003-04 than planned because unforeseen inquiries, such as the request by the Speaker of the Legislative Assembly that we review parliament's information technology upgrade, changed our planned program. We are currently doing 4 audits that will be tabled in parliament's spring 2004 session. Our special reviews and investigations increased in 2003-04.

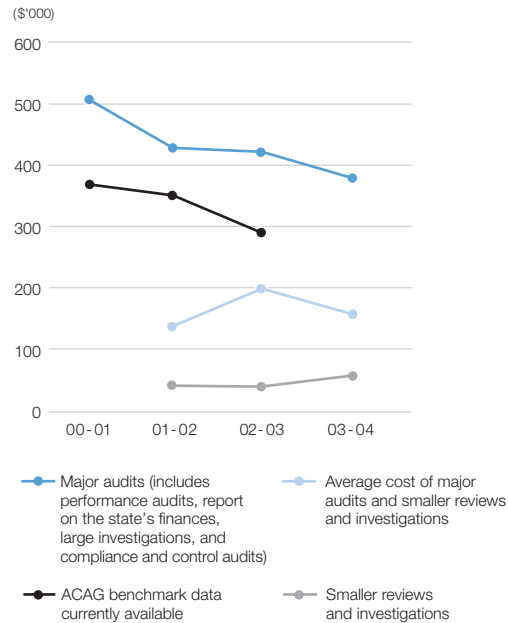
Continuing trends include:

- more resources for special reviews and investigations, which reflects the importance of our assurance activities
- integrating our controls and compliance audit program into the annual work program we set up in 2002-03
- being able to better respond to, and investigate requests from, parliament and ministers through our new special reviews and investigations team.

The steady increase in requests from parliament and ministers led to us establishing this team which is dedicated to responding to calls for special investigations. This will give this aspect of our activity the priority attention it deserves and help us to further develop our forensic audit skills.

After the national and international business collapses of 2002-03 and 2003-04, we have done much work in accounting standards and auditor independence through our involvement in harmonising Australian and international accounting standards. This work required more effort than originally planned.

AVERAGE COST OF OUR PARLIAMENTARY REPORTS



This chart shows our performance against the Australian Council of Auditors-General (ACAG) benchmarks. The ACAG results reflect the different mandates, however, the benchmarks offer a useful comparison.

Although our major audits cost more than the ACAG benchmark, the cost has been decreasing over the last 3 years, while the cost of our smaller reviews and investigations has been rising. The 2003-04 result also reflects a shift to providing more comprehensive reports on the overall results of financial audits. Taken together, the average cost of our Parliamentary Reports and Services Output Group audits are below the ACAG benchmark.

Parliamentary reports

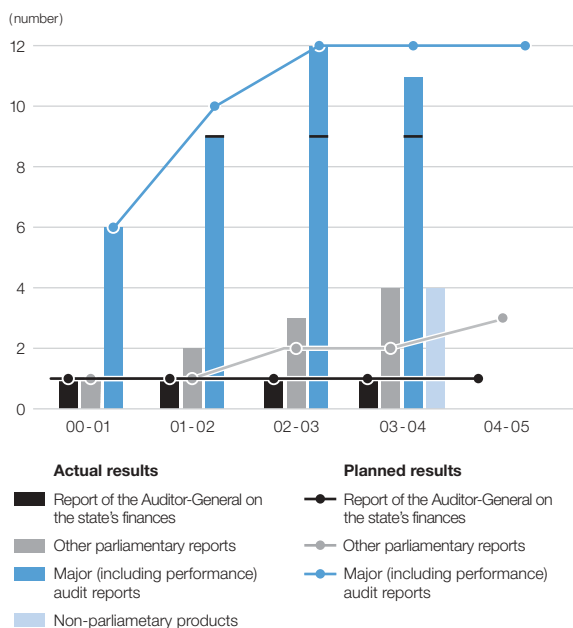
Performance against quantity targets

Report type	Target 2003-04	Achievement 2003-04
Major audits -		
Performance audits	12	9
Other	-	2
Other parliamentary reports	2	4
Examination of the state's finances	1	1
Total	15	16

During 2003-04, we completed 9 performance audits (9 in 2002-03) against our target of 12 (12 in 2002-03) as well as 2 other major audits (3 in 2002-03): *Parliament's information technology upgrade* and *Management of procurement and accounts payable*. We also completed a special audit investigation: *Water trading in Victoria*. At 30 June 2004, we had completed 3 audits which were tabled out of session in an omnibus report in August 2004.

Some planned performance audits were delayed because we responded to parliamentary requests for investigations.

NUMBER OF REPORTS AND OTHER PRODUCTS COMPLETED



This chart shows that while we have achieved our budget output target in total, the number of performance audits we completed over the last 3 years has levelled out at 9. The gap between this and our target of 12 was because of the unplanned investigations following requests from ministers and the Speaker of the Legislative Assembly, and issues emerging during the year.

An important aspect of our work is being able to respond as soon as possible to our stakeholders and to important issues. This means that our work plan priorities are constantly changing.

We also launched 3 good practice guides to:

- promote the benefits of our work more widely in the public sector
- improve public sector practices
- add value to the assurance we give parliament about public sector practices.

The new guides are: *Chief Finance Officer: Role and responsibilities*, *Managing risk across the public sector* and *Managing internet security* (see pages 24-25).

We also published an occasional paper titled *Beyond the triple bottom line – Measuring and reporting on sustainability*. This was based on *Managing logging in State forests*, a performance audit of recent reductions in state forest logging. It discusses how sustainability could be applied to other public sector areas, and that measuring and reporting sustainability will help public sector programs to become more effective (see page 25).

Major audit themes

We divide our audit reports into 3 areas of operation:

- report on the state's finances
- major audits, including performance audits
- omnibus reports which are prepared historically at the end of each financial statement audit cycle, reporting the results of that particular audit round and special reviews or investigations completed at that time. These omnibus reports are called *Reports on public sector agencies*.

Parliamentary report – Examination of the state’s finances

November 2003 Report on the Finances of the State of Victoria, 2002-03

Legislation requires us to make this report annually, setting out our analysis of the state’s financial performance and position for the financial year.

Our report for 2002-03 concluded that the state’s overall financial condition remained sound. However, we found a number of negative trends and vulnerabilities that the government must carefully manage, including:

- declining annual operating surpluses, despite strong economic activity
- rate of expenditure growth exceeding growth in state revenues and Victoria’s economy
- financial and property market vulnerabilities, which can reduce taxation revenues, investment returns and superannuation costs.

Because of these trends and vulnerabilities, the report highlighted the need for the government to remain vigilant in sustaining public sector activity and program levels in the long-term.



The report also commented on events in 2003 which affected the state’s finances, including:

- the net additional cost of major industrial agreements and extra permanent staffing in the public sector
- a rise in outstanding claims and interest-bearing liabilities
- additional costs under the public transport franchise arrangements
- major projects such as the regional fast rail project and the Melbourne 2006 Commonwealth Games
- the potential for recent litigation to affect the state’s obligations under the flexible electricity tariff arrangements for the Portland and Point Henry aluminium smelters.



The report commented on aspects of the state’s public transport franchise arrangements.

Parliamentary reports – major audits

Parliamentary reports focus on areas where the public sector has the best potential to improve its performance, its resource management, and to enhance its accountability and transparency.

Our major audits have been grouped under 7 theme headings:

- 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
- servicing the wellbeing of the community.

The following table presents our major audits by theme, including those continuing or planned.

MAJOR AUDIT THEMES

Themes	Major audit coverage, 2003-04	Major audits in progress or under consideration in 2004-05
Governance and public sector management	<ul style="list-style-type: none"> • Budget development and management within departments • Management of procurement and accounts payable • Parliament's information technology upgrade • Development of policy advice 	<ul style="list-style-type: none"> • Adequacy of internal reporting of selected agencies <i>(a)</i> • Strategic human resource planning <i>(a)</i> • Management of occupational health and safety in the public sector <i>(a)</i> • Human resource management – recruitment • Management of intellectual property in selected areas of the public sector • Control over grant programs
Developing and managing the state's infrastructure	<ul style="list-style-type: none"> • Maintaining public housing stock 	<ul style="list-style-type: none"> • Management of public transport franchising • Regulating operational rail safety <i>(a)</i> • Drainage in metropolitan Melbourne
Sustainability of natural resources and the environment	<ul style="list-style-type: none"> • Managing logging in state forests • Water trading in Victoria 	<ul style="list-style-type: none"> • Establishing sustainable forests – phase 2 <i>(a)</i>
Developing the economy, sectors and regions	<ul style="list-style-type: none"> • Beating the bugs: Protecting Victoria's economically significant crops from pests and diseases 	<ul style="list-style-type: none"> • Quality of TAFE education - meeting the needs of industry • Quality of performance management and reporting of tourism programs • Primary industry research management
Protecting the community	<ul style="list-style-type: none"> • Addressing the needs of Victorian prisoners 	<ul style="list-style-type: none"> • Preparedness of emergency services for major events/incidents • State security – coordination of response
Fostering a skilled, creative and learning community	<ul style="list-style-type: none"> • Improving literacy standards in government schools 	<ul style="list-style-type: none"> • Effectiveness of strategies to minimise absenteeism in schools <i>(a)</i>
Servicing the wellbeing of the community	<ul style="list-style-type: none"> • Managing emergency demand in public hospitals • Delivery of home and community care services by local government 	<ul style="list-style-type: none"> • Adverse events in public hospitals <i>(a)</i> • Bed management in acute public hospitals • Out-of-home care (including foster care) <i>(a)</i> • Victorian WorkCover Authority – claims management system • Health purchasing practices

(a) In progress at the time of preparing this annual report.

We also ask our clients to give us feedback on our performance audit reports. The results (where available) are shown at the end of each reference below. We are extending this survey to other major audits in 2004-05.

Commentary on major audits completed and tabled in parliament in 2003-04 follows.

Governance and public sector management

Budget development and management within departments (tabled May 2004)

This audit looked at the efficiency and effectiveness of internal budget development and management in the Department of Education and Training and the Department of Infrastructure. We concluded that, with some small exceptions, their internal budget development and management practices are largely in line with better practice.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We identified a deficiency in managing output targets.	We recommended improving reporting budget results.	We detailed effective budget development, management and review characteristics which can be used as a better-practice check list. Both departments responded positively to the audit report and accepted the recommendations.
Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – level of agreement by client
79%	82%	84%

Management of procurement and accounts payable (completed June 2004)

This report assessed how well certain agencies managed their procurement and accounts payable activities. It also examined the role of the Victorian Government Purchasing Board (VGPB) in establishing public sector procurement policies and requirements, and in overseeing public sector procurement in general.

While identifying several opportunities for improvement, the report concluded that overall, the audited agencies adequately managed their procurement and accounts payable activities.

We recommended improving the control environment through:

- extending current VGPB policies and practices to all agencies covered by the *Financial Management Act 1994*
- clarifying public disclosure requirements for major contracts
- ensuring agencies have appropriate expenditure delegations, and systemic controls that help them to comply with their expenditure limits
- avoiding duplicate payments to suppliers by training relevant staff and strengthening payment review procedures.

The report also recommended making public sector purchasing more efficient through improving procedures for meeting supplier payment terms, increasing use of cross-government purchasing agreements, increasing use of electronic purchasing and payment processes, and developing better performance management regimes.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended the greater use of cross-agency contracts and electronic purchasing and payment methods, together with the development of stronger performance management regimes.	We identified the need to improve reporting of major contracts by clarifying the public disclosure requirements.	We identified that agencies needed to improve procedures for better managing their performance by generating data on duplicate payments and timeliness in paying accounts.

Parliament’s information technology upgrade (tabled September 2003)

In March 2003, the Speaker of the Legislative Assembly asked us to examine parliament’s information technology upgrade (the Parlynet 2002 Project).

The upgraded system had performance problems, and we conducted a survey that showed respondents were unhappy with the speed, reliability and functionality of the system. Many aspects of the project’s governance and its management were not addressed. Some key risks to parliament were also not adequately managed. We reported that the project’s unsatisfactory outcomes were a by-product of wider management issues with parliament’s administrative services.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
<p>We recommended that parliament’s Joint Services Department:</p> <ul style="list-style-type: none"> • improve its financial and asset management • maintain asset registers • have appropriate procedures for financial and asset management • have internal controls to ensure that it complies with established procedures. 	<p>We recommended that parliament:</p> <ul style="list-style-type: none"> • develop policies, standards and business rules for IT activities • establish appropriate project governance arrangements • review its administrative services management to have clear responsibility for decision-making by keeping minutes and documenting reasons for decisions, and to strengthen accountability. 	<p>We recommended resolving the IT system’s problems by making changes in:</p> <ul style="list-style-type: none"> • planning • resource allocation • staff communication • support for the IT unit • network traffic analysis • network security.

“ We welcome the report and would like to take the opportunity to thank you and your staff for the time and effort you have taken to prepare it ... The report provides good guidance in the way forward and provides excellent advice and assistance in how to avoid possible recurrences of the issues raised during the course of the Parlynet 2002 Project.”

Joint Secretaries of Joint Services Department, Parliament of Victoria, September 2003.

Development of policy advice (completed June 2004)

We examined policy advice briefs in selected departments to see if they were well-researched and comprehensive.

The report found that although departmental processes are generally sound, departments need to consult more rigorously with external stakeholders and have stronger project management. Also, ministers were not fully briefed about the risks of policy options and related mitigation strategies.

We recommended that the departments improve their planning and management of policy development, and better inform ministers about policy risks and implications.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that departmental policy advice to ministers should note risks associated with both recommended options and mitigation strategies.	We recommended that departments prepare project plans (including budgets, key milestones and evaluation plans) appropriate to the size and complexity of the policy project and report progress against them.	We recommended that departments develop and implement formal review processes for policy advice development.

The results of the client satisfaction survey had not been received at the date of preparing this annual report.

Developing and managing the state's infrastructure

Maintaining public housing stock (tabled June 2004)

The Department of Human Services, through its Office of Housing, is the largest provider of social housing in Victoria. It oversees delivering secure, affordable and appropriate housing to low income Victorians needing assistance. At 30 June 2003, it provided 62 600 properties valued at \$10 billion. As social housing demand increases, it needs to sufficiently maintain its assets to be able to meet current and future needs.

This audit looked at how well the Office of Housing maintains its public housing stock. We concluded that it has made some progress in addressing concerns raised in previous audits. Its continuing efforts in this area should yield ongoing improvements for tenants. Our recommendations focused on remaining issues, such as supervising maintenance work, information on the condition of properties and low tenant satisfaction.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that the department improve its management of maintenance contractors.	We recommended that the department improve its monitoring of how regional offices perform.	We assessed the department's actions for improving housing maintenance management.
Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – level of agreement by client
81%	88%	94%

“The government has welcomed the Auditor-General’s report. We acknowledge that we need to improve the pace at which these problems are being rectified. I have outlined to the house the actions the government is proposing to achieve that result.”

The Hon. Candy Broad, MP, *Hansard*, 3 June 2004.

Sustainability of natural resources and the environment

Managing logging in state forests (tabled October 2003)

A small portion of Victoria’s state forests can be commercially logged. The government has identified that, to sustain state forest logging, the volume of timber taken must be significantly reduced by about one-third statewide.

The audit found that the Department of Sustainability and Environment (DSE) has established the foundations for sustainable forest management by reducing licensed sawlog volumes to the target levels. It did this both under budget and ahead of schedule.

This reduction in logging levels will affect employment in the forest industry and could have broader economic and social considerations for regional timber-dependent communities.

The audit found that the responsible departments have begun helping industry employees adjust to the new logging levels. However, harvest and haulage contractors faced considerable uncertainty about their own position. The audit recommended that this uncertainty be addressed.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We reported that DSE had implemented the Voluntary Licence Reduction Program efficiently.	We recommended that DSE clarify and complete the Contractor Assistance Program.	We recommended that the Department for Victorian Communities continue to monitor the results of the Worker Assistance Program and maintain its revised processes for checking assessments.

The agency will complete our client satisfaction survey after we report on the second phase of the audit in late 2004.

Water trading in Victoria (completed June 2004)

This report was on the results of a study on water trading operations in Victoria. This is an issue of major importance for rural communities and the agricultural sector, and carries significant environmental and economic risks. The study assessed if:

- the statewide governance framework for water trading was adequate
- the systems and procedures used by Goulburn-Murray Water – the state’s largest rural water authority – for recording and managing its water trading activity were reliable.

The report concluded that current industry-wide governance arrangements need to be strengthened for an efficient, effective and publicly accountable water trading market.

While acknowledging recent efforts by Goulburn-Murray Water to strengthen how it oversees and manages its water trading activities, the report found scope for it to improve its operations in areas such as:

- reporting to the authority’s board
- internal controls for complying with laws and regulations, following procedures, keeping accurate records etc.
- business planning, performance and risk management
- internal audit arrangements.

The results and recommendations of this study will help inform future directions and strategies for water trading in Victoria.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We identified the need for the government to restructure the current institutional arrangements and responsibilities for water trading in Victoria, to improve how it is overseen and managed.	We recommended that the market and the public receive better information on water trading, including water entitlements and licences.	We recommended the rationalisation of water trading records across the state and identification of opportunities for Goulburn-Murray Water to strengthen its internal controls and process for overseeing water trading activity.

Developing the economy, sectors and regions

Beating the bugs: Protecting Victoria's economically significant crops from pests and diseases (tabled April 2004)

This audit assessed how well the Department of Primary Industries (DPI) could combat a pest or disease outbreak in Victoria's economically important agricultural crops. We concluded that it was able to mount an efficient and effective response to an outbreak once it had been detected and reported. However, DPI's performance could be improved by it:

- developing ways to improve surveillance and detect new and emerging plant pest and disease threats earlier
- improving direct lines of communication with industry and other parts of DPI
- better documenting internal procedures and policies, from threat priorities to funding arrangements, contingency planning and enforcement
- identifying and reporting on meaningful performance targets and introducing consistent monitoring procedures across the state
- reviewing whether its succession planning is adequate to sustain scientific expertise
- developing specific emergency response training for staff and industry.



Staff from the Department of Primary Industries inspect fruit and carton labels at Melbourne Markets.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
<p>We identified that DPI can better use its internal resources for managing an outbreak. The audit also emphasised the need:</p> <ul style="list-style-type: none"> • to formalise arrangements between divisions • for relevant internal guidelines • for DPI to target its emergency response training program. 	<p>We reported that DPI was spending around \$3 million to protect an industry valued at over \$3.2 billion. DPI will implement the audit's recommendations over the next 3 years if extra resources are needed.</p>	<p>We recommended that DPI improve:</p> <ul style="list-style-type: none"> • funding arrangements • surveillance and monitoring • prevention and emergency response training • communication with industry groups and the general public.
Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – level of agreement by client
88%	88%	96%

“It is a very timely and welcome report, and I congratulate the Auditor-General for undertaking this review.”

The Hon. Philip Davis, MP, *Hansard*, 6 May 2004.

Protecting the community

Addressing the needs of Victorian prisoners (tabled November 2003)

The audit examined the progress of Corrections Victoria, a business unit of the Department of Justice, in implementing its Reducing Re-offending initiative. The initiative targets prisoners with a high risk of re-offending for participation in rehabilitation programs.

Although the program is in its early stages, we reported a number of issues for attention for better prisoner management, such as:

- establishing suitable project management arrangements to help develop the prisoner assessment tool
- ensuring that all eligible prisoners receive a risk and needs assessment
- closely monitoring re-offending by prisoners who do not receive a risk and needs assessment
- developing a strategic approach for managing cultural change the reform brings.



The audit examined procedures for prisoners receiving risk and needs assessments.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We suggested that Corrections Victoria improve its resource allocation decisions about monitoring high-risk prisoners.	We recommended that Corrections Victoria continue to develop its performance measurement and reporting framework.	We recommended that Corrections Victoria develop better practices in: <ul style="list-style-type: none"> • project management • staff training • prisoner assessment • stakeholder communications.
Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – level of agreement by client
75%	69%	93%

Fostering a skilled, creative and learning community

Improving literacy standards in government schools (tabled October 2003)

Good literacy skills are essential to successfully completing school and moving from school into the work force. Between 1996 and 2003, the Department of Education and Training (DET) invested \$662 million in various literacy improvement programs in Victoria.

This audit looked at the efficiency and effectiveness of 3 key literacy improvement programs: Early years, Reading Recovery and Restart. We concluded there had been little average improvement in the reading proficiency of all students at Years 3, 5 and 7, over a 7-year period to 2002. Students improved while they were in the programs, however, DET could not determine if this was a direct result of the program.

DET funds schools for 2 out of the 3 literacy programs without assessing the relationship between student needs and performance. Student assessment data is complete and accurate, but DET does not use it effectively to help it keep improving the programs.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that DET review its method for allocating funding.	We recommended that DET improve reporting of student literacy proficiency.	We highlighted deficiencies with DET's method for assessing the effectiveness of literacy improvement programs.
Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – level of agreement by client
80%	89%	88%

Servicing the wellbeing of the community

Managing emergency demand in public hospitals (tabled May 2004)

Hospital emergency departments provide expert care and advanced medical services when they are most needed. In 2002-03, around 950 000 Victorians used the services of emergency departments. Issues such as difficulties in finding general practitioners and an ageing population are causing greater demand for emergency department care, which is placing pressure on our health system.

This audit looked at whether Melbourne's major metropolitan hospitals are efficiently and effectively managing the demand for emergency department services. We concluded that hospitals are effectively managing high demand. Innovative approaches are helping to reduce demand and manage the flow of patients through the hospital system. There were less signs of pressure on the system, such as hospitals not being able to accept ambulances for lengthy periods, and long waits for an inpatient bed.

However, challenges remain and hospitals still need to improve in areas such as:

- better clinical supervision of waiting room patients
- better understanding of patients who leave before they have been treated
- reducing the number of patients who still stay for very long periods.



We reviewed admission processes in hospital emergency departments. (Photo courtesy of Department of Human Services.)

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We assessed if the actions of the Department of Human Services (DHS) and hospitals were adequate for improving the management of emergency departments.	We recommended that DHS and hospitals improve the quality of hospital performance data.	Our report was well received by all hospitals. DHS considered that our recommendations provided valuable direction in consolidating the improvements it had made in developing a system-wide approach to managing emergency demand.
Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – level of agreement by client
85%	89%	87%

Delivery of home and community care services by local government (tabled May 2004)

This audit examined home and community care (HACC) planning processes in the Department of Human Services (DHS) and municipal councils. We also examined whether the councils' systems for delivering the service was adequate.

We concluded that the department's planning processes are sound. However, the extent to which councils use relevant data to plan HACC services varied. Smaller rural councils could improve their strategic planning.

Most councils had adequate policies and systems for assessing those people needing HACC services. However, many councils had difficulty doing timely reviews of ongoing client needs.

DHS currently reports on HACC expenditure and services in the short-term. It does not use indicators for assessing whether the program's objectives and priorities are being achieved. Legislation requires councils to measure and report their performance, however, council reporting of their HACC program achievements and the costs is not fully transparent.



Installing a handrail for home care residents, as part of the home and community care program.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We identified that better information about client dependency would allow DHS and councils to allocate resources according to client needs.	We recommended that DHS work with the Commonwealth Department of Health and Ageing to develop indicators for assessing the extent to which HACC program objectives, priorities and outcomes are achieved.	We identified the need for councils to develop quality control procedures over services delivered by contractors.
Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – level of agreement by client
75%	75%	86%

Other parliamentary reports – Public sector agencies

November 2003 Report on public sector agencies: Results of special reviews and 30 June 2003 financial statement audits

This report set out:

- the results of financial statement audits for agencies with 30 June 2003 balance dates
- the outcome of 2 special reviews – *Catchment management in Victoria*, and *Waste management by the Central Gippsland Region Water Authority*
- the action taken by agencies on the recommendations in 2 previous performance audit reports: *Management of major injury claims by the Transport Accident Commission* (October 2001), and *Teacher work force planning* (November 2001).

In the June 2003 financial statement audit round, we issued 453 (429 in 2002) audit opinions on the financial statements of state and local government agencies. Of these, 13 (22 in 2002) opinions were qualified. We also issued 79 audit opinions on performance statements of local government, 5 of which were qualified opinions.

The time that agencies took to complete their financial statements significantly improved, with 66 per cent of state agencies (40 per cent in 2002) and 95 per cent of local government agencies (76 per cent in 2002) meeting their statutory reporting deadlines. We made several recommendations about how agencies can further improve on this.

While most public sector agencies maintain effective internal control systems, certain agencies could improve this, especially in:

- risk management frameworks
- information technology
- key accounting system processes.

We highlighted a continuing deterioration in the financial position of the public hospital sector and recommended that the Department of Human Services address the financial difficulties of certain hospitals.

In the 2 special reviews, we recommended that both the waste and the catchment agencies improve their planning and management of operations.

In considering how agencies had implemented the key recommendations of our 2 previous performance audit reports, we found that despite some positive steps, they needed to take further action in a range of areas.

“We welcome the report by the Auditor-General and particularly the recommendations in regard to the health system. One must say we are very pleased that we do have an independent Auditor-General.”

The Hon. Bronwyn Pike, MP, *Hansard*,
26 November 2003.

May 2004 Report on public sector agencies: Results of special reviews

This report contained the results of 12 special reviews which examined the management of 9 major projects:

- Austin Health Redevelopment and Mercy Hospital for Women Relocation project
- Airport Transit Link project
- Restoration of country passenger rail services project
- Australian Synchrotron project
- Police Station Capital Works program
- Prison Bed Expansion program
- Mobile Data Network project
- National Gallery of Victoria redevelopment
- Consolidation of city accommodation for departments.

The report also looked at:

- the quality of internal financial reporting practices in local government councils
- how well the Melbourne Market Authority managed its investment in a new venture
- whether the levies on parks have been collected and spent in accordance with legislative requirements.

We identified that most of the areas we examined needed to be improved, and we made many recommendations to strengthen agency practices and performance.



The Austin Health Redevelopment and Mercy Hospital for Women Relocation (AR/M) project in Heidelberg.

May 2004 Report on public sector agencies: Results of special reviews and financial statement audits for agencies with 2003 balance dates other than 30 June

This report in part looked at the financial statement audits of agencies with 2003 balance dates other than 30 June (mainly education sector agencies). It specifically examined:

- the financial viability of TAFE institutes and smaller alpine resort management boards
- the progress of the water sector in improving its performance reporting.

We also reported the results of 2 special reviews, focusing on:

- whether the state's monitoring of tolling and the City Link's fees and charges were adequate
- the Overseas Projects Corporation of Victoria Ltd's financial management.

We also examined the progress agencies have made on matters we raised in performance audit reports tabled in 2001-02, namely:

- *International students in Victorian universities*
- *Nurse work force planning*
- *Investment attraction and facilitation in Victoria*
- *Management of roads by local government.*

At the time of the report, we had issued 123 clear audit opinions and 8 qualified opinions on the financial statements of public sector agencies with balance dates other than 30 June 2003. While some of our audit qualifications are ongoing, we anticipate many accounting and reporting issues will be resolved with Australian accounting standards being harmonised with international standards.

As for the 30 June audit round, we noted agencies significantly improved the time they took to complete audited financial statements, with 60 per cent completing them within 12 weeks of year-end (34 per cent in 2002).

The report identified a number of TAFE institutes in financial difficulty. We recommended that the state review its funding models, and that TAFE institutions should have adequate budgeting and costing processes.

The report also identified opportunities for agencies to strengthen their governance and financial management arrangements, particularly in:

- audit committees, to make them more effective
- risk management policies and practices
- fraud prevention and detection systems
- payroll controls.

Our 2 special reviews provided valuable lessons for the agencies reviewed and we recommended that they strengthen their practices and their performance.

We recognised that the agencies covered by our performance audit follow-ups had positively addressed most of our previous concerns, but that they needed to act further on some issues.

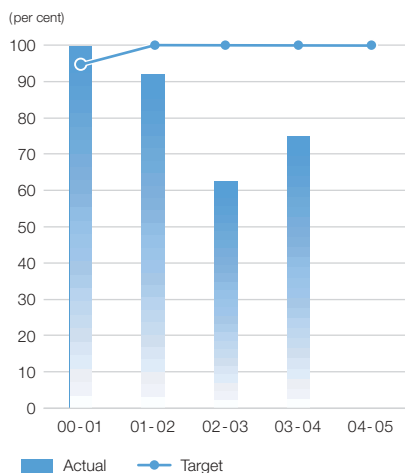
Performance against timeliness targets

We set timeliness targets for completing reports to parliament.

Our external target is to have all reports tabled in the planned parliamentary session, and our internal targets help us to achieve this.

Although we met most of our external targets, we need to improve against our internal targets. During 2003-04, we continued looking at how we conduct audits and prepare parliamentary reports, including our audit methodology and publication processes.

TIMELINESS OF PARLIAMENTARY REPORTING PROGRAM



This chart shows that 12 of the 16 reports (10 of 16 in 2002-03) we presented to parliament during 2003-04 met our annual plan and business plan targets.

In 2002-03, the state election caused several of our reports to be held over and this affected our performance. In 2003-04, we had to extend our work and consult more widely during 2 particularly complex audits and this prevented us from reaching our target.

Although our performance targets are important for promoting efficiency, it is not appropriate for a targeted performance quota to outweigh the scope and effectiveness of an actual audit. Where there is potential for a conflict between audits that have a proper scope and are effective, and reaching a set target, we place the needs of good audit practice ahead of quantitative targets.

Performance against quality and client satisfaction targets

Feedback on reports from members of parliament

Feedback helps us to confirm that our audits have examined the most appropriate subjects, and that our findings and recommendations are clear and concise. Members of parliament and the Public Accounts and Estimates Committee give us informal feedback. Comments made during parliamentary debates have been positive.

We obtain formal feedback:

- every 3 years through an independent performance audit of our Office
- during intervening years by interviewing members of the Public Accounts and Estimates Committee.

Views of client agencies on tabled reports

To help us continually improve our audit reports, we ask audited agencies for their feedback in formal surveys and in face-to-face discussions.

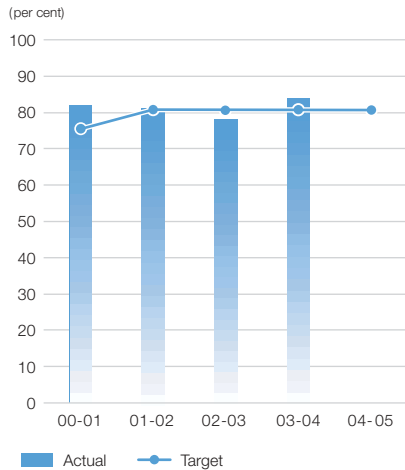
Our 3 key survey measures of client satisfaction are:

- report quality - does the report have value and is it relevant?
- audit process - was the audit process and the audit team adequate and professional?
- level of agreement - how much does the agency agree with our recommendations?

We collate the data and compare the total against our satisfaction target. Our target for 2003-04 was 80 per cent.

providing assurance
improving performance
adding value

**OVERALL CLIENT SATISFACTION
WITH PARLIAMENTARY REPORTS**



At 84 per cent, client satisfaction exceeded our 2003-04 target and improved upon our 2002-03 result. This high level of satisfaction shows that our reports are useful and add value to agencies' operations.

**Enhancing our
parliamentary reports**



Trish Brown from the Performance Audit Group helped staff to develop their plain English skills.

This year, we reviewed and redesigned our parliamentary report structure. It now reflects our audit method, clearly setting out audit criteria, the evidence, and our conclusions and recommendations.

This was enhanced by our plain English program. All our staff have been trained in plain English writing skills, and we have ongoing support and evaluation to help them maintain and develop their skills.

We also engaged plain English editors to help us with report restructuring and general reporting skills. We aim to make parliamentary reports more concise and easier to read.

**Parliamentary
services**

**Other services
provided to parliament**

We have a range of services that complement our reports to parliament. We give advice and comment on contemporary issues for key parties such as parliamentary committees, central government and peak professional bodies.

We strive to use our skills and knowledge to help parliament and the government improve public sector management and reporting practices. Our independence from decision-making allows us to advise on change in the public sector.

Assistance to parliament

We briefed members of parliament on each of our reports and liaised with the Public Accounts and Estimates Committee (PAEC) on performance audit specifications.

As soon as possible after our reports were tabled, we held briefings for members of parliament. There were encouraging attendances at a number of these sessions. In part, this was because we gave early advice of when reports were to be tabled. In 2003-04, we updated tabling dates on our website and at the start of the tabling week, gave members the report title and proposed tabling date. We will continue these briefings during 2004-05, and monitor how fully we meet members' needs on aspects such as timing and content.

"I would particularly like to put on record the excellent service – that is the right word – that the Auditor-General provides in giving briefings on his reports to members of Parliament ... These briefings are extremely useful and I believe they should be attended by as many members as possible, because as we all know the Auditor-General does good work."

The Hon. Chris Strong, MP, *Hansard*, 6 May 2004.

Legislation requires us to consult with the PAEC on the Auditor-General's draft annual plan and budgetary needs. The Auditor-General must indicate in the annual plan if any changes that the PAEC suggests have not been adopted. Our *2004-05 Annual Plan*, which was tabled in parliament on 23 June 2004 notes our reasons for not including an audit of forensic science services that the PAEC proposed.

During the year, we seconded some of our staff to the PAEC to help with its research activities.

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.

During 2003-04, we received 130 inquiries: 39 were from members of parliament and 91 were from the general public and community groups (149 inquiries in 2002-03).

We aim to first respond to all inquiries within 7 days, and finally within 4 weeks. This time frame includes deciding if we will investigate the issue more fully and report to parliament. 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 2003-04.

In 2003-04 we:

- acknowledged 65 per cent of inquiries from members of parliament and the public within 7 days
- responded to 80 per cent of these within 4 weeks.

In 2004-05, we have a target of 95 per cent for both acknowledging and responding to inquiries.

Enhancing accountability and resource management in the public sector

We regularly advise government, peak bodies and individual agencies in areas such as draft legislation, new proposals for financial management and intended changes to financial reporting frameworks.

During 2003-04, we liaised with government agencies on significant financial reporting issues and on new and revised Financial Reporting Directions. The Directions set out the requirements for financial management and reporting in the Victorian public sector. We continued to provide significant input to central agencies on a range of financial reporting issues, including the reporting of performance information.

We also:

- issued quarterly newsletters to agencies about current and topical public administration and governance matters, and the results of recent major audits
- advised TAFE institutes, government departments, ambulance services and public hospitals on model financial reports and reporting guidelines
- gave water authorities and university subsidiary companies model financial reports
- worked to identify and promote draft accounting and auditing standards and other public sector issues to do with harmonising national and international accounting standards.

Our *2002-03 Annual Report* foreshadowed the publication of good practice guides for public sector managers in selected areas. Our guides draw on the work done in recent audit examinations to provide good and better management practices for public sector agencies. This distinctive value-adding feature of our work helped us to develop 3 good practice guides in 2003-04. We also upgraded our website and linked it to other sites with similar good practice guidance.



Chief Finance Officer: Role and responsibilities

We developed this guide after consulting with the Department of Treasury and Finance. It supports their Financial Management Compliance Framework and focuses on the diverse roles and responsibilities of chief finance officers. A practical resource for the officers, chief executives and audit committees, it aims to help them achieve the full benefits of an effective finance function. The guide includes a check list for agencies to assess their own performance.

Managing risk across the public sector

This guide is designed to help public sector organisations establish better-practice risk management frameworks and strategies. Based on our 2003 performance audit, *Managing risk across the Victorian public sector*, it emphasises good risk management as a tool for dealing positively with, and capitalising on, opportunities. It describes the essential elements of good risk management by illustrating established frameworks, such as the Australian/New Zealand Standard, that the Victorian Managed Insurance Authority endorses for managing risk.

A value-adding feature of the guide is a check list to help organisations evaluate and improve their risk management frameworks and strategies. This identifies the elements of good practice for ensuring that an organisation's risk management framework is appropriate, effectively implemented, integrated with governance structures and is addressing state-sector risks.

Managing internet security

This guide helps raise awareness about good practices for addressing key risks to internet security in the public sector.



Our good practice guide aims to improve internet security practices in the public sector.

It sets out some of the main issues that agencies should consider when assessing the effectiveness of their internet security. It also gives a self-assessment check list as a starting point. This practical resource for chief information officers, information technology staff, business managers and audit committees will help to improve internet security practices.

Occasional paper: "Beyond the triple bottom line - Measuring and reporting on sustainability"



Sustainability is fast becoming a cornerstone of public sector management, and a key element of many government policies. This reflects its potential for improving public sector performance and achieving greater long-term outcomes for the community.

The paper draws on our performance audit of recent reductions in state forest logging and offers a concept of sustainability to help agencies measure sustainability and report on it. It also gives an insight into the approach the Office will take for auditing sustainability initiatives in the Victorian public sector.

Interstate organisations and international delegations

We occasionally meet with interstate organisations, and host international delegations, such as parliamentary representatives from overseas, to share our knowledge and experiences.

International visitors



Joe Manders (centre) hosted a visiting delegation from the Chinese National Audit Office.

During 2003-04, we hosted:

- a financial audit delegation from the Chinese National Audit Office
- representatives from the Auditor-General's Office from Trinidad and Tobago
- a Chinese National Audit Office performance audit study tour.

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

South Pacific Association of Supreme Audit Institutions

The Office is a member of the South Pacific Association of Supreme Audit Institutions (SPASAI), an organisation that aims to promote the advancement of public sector accounting and auditing among its members.

In May 2004, the Eighth SPASAI Congress was held in Apia, Samoa and was attended by Auditors-Generals or their representatives from many South Pacific countries. The Auditor-General was represented by David Reid, General Manager, Financial Audit. The congress involved discussion of issues facing audit offices and the ways in which the various SPASAI members had addressed these issues in their own jurisdictions.

Contributions to professional bodies

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

The Auditor-General was President of the Victorian Division of CPA Australia for the year up to April 2004 and was appointed as the Australian representative on the Public Sector Committee of the International Federation of Accountants in March 2004.

Australasian Council of Auditors-General

In February 2004, we hosted a meeting of the Australasian Council of Auditors-General (ACAG) Advisory Committee. This committee, which comprises the most senior staff with responsibilities for providing technical advice on policy and standards, examines emerging auditing and accounting issues, with a view to providing a consensus position across Australian and New Zealand audit offices. The meeting allowed for a sharing of views and experiences between the Office and ACAG members.

Warrants for expenditure of public funds

Under the *Constitution Act 1975* and the *Financial Management Act 1994*, any money drawn from the Consolidated Fund of the Public Account must be authorised by warrants that the Auditor-General examines and certifies.

During 2003-04, the Auditor-General certified 36 warrants authorising Consolidated Fund expenditure of up to \$24.5 billion (2002-03, 29 warrants of \$25.4 billion).

providing assurance
improving performance
adding value

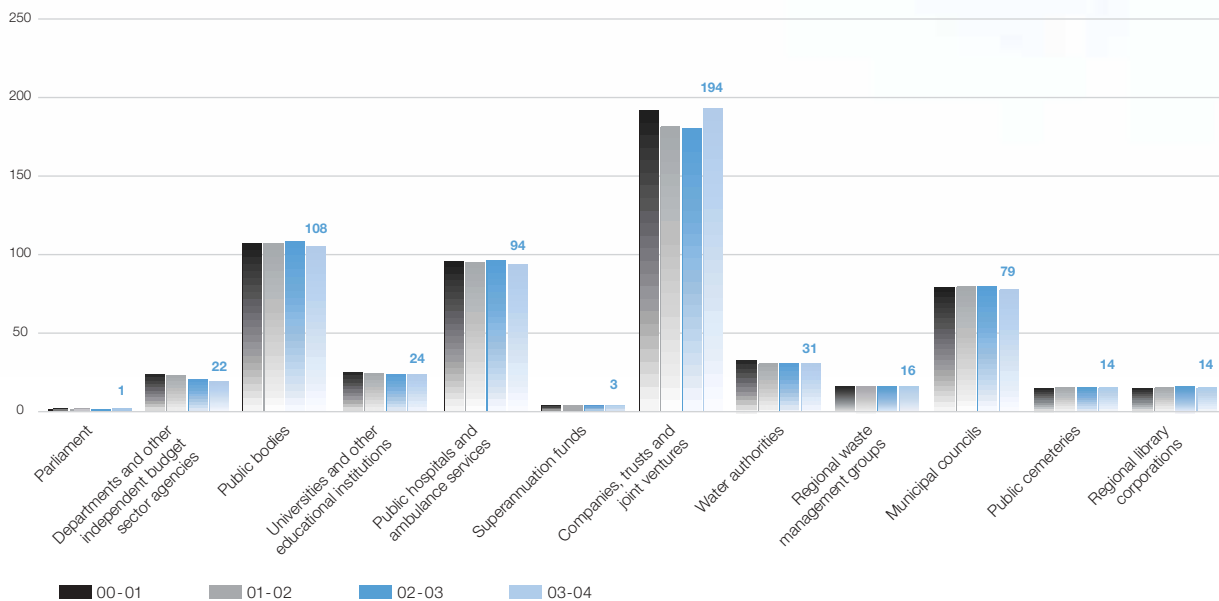
Audit reports on financial statements

The Auditor-General has a statutory responsibility to examine the annual financial statements of departments and public bodies, and to give audit opinions about whether their financial statements fairly reflect their financial position and operations. The Auditor-General must also give audit opinions on non-financial performance indicators in municipal council performance statements.

Audit responsibilities

At 30 June 2004, the Auditor-General was responsible for auditing the Annual Financial Report of the state, the review of the Estimated Financial Statements in the state budget, and 600 public sector agencies (587 in 2002-03). These agencies collect income of about \$40 billion, spend about \$40 billion and hold over \$147 billion in assets.

TYPE AND NUMBER OF AGENCIES AUDITED EACH YEAR, AT 30 JUNE



Appendix 3 of this annual report lists all the agencies subject to audit at 30 June 2004.

The following tables show how the Audit Reports on Financial Statements Output Group (Output Group 2) performed against its 2003-04 targets.

Performance against output targets

Performance measures	Unit of measure	Target 2003-04	Achievement 2003-04	Target 2004-05
Cost				
Delivering services within output cost (see page 29)	\$million	(a) 14.19	14.34	15.00
Quantity				
Audit opinions to agencies (see page 29)	number	590	611	610
Audit opinion on the 2002-03 Annual Financial Report of the state (see page 30)	number	1	1	1
Review of the government's Estimated Financial Statements forming part of the 2004-05 state budget (see page 30)	number	1	1	1
Audit opinions on non-financial performance indicators prepared by municipal councils (see page 30)	number	79	79	79
Timeliness				
Audit opinions issued within statutory deadlines (see page 31)	per cent	100	98	100
Management letters and reports to ministers in set time frames -				
Management letters (see page 31)	per cent	100	86	100
Reports to ministers (see page 31)	per cent	100	100	100
Quality				
Overall external satisfaction with how we conducted financial statement audits (see page 32)	per cent	75	74	80

(a) During 2003-04, the Office entered into a funding arrangement under section 29 of the Financial Management Act. Under this arrangement, the target cost for financial audits increased to \$14.2 million from the \$13.4 million included in the government's 2003-04 budget estimates. This increase was to meet the cost of additional audits.

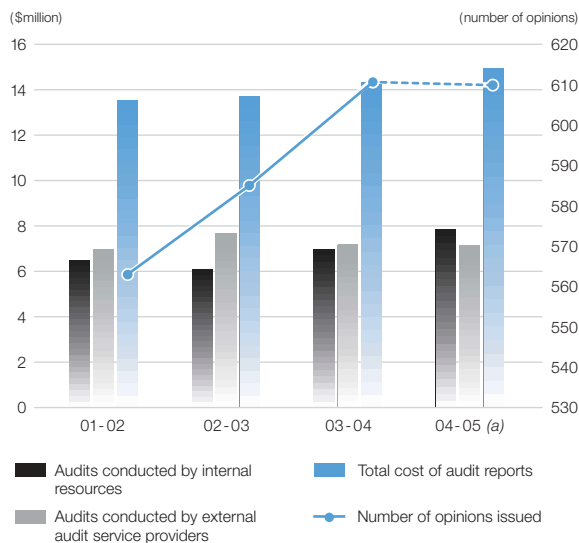
Our Reports on public sector agencies include any issues that emerge during financial statement audits that we believe should be reported to parliament (see page 10).

Performance against cost targets

Item	Target 2003-04	Actual 2003-04	Target 2004-05
	(\$m)	(\$m)	(\$m)
Audit reports on financial statements -			
Audits conducted with internal resources	6.48	6.52	7.48
Audits involving external audit service providers	7.31	<i>(a)</i> 7.40	7.10
Audit opinion on the Annual Financial Report of the state	0.14	0.20	0.23
Review of Estimated Financial Statements in the state budget	0.26	0.22	0.19
Aggregate output costs	14.19	14.34	15.00

(a) Includes \$6.69 million expenditure on external audit service providers, and \$713 000 incurred on these audits by internal resources.

COST OF AUDIT REPORTS ON FINANCIAL STATEMENTS



(a) Planned.

Since 2001-02, the aggregate cost of audit reports has risen by 10 per cent (including CPI increase), while the number of audit opinions rose by 8.5 per cent.

During 2003-04, we issued 611 audit opinions to agencies, including companies, trusts and joint ventures (587 in 2002-03). Our payments to contracted auditors dropped slightly to \$6.7 million (\$6.8 million in 2002-03) following our policy to do at least 35 per cent of audits in each sector in-house. Our internal costs for contracted audits were \$713 000. These costs covered our contract management and quality control processes.

The increase in the total cost of audit opinions, at \$14.34 million (\$13.70 million in 2002-03), was largely due to:

- having more agencies to audit
- higher staff employment costs.

These factors also increased our fees. We recover the costs of the audits from the agencies and pay this money to the Consolidated Fund. We paid \$14.3 million into the fund in 2003-04 (\$14.1 million in 2002-03).

Trends in average cost of audit opinions

Item	Unit of measure	Actual 2001-02	Actual 2002-03	Actual 2003-04	Target 2004-05
Number of audit opinions	number	564	587	611	610
Costs of audits	\$million	13.51	13.70	14.34	15.00
Average cost per audit	\$'000	24	23	23	25

The average cost per audit opinion remained stable at around \$23 000 in 2003-04.

We estimate the Output Group's costs will rise by \$660 000 in 2004-05, largely because of forecast rises in employment costs and certain sectors needing extra audit work on performance indicators.

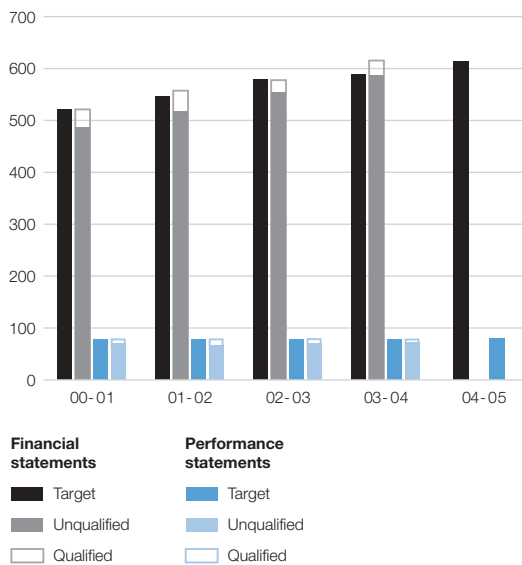
Performance against quantity targets

Audit opinions issued to agencies

In 2003-04, we issued 220 audit opinions from in-house staff (206 in 2002-03) and 391 opinions from external audit service providers (381 in 2002-03).

We also issued 79 audit opinions on performance statements to local government councils (78 in 2002-03). Under the *Roads to Recovery Act 2000*, we issued 39 audit opinions on Statements of Receipts and Expenditure to the Commonwealth Department of Transport and Regional Services (39 in 2002-03).

NUMBER OF AUDIT OPINIONS ON FINANCIAL STATEMENTS AND PERFORMANCE STATEMENTS



Of the 611 audit opinions we issued, 96 per cent were unqualified. Ninety-four per cent of our audit opinions on local government council performance statements were unqualified.

We most commonly gave a qualified opinion where agencies:

- inappropriately accounted for non-reciprocal revenue grants. Seven agencies did not disclose these as income in the year of receipt, which Australian accounting standards require
- failed to consolidate "controlled entities", which is also required by Australian accounting standards (3 agencies)
- incorrectly accounted for, or valued, non-current assets (2 agencies).

The Royal Melbourne Institute of Technology had inadequate accounting records in 2003. We could not, therefore, form an opinion on certain balances and transactions.

Five local government councils received qualified performance statements because:

- 4 had corporate plans without a business plan and/or performance measures
- one had insufficient or inappropriate evidence of certain performance measures.

Audit opinion on the 2002-03 Annual Financial Report of the state

A key feature of the state's accountability framework is that the Victorian Government must prepare and present consolidated financial statements to parliament each year. The statements include all the public sector entities that the government controls. Local government bodies and universities are not included in this financial reporting.

On 20 October 2003, the Auditor-General issued an unqualified audit opinion on the Annual Financial Report of the state for 2002-03. The government presented its audited financial report to the Victorian Parliament on 28 October 2003.

Review of the government's Estimated Financial Statements

On 30 April 2004, we finished our review of the government's Estimated Financial Statements for the financial year ending 30 June 2005 and the following 3 years. The government's *Budget Papers*, presented to parliament in May 2004, included our short-form audit report on the results of this review.

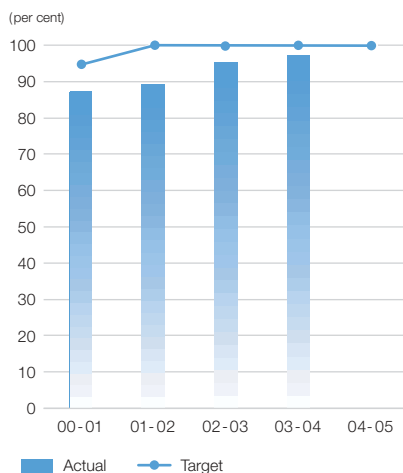
Performance against timeliness

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. They must submit their annual financial statements to the Auditor-General within 8 weeks of the financial year-end.

The Auditor-General must then express an opinion on the financial statements within 4 weeks.

PERCENTAGE OF AUDIT OPINIONS ISSUED WITHIN STATUTORY DEADLINES



During 2003-04, we issued 98 per cent (96 per cent in 2002-03) of our audit opinions within the statutory deadline. We did not reach our target of 100 per cent because accounting and disclosure issues for certain entities had to first be resolved. However, as is evident from the chart, there has been a steady improvement in performance in this area over the last 4 years.

“Audit opinion on financial statements issued in agreed timeframes. Changes in [your Office] in regard to re-allocation of audit responsibilities were very positive. It was noted that under this new process timeliness and delivery of audit services was vastly improved.”

Barwon Region Water Authority.

Improving timeliness of financial reporting by agencies

Seventy per cent of public sector agencies completed audited financial statements within 12 weeks of the balance date (45 per cent in 2002-03). This improvement was achieved by initiatives of agencies and by our strategies to help agencies meet their statutory reporting requirements. These include:

- early consulting for effective reporting schedules and auditing processes
- solving accounting and auditing problems as early as possible
- encouraging agencies to do draft financial reports before the balance date to resolve issues about format and disclosure.

“Access to senior audit management to discuss and resolve issues early in the audit process was excellent. Very satisfied.”

Department of Primary Industries.

Management letters to agencies and reports to ministers

We send all the audited agencies management letters outlining our findings and recommendations.

In 2003-04, we sent 86 per cent of management letters in our targeted time frame (74 per cent in 2002-03). We missed our target of 100 per cent largely because we had to consult extensively on some complex issues before issuing letters.

During the year, we changed our practice for reporting our audit findings to ministers. We issued a consolidated report to each minister outlining significant audit matters for agencies in their portfolio. We had previously sent a separate report to each affected agency.

We will continue to improve the timeliness of our management letters by completing as much of the audit as possible before balance date, and sending interim management letters before financial year-end telling agencies about any interim audit results.

Measuring the quality of financial statement audits

Agency satisfaction with how we conduct financial statement audits



Jim Dixon (left) and Matthew Brennan, from the Strategic Audit Planning, Policies and Standards Group.

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

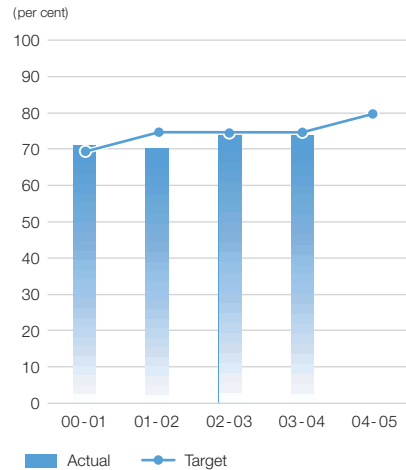
Executive management rates our services against a range of key attributes such as how professional and skilled our audit staff were, how effective their communication was, and how well they understood the agency's business. We use responses to improve our service.

The survey also asks for an overall rating of satisfaction with financial statement audit services. Client satisfaction was 74 per cent for 2003-04, which is slightly below our target of 75 per cent. Our target for 2004-05 is 80 per cent.

“Improvements to our satisfaction ratings can be attributed to the apparent improved level of co-operation between your Office and the contracted audit service provider, and the more efficient manner in which the final audit sign-off process was conducted.”

Moorabool Shire Council.

AGENCY SATISFACTION WITH FINANCIAL STATEMENT AUDIT WORK



We are in our second year of revising our organisational structure as to how we conduct financial statement audits. The Financial Audit Group now manages and supervises external audit service providers, and does more client liaison. We established a new “support officer” role and further guidance material on the role of the “responsible officer”.

Our aim in doing this is to:

- consolidate our financial audit sector knowledge and skills to better serve our clients
- help compile the results of financial statement audits and the issues that emerge in each sector for parliament
- help staff and external audit service providers be more consistent about similar organisations within a sector
- liaise more extensively with an agency's senior management during the audit process
- interact more with our audit contractors and clients when planning high-risk audits
- improve how responsive we are
- better help agencies.

These changes coincided with a new approach to quality control over contracted audits. We now encourage staff and external audit service providers to interact more, to assess the quality of each other's work, and to quickly identify and resolve audit issues. This replaces our former practice of reviewing contracted audits just before issuing the audit opinion.

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This approach helped us to improve the early resolution of issues and our financial reporting timeliness in 2003-04. We will further improve and streamline our audit timing and approach in 2004-05.

Positive comments from agencies suggest that our efforts and initiatives have helped to improve client perceptions of the Office.

Clients saw improvements in how we responded to emerging issues and in the signing of the audit opinion.

Our internal quality assurance regime is on pages 44-45.

The agencies' extremely positive comments, however, did not produce higher overall satisfaction ratings. We still have improvements to make. We are currently developing a common survey instrument with other audit offices to benchmark our performance.

“The change in audit process from previous years, i.e. a direct relationship between AG and the Arts Centre has resulted in vastly improved process, communications and timeliness from previous years.”

Victorian Arts Centre Trust.

Resourcing our financial statement audits

Policy for resourcing financial statement audits



*Travis Derricott and Charlotte Jeffries,
from the Financial Audit Group.*

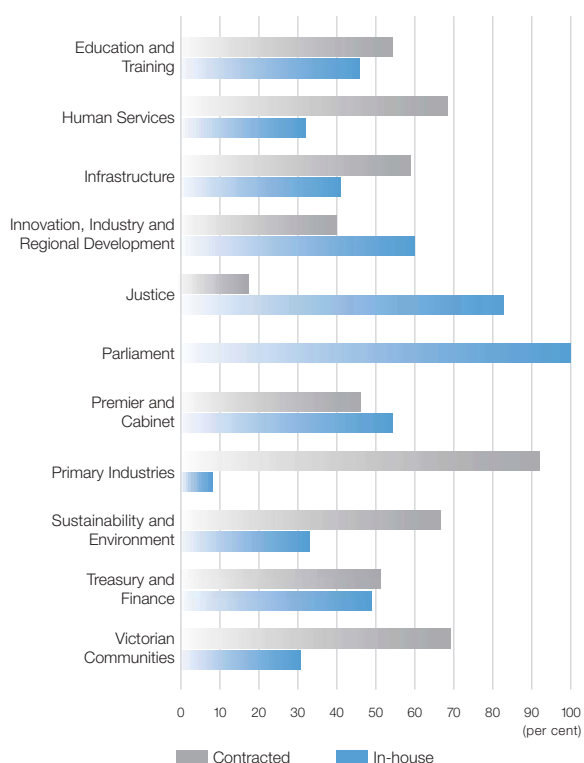
Financial statement audits are carried out by internal staff or external audit service providers under a 3-year contract. Our decisions about these resources are based on the financial statement audits resourcing policy we established in 2001-02. As part of this policy:

- the Financial Audit Group is responsible for auditing the Annual Financial Report of the state, reviewing the government's budget estimates, and auditing the administrative functions of parliament and government departments
- we will have a 35 per cent internal resourcing target for financial statement audits within each sector of government by 2004
- we will progressively offer contracted audits to public tender as current contractual arrangements expire
- we will rotate the Financial Audit Group director or the external audit service provider for each audit every 5 years, in line with international best practice; and to help maintain audit independence and ensure a fresh and objective perspective.

Current resource mix for financial statement audits

By 30 June 2004, the Financial Audit Group internally resourced 220 audits, or 36 per cent (206 or 35 per cent, in 2002-03).

The following chart shows in-house and contracted auditors across each sector at 30 June 2004, by percentage of audits. We had a successful round of tenders for audits mainly in the local government sector during the year.



We are planning for rounds of tenders in October 2004 for the general and local government sectors, and in April 2005 for education sector agencies with calendar year-end balance dates.

External audit service providers

The following table shows our payments to 46 external audit service providers in 2003-04.

FINANCIAL STATEMENT AUDITS, PAYMENTS TO EXTERNAL AUDIT SERVICE PROVIDERS, 2003-04

External audit service provider	Amount (\$'000)
RSM Bird Cameron	1 357
Ernst and Young	952
WHK Day Neilson	702
Richmond Sinnott & Delahuntly	569
PricewaterhouseCoopers	444
Haines Norton	404
KPMG	382
Armitage Downie	292
Coffey Hunt	254
Hall Chadwick	253
HLB Mann Judd (Vic)	221
Deloitte Touche Tohmatsu	193
Johnsons MME	168
Pannell Kerr Forster	149
Other (a)	349
Total	6 689

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

In 2002-03, we paid \$6.839 million to 47 external audit service providers.

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 annual operating expenditure is under \$5 million. In 2003-04, the Auditor-General delegated responsibility to external audit service providers to issue audit opinions and audit management letters for 96 audits (41 in 2002-03). The increase resulted from the amendments to the Audit Act that changed the threshold from under \$1 million of net assets to under \$5 million of expenditure. Appendix 4 of this annual report contains the specific delegations.

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Managing our Office

We aim to manage our Office and its people in an exemplary manner.

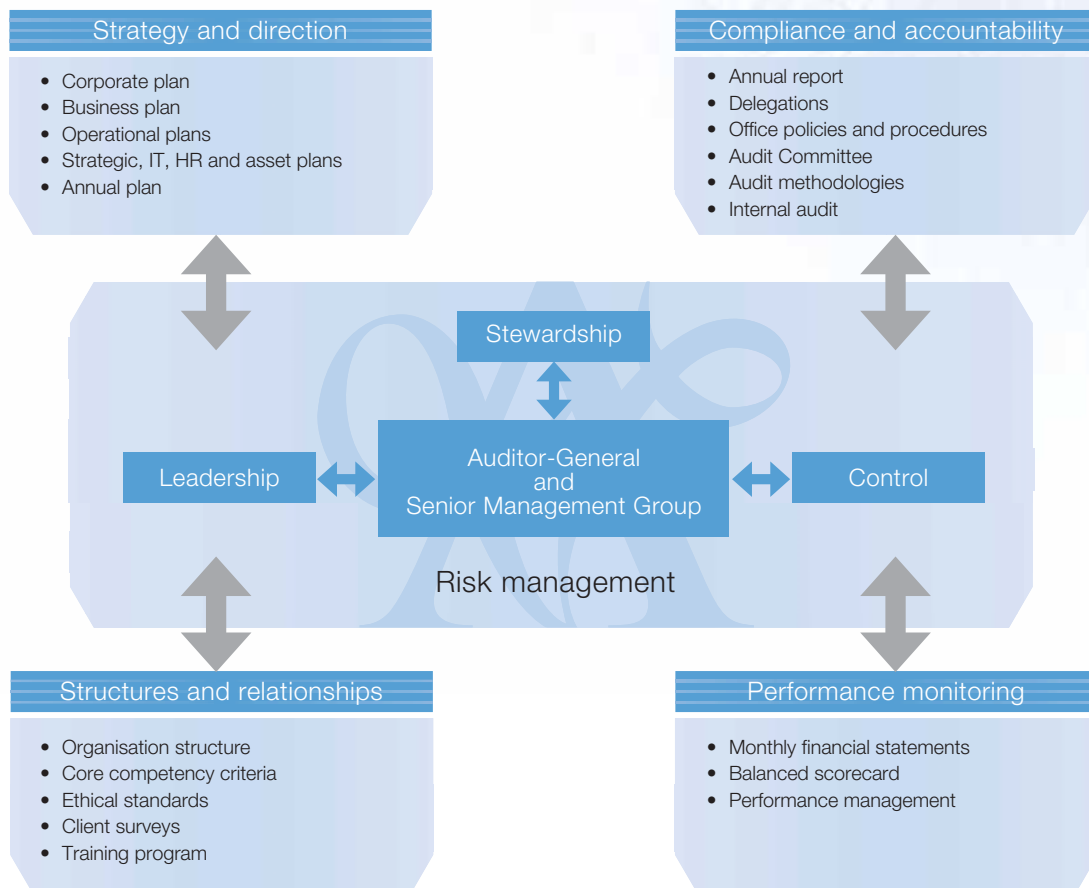
This aim underpins all aspects of our operations: sound strategic corporate and audit planning, the effectiveness of our quality assurance, our success in attracting and keeping skilled people and giving them opportunities for professional growth, and our stewardship in administering the funds parliament assigns to us.

Corporate governance

We support our main work with a strong corporate governance framework.

The following diagram illustrates the 4 main elements of the framework and its underlying components. It shows how all the elements interact, including risk management, in helping us to achieve our corporate aims.

OUR CORPORATE GOVERNANCE FRAMEWORK



Our performance against corporate targets

Target 2003-04	Achievement 2003-04
Capture the business opportunities that flow from developing our new practice management system (MARS).	Stage 2 of MARS allows us to prepare electronic purchase orders (see page 42).
Add value by improving our knowledge management.	We approved a new strategy for managing knowledge and completed our 2003-04 action plan (see page 43).
Implement our revised corporate communications strategy.	We launched our revised corporate communications strategy, including <i>Our communications principles</i> in June 2004 (see page 43).
Continue to review our human resources policies.	We continued to enhance the human resources policies manual by including new and revised policies (see page 47).
Develop a reward and recognition scheme.	We launched our revised reward and recognition scheme (see page 47).
Conduct an annual staff survey.	For the fourth year in a row, we have measured staff perceptions on a range of organisational effectiveness indicators (see page 52).
Introduce a capabilities framework for career development, talent management and succession planning.	We completed our capabilities framework (see page 47).
Develop a reporting regime for work force planning.	We developed the reporting regime for work force planning (see page 47).
Prepare a business continuity plan.	We developed a disaster recovery plan (see page 42).
Update our financial management policies.	Our continuing review of financial policies took advantage of efficiencies in MARS (see page 42).
Implement a methodology to examine performance indicators.	New methodology near completion (see page 44).
Discover new ways to add value through our activities such as better practice guides and industry-sector newsletters.	We published 3 good practice guides and an occasional paper (see page 24).
Analysis of financial audits to ensure compliance with established quality standards and to enhance future service delivery.	Quality assurance reviews of 26 audits completed by an independent consultant (see page 45).
Integrate sources of financial audit methodology into a consolidated office-wide system.	Ongoing development of financial audit manual (see page 44).
Assessment of performance audit and special reviews to ensure quality standards have been achieved.	Review completed and report presented (see page 45).

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Future directions

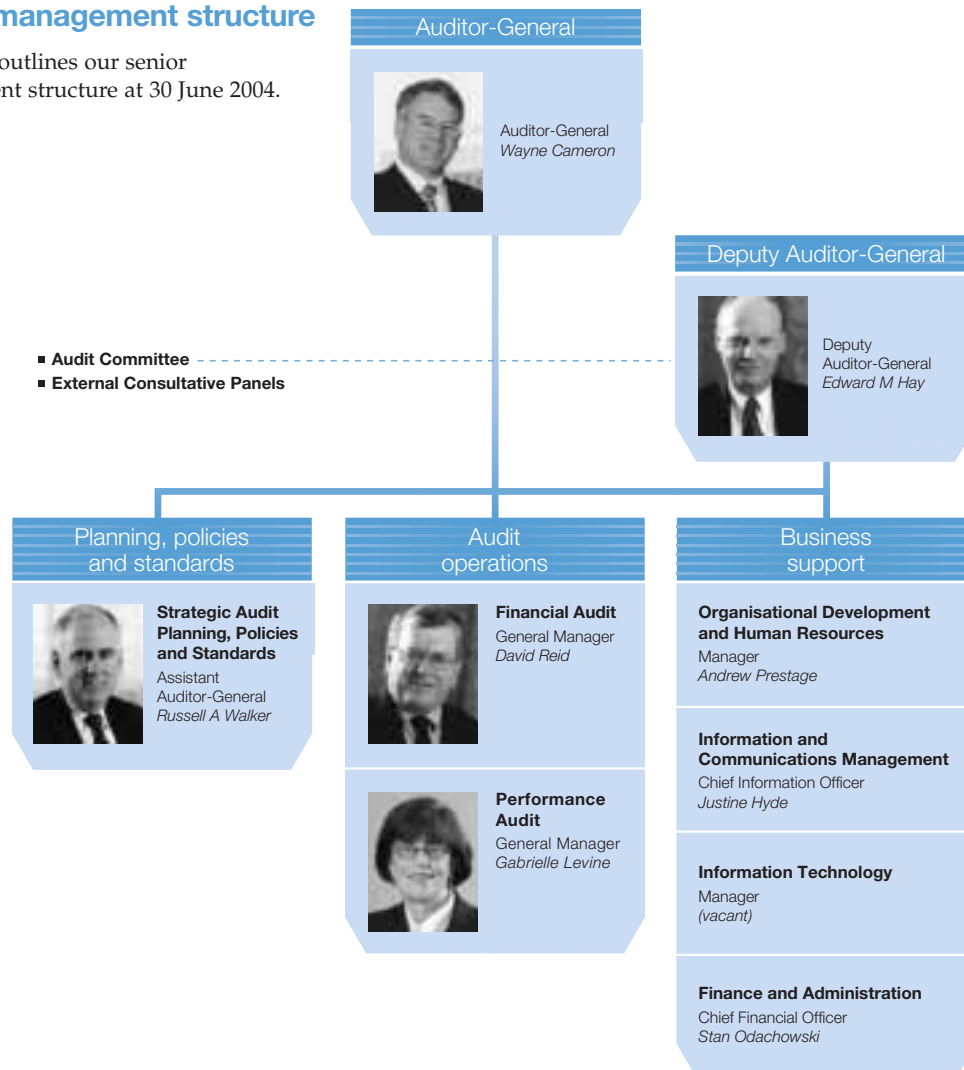
We will begin these initiatives in 2004-05 as part of our continuous improvements.

Business initiative	Objective
Add value by improving how we manage knowledge.	Measure the use of multi-group teams on audits and implement a system for managing documents electronically.
Recognise the importance of our people.	Better nurture staff skills and recognise staff potential.
Capture business opportunities through developing the new practice management system (MARS).	Improve processes for business support.
Continue our plain English program.	Ensure our internal documents and templates reflect plain English principles.
Review management reports.	Improve monitoring of our performance at all levels.
Integrate sources of financial audit methodology into a consolidated office-wide system.	To improve support processes for staff in the Financial Audit Group and the Strategic Audit Planning, Policies and Standards Group.

Leadership and stewardship

Senior management structure

This chart outlines our senior management structure at 30 June 2004.



Senior management

J Wayne Cameron

BCom, FCA (NZ), FCPA, CA (Aust.), FIPAA
Auditor-General of Victoria

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

Edward M Hay

BA (Accounting), CA
Deputy Auditor-General

Edward began as Deputy Auditor-General in November 2001. He reports directly to the Auditor-General on our management and performance. He oversees the coordination of audit operations and internal support, and he helps us to foster a positive professional relationship with audited agencies and the auditing profession.

Russell A Walker

Dip Bus (Acc) Grad Dip (Govt Acc), FCPA
Assistant Auditor-General,
Strategic Audit Planning, Policies and Standards Group

Russell began as Assistant Auditor-General in 1987. In 2002 he became the manager of the Strategic Audit Planning, Policies and Standards Group. The group identifies medium to long-term issues in the public sector requiring an Office focus, particularly in accountability and performance. The group is also responsible for technical accounting and auditing advice, quality assurance and audit methodology development.

David Reid

BCom, FCPA
General Manager, Financial Audit Group

David was appointed General Manager, Financial Audit Group in May 2000. He manages our financial statement audits, including overseeing the audits that we contract out to external audit service providers.

Gabrielle Levine

BA, DipEd
General Manager, Performance Audit Group

Gabrielle began as General Manager, Performance Audit Group in 2003. She manages our annual performance audit program. This includes the annual series of major performance audit reports.

Managing the Office

The Senior Management Group and 5 committees manage the Office.

Senior Management Group

The Senior Management Group provides a forum for considering our policy framework and strategic direction, and monitoring our performance against corporate goals and milestones.

The leaders of each operational group are members of the group, which meets monthly.

During 2003-04, the group monitored our performance against our key performance indicators. It also endorsed major initiatives, including our:

- new corporate plan
- IT strategic plan
- learning and development plan
- risk management plan
- IT security management policies.

Audit Committee

The Audit Committee independently advises the Auditor-General on the quality of our internal operating controls, our resource management and whether our internal financial reports are adequate. It monitors how we manage significant financial risks, reviews our internal and external audits and our annual financial statements.



Paul Martin (left), with Audit Committee independent member, Keith James.

Audit Committee Chairman's report

The Audit Committee has 3 members: David Greenall (Chairman), Chartered Accountant and independent member; Keith James, FCPA, of Hall & Wilcox Lawyers, independent member; and the Deputy Auditor-General Edward Hay.

The committee met 4 times during the financial year and examined management financial reporting processes and resultant reports to management. We noted the implementation of a new financial accounting package and associated security measures.

Following the commencement of Standing Directions of the Minister for Finance on 1 July 2003, the committee undertook to review its charter and sought to address the issues required of audit committees pursuant to those Directions.

We also examined the annual financial report of the Office for 2002-03 and met with the external auditor, Mr Graeme Ross. We ensured appropriate management follow-up of the matters raised in the course of his audit.

The internal auditor, Mr Ron Tilley attended our meetings and provided written reports on his audit findings: the committee ensured that there was appropriate follow-up by management. We also reviewed and approved his audit plans.

The committee continued to monitor the implementation of the recommendations of the Public Accounts and Estimates Committee arising from the last performance audit of the Office. We also monitored the implementation of risk management measures within the organisation.

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

The committee noted progress on the Office's Financial Management Compliance Framework and procedures to ensure compliance with the Taxation Compliance Framework, both new requirements issued to all departments by Minister for Finance Directions.

Towards the end of the 2003-04 financial year, parliament appointed Mr Terry Benfold of Pitcher Partners and Mr John Phillips of Acumen Alliance as external auditor and performance auditor, respectively, and the Audit Committee will be engaging in discussions with these auditors.

During the year, the Auditor-General and various senior members of staff attended meetings and I thank them for their input and assistance, and my fellow committee members.



David T Greenall (Chairman)

Information Management and Technology Steering Committee

This committee's responsibilities include supervising our information management and technology strategies and initiatives.

The committee members are the Deputy Auditor-General; Manager, IT; Manager, Finance and Administration; General Managers, Financial and Performance Audit.

During 2003-04, the committee monitored the introduction of MARS, our new practice management system, and is now concentrating on taking advantage of business opportunities from improving the system.

We also completed a new IT strategic plan to improve business efficiency, support audit activity and better maintain our IT infrastructure.

Learning and Development Steering Committee

This committee's responsibilities include managing and overseeing our learning and development strategies and activities.

The committee members are the Deputy Auditor-General; General Managers, Financial and Performance Audit; Assistant Auditor-General, Strategic Audit Planning, Policies and Standards; and Manager, Organisational Development and Human Resources.

During 2003-04, the committee endorsed a new learning and development plan that reflect the new VPS career structure.

Remuneration Committee

This committee advises the Auditor-General on our remuneration policies and practices, and staff remuneration arrangements. These policies and practices help us to attract, motivate and retain quality staff.

The committee members are the Auditor-General; Deputy Auditor-General; General Managers, Performance and Financial Audit; and Assistant Auditor-General, Strategic Audit Planning, Policies and Standards.

The committee met twice during 2003-04 and recommended adjustments to staff remuneration.

Operations Committee

The responsibilities of this committee include directing resources for achieving our objectives.

The committee members are the Deputy Auditor-General; General Managers, Performance and Financial Audit; and Assistant Auditor-General, Strategic Audit Planning, Policies and Standards.

The committee met as needed during 2003-04.

Risk management

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

This is the second year we have had a formal risk management policy. We revised the policy during the year to take account of lessons learnt in 2002-03. Our risk management plan identifies all our strategic, audit and operational risks.

The Senior Management Group monitors our risks monthly and reports on:

- any changes to existing risks and a timetable for managing them
- any new risks and strategies for handling them.

There are no emerging or existing risks that do not have effective risk treatments in place.

Declaration of interests

All executive officers have completed statements declaring whether their interests, shares in and other benefits from statutory authorities, and any other business enterprises could give rise to a conflict of interest, and there were no such conflicts.

Strategy and direction

Corporate plan

Our *Corporate Plan, 2001-02 to 2003-04* sets out our corporate objectives and our strategies to achieve these. Every quarter, the Senior Management Group monitors our progress.

In 2003-04, we held a series of staff workshops to develop a new corporate plan that will run from 1 July 2004 to 30 June 2007. The workshops gave us staff feedback and support on the proposed values and behaviours.

This new corporate plan builds on our previous plan and will extend our products and services. We aim to be more responsive, to work more collaboratively, and to use our knowledge to shape our awareness and the direction we take on emerging issues.



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. We continued to develop our strategic audit planning to help us identify these areas.

During our planning, we looked at:

- national and international trends in public sector practice
- emerging public sector issues such as private-public partnerships
- our audit results
- risk issues for government operations
- community concerns, both through direct contact and the media.

We have a 3-year strategic audit plan for each government sector, from which we develop our annual plan.

This information also informs our budgetary needs. After consulting with the Public Accounts and Estimates Committee, we submitted our annual plan to parliament in June 2004.

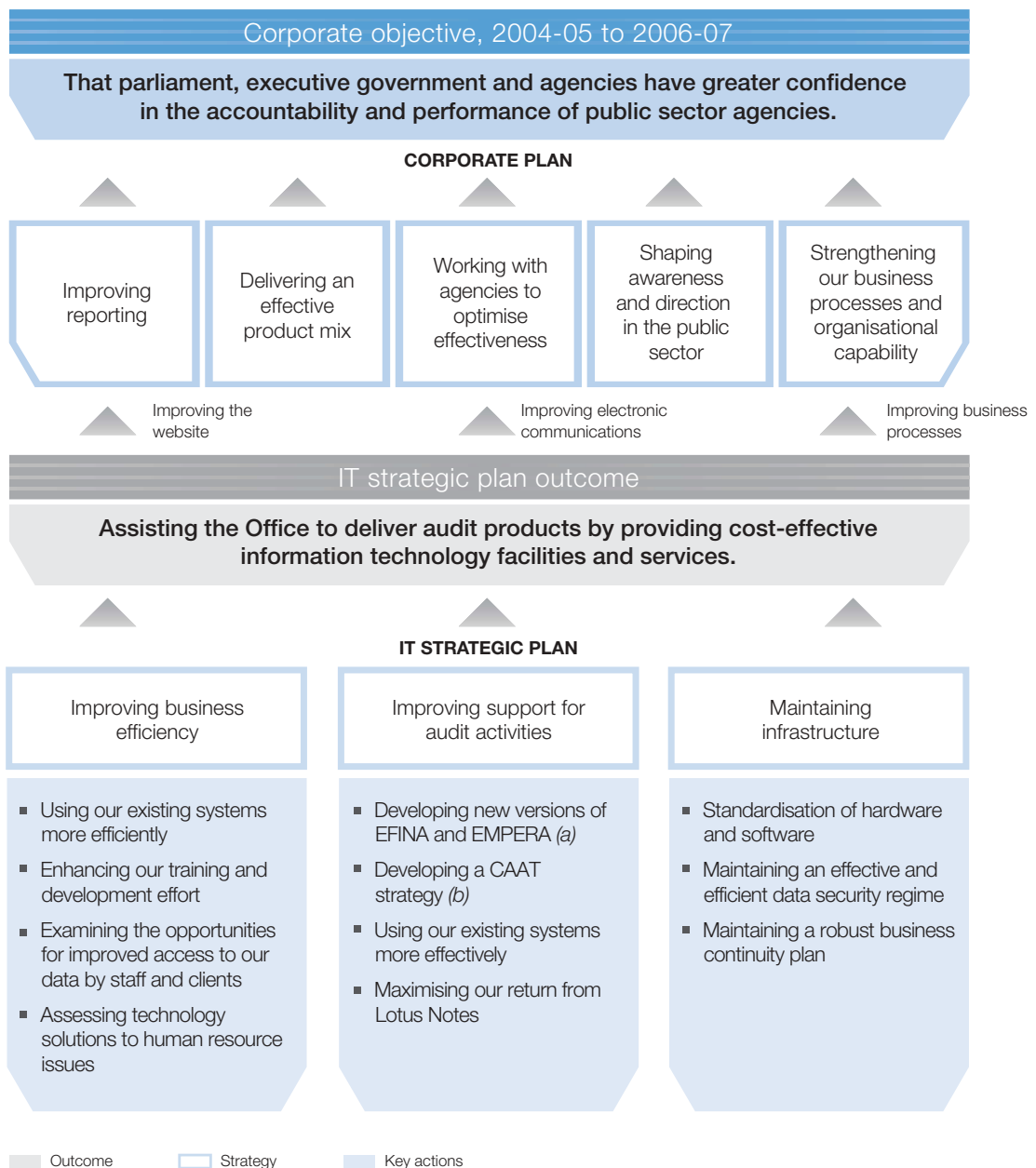
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Business and operational group plans

The Office business plan supports the corporate plan and the annual plan. It sets out the way in which the year's planned outputs and developmental goals are to be achieved. Plans for each audit operational group support the business plan. The Senior Management Group monitors our progress against the business and operational group plans every quarter.

New IT strategic plan

In 2003-04, we developed a new strategic plan for information technology, which will support the corporate plan. The chart below sets out our corporate objectives and strategies.



(a) EFINA and EMPERA are electronic working paper systems based on Lotus Notes that we developed internally.

(b) CAATs (computer-assisted audit techniques) allow auditors to test and interrogate large amounts of electronic data.

Our corporate plan guides how we will develop and use our IT for the next 3 years.

During 2003-04 we achieved the following objectives.

IT ACHIEVEMENTS, 2003-04

Business initiative	Achievement
Upgrade our practice management system (MARS).	Our MARS practice management system has been further enhanced as a result of user feedback over the past year. We have refined the contact management module, project budgeting and purchase orders facilities. Additional reports have also been created. The system allows auditors to record and retrieve data about audit activities when they are in the Office and at client sites.
Upgrade our Lotus Notes system.	We upgraded the Lotus Notes software to the latest version, and delivered a comprehensive staff training program.
Upgrade EFINA and EMPERA computer software for producing working papers.	Based on feedback from users, we upgraded both computer systems that record the working papers for financial and performance audits in 2003-04.
Develop skills database for staff.	We developed a database to record staff professional skills, qualifications, experience and interests. We will better allocate human resources by more quickly identifying staff best suited to new audit activities.
Test our network for unauthorised access.	Security specialists did not find any external weaknesses when they assessed the external security of our local area network.
Upgrade our disaster recovery facilities.	We revised our disaster recovery plan to include the new practice management and document management systems. We successfully tested recovery processes at our remote recovery site.
Review and update our security policies.	We upgraded our IT security policies.
Purchase new desktop and portable computers.	We replaced all desktop computers and one-third of our portable computers in our hardware maintenance program.
Assess our wireless data communications.	We tested several wireless products for potential use by auditors working at clients' premises. The results were not satisfactory and we will continue testing in 2004-05.

Our future directions for IT are as follows.

FUTURE IT OBJECTIVES

Business initiative	Objective
Continue to enhance our practice management system.	Maximise the business opportunities from business support systems.
Upgrade the telephone system.	Take advantages of the government-wide initiative for business telephones.
Improve data communications for auditors at clients' sites.	More efficient communications for staff working at clients' sites.

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adding value

Information management

During 2003-04, we continued to improve access to information in the Office by:

- upgrading TRIM, our records management system, to help us better capture and retrieve electronic records
- adding extra information to our upgraded intranet site to further reduce paper records.

Knowledge management strategy

In 2003-04, we approved a knowledge management strategy, and launched our first action plan, as follows.



Margaret Frewin helped to develop our new intranet site.

KNOWLEDGE MANAGEMENT STRATEGY, 2003-04 ACTION PLAN

Business initiative	Achievement
Amend documentation so risk management includes the risk and potential consequences of not sharing knowledge.	2004-05 risk management guidelines include risks that are directly linked to the importance of sharing information.
Develop rules for staff on where and how to store information after we finish the TRIM project.	We have electronic document management in selected areas. This will help us decide whether TRIM is the best way to manage electronic documents.
Include knowledge-sharing competencies in our competency framework.	We amended role descriptions in the competency framework to include knowledge sharing.
Launch database of staff skills, experience and interests.	We completed this project in October 2003.
Develop distribution model for business intelligence.	We are still developing this project.

Corporate communications strategy

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

During the year, we undertook a number of activities to further develop community awareness of the services we provide. Activities included keeping our website up-to-date, and participation in information displays at the Royal Melbourne Show, Parliament House Open Day and on-campus activities during our graduate recruitment program at selected universities.

We also revised and launched a corporate communications strategy, which included the distribution of *Our communications principles* to all staff, to:

- better communicate in our partnerships with parliament, executive government, the Public Accounts and Estimates Committee, government

agencies, industry groups, audit committees, other audit offices and the community

- create opportunities to communicate with respect and balance
- use best practice, stakeholder feedback and contemporary technology to make improvements
- add value to audit findings
- collaborate to enhance decision-making, reach common goals and be consistent in the views we communicate
- promote our parliamentary reports in external forums and through professional associations
- communicate proactively, strategically and clearly.

In 2004-05, we plan to build on successful past communications practices and use more innovative technologies to add value to our communications with stakeholders.

Compliance and accountability

Quality assurance practices

We are committed to best practice in our audits. We aim to continually raise our standards to better meet the needs of parliament and our audit clients.

Financial Audit Policy Manual

Our Financial Audit Policy Manual guides staff and contracted auditors on financial statement audits.

The manual is updated annually. We launched this year's revised manual at a forum for our auditors in April 2004. The forum focused on current developments in auditing and financial reporting, and highlighted emerging developments in individual sectors and across the public sector. We held a similar forum in November 2003 for the auditors of calendar year-end audits in the education sector.

The Strategic Audit Planning, Policies and Standards Group also issues financial audit policy alerts on policy developments on emerging legislative, financial reporting or auditing issues. These "as needed" alerts give timely interim guidance and we include them as updates in the manual. Auditors in the field can now access the manual and the alerts through controlled internet access.

Financial audit methodology



Carlos Morin (left) and Chris Yong from our computer risk management team assisted Office staff in reviewing audit clients' computer systems.

Financial Audit Group staff carry out 36 per cent of our financial statement audits. Our computer risk management team is involved in our financial statement audits. The team reviews new information technology and controls in our clients' computer systems and looks at their IT security, business-continuity planning, and how they develop and maintain key business applications.

One of our main roles is to make sure our audit methods achieve high-quality results. Accordingly, we continue to upgrade EFINA, the electronic system that produces our working papers for financial audits. This improves our financial auditing and reflects any changes in accounting and auditing standards.

Major improvements in 2003-04 included:

- strengthening our audit planning, focusing especially on evaluating and managing key financial risks in public sector agencies
- revising financial audit policies and guidelines
- improving communication with clients, management, audit committees and statutory boards about the financial audit process
- continuing to review emerging information technology issues within agencies and electronic audit tools that improve financial auditing.

During 2003-04, we started reviewing the manual that supports EFINA. We will finish this in 2004-05.

We are now planning a major upgrade of our financial audit methods.

We also began discussing the possibility of a joint arrangement with the Queensland Audit Office for improving our financial audit methods. Redeveloping audit methodology is a major undertaking. We need to do extensive research and analysis before deciding on such an important matter and we will make a decision about this in 2004-05.

Performance audit and special reviews methodology

During 2003-04, we supported high-quality performance audits and special reviews by continuing to develop our audit methods, practices and systems.

We updated and renamed the Victorian Performance Audit Methodology (VPAM) as the Manual for Auditing Performance (MAP). This is a framework for conducting performance audits. It sets out the roles, accountabilities, standards and expectations for conducting and managing audits through their initiation, planning, execution, reporting and closing phases. It also outlines how we communicate with audited agencies and engage specialists.

The manual gives us a legislative, policy and conceptual framework for conducting performance audits, special reviews and investigations. We converted it into a more user-friendly internet tool, with numerous hot-linked references, process documents and templates.

We document our performance audit work using EMPERA, the electronic system that produces our working papers for performance audits. In 2003-04, we augmented our knowledge management software with *Reasonable* and *MindMap*.

The development of a methodology for auditing performance information was near completion.

Adhering to auditing standards

Under the *Audit Act 1994*, we must follow Australian auditing standards. Although we can set new auditing standards, the Auditor-General did not issue any in 2003-04.

To complement the Australian standards, the Auditor-General periodically issues audit policy statements which we use to update the Financial Audit Policy Manual.

We comply with auditing standards and policies, and safeguard the quality of our audits by:

- involving senior officers in all phases of the audit, including approving the plan and reviewing significant matters arising from each audit
- having senior support officers to help the primary auditor on all high-risk audits
- having senior staff review audit results to ensure that the audit meets a professional standard.

These measures also help us to tell parliament and the agencies about important financial management and accountability issues, and any inconsistencies in financial reporting.

We also have external quality assurance reviews of our audit work through:

- parliament appointing an independent auditor to do a 3-yearly performance audit of the Office
- a peer review by another Australian audit office
- our post-audit quality review program which reviews a sample of completed audits to check that they follow professional auditing standards and the Auditor-General's policies
- reviews of selected parliamentary reports by an academic institution
- client satisfaction surveys on the quality of our audits.

Financial statement audits

Each year, the Strategic Audit Planning, Policies and Standards Group asks external parties to review a sample of the audits done by both our external audit service providers and our in-house auditors. This quality assurance check helps us to assess the performance of our auditors.

Each post-audit quality review undertaken in 2003-04 determined whether:

- the audit used Australian auditing standards and met legislative requirements
- the audit included a comprehensive risk assessment, linked to the audit strategy
- the audit strategy was appropriate and had a supporting program
- the evidence for the audit opinion was adequate
- the auditor used appropriate resources and review processes

- contracted auditors met the terms of their contract
- agencies and auditors addressed all issues that arose during the audit and reported in a timely manner.

Although we had pleasing results overall, we fine-tuned our internal processes and improved our quality assurance processes. We circulated the results to staff, which helped our learning and development program.

Performance audits, special reviews and investigations

In September 2003, an officer of the UK National Audit Office on secondment to our Office reviewed 2 of our performance audits and examined 2 special reviews. The results assured us that our audits and reviews fulfil Australian auditing standard requirements, and meet the needs of the *Audit Act 1994* and our own internal guidelines for performance audit methods, practices and policies.

This peer review also identified areas for potential improvements.

We used this to develop an action plan which we implemented in 2003-04.

Whistleblowers legislation

The *Whistleblowers Protection Act 2001* was introduced in Victoria on 1 January 2002.

The legislation aims to encourage whistleblowers to disclose improper conduct by public officers and public bodies. It protects whistleblowers, and it sets up a system to investigate disclosed matters.

Audit-related issues

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

Section 41 of the legislation allows 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 of the position under the Audit Act.

During 2003-04, the Ombudsman referred a disclosure relating to the Overseas Projects Corporation of Victoria Pty Ltd, which we investigated under the authority of the Audit Act and reported in our May 2004 *Report on public sector agencies*.

Administrative issues

We have developed procedures for handling disclosures by whistleblowers. These procedures have been distributed to staff, and members of the public can request a copy.

Under the legislation, the Deputy Auditor-General is the Office's protected disclosure coordinator. There were no disclosures on administrative matters during 2003-04.

Privacy legislation

The Victorian *Information Privacy Act 2000* began operating on 1 September 2002. Since then, we have reviewed our practices and worked closely with the Office of the Victorian Privacy Commissioner so that our audits complement information privacy principles and legislation.

Freedom of information

We have a professional relationship with our audited agencies, but legislation precludes us from disclosing information we gather during an audit to a third party, other than through reporting to parliament. Under section 20B of the Audit Act, third parties cannot access any information and documents we hold.

Our administrative processes, however, come under the state's Freedom of Information legislation. We received no applications under this legislation during the year.

National Competition Policy

The Office is compliant with National Competition Policy, including compliance with requirements of the policy statement *Competitive Neutrality: A Statement of Victorian Government Policy, Victorian Government Timetable for the Review of Legislative Restrictions on Competition*, and any subsequent reforms.

Additional Office information available on request

In compliance with the requirements of the Ministerial Directions of the Minister for Finance, details in respect of the information items below have been retained by the Office and are available to the relevant ministers, members of parliament and the public (subject to the Freedom of Information requirements, if applicable). However, in adopting best practice disclosure policies and to ensure that the Office discharges its accountability obligations, where relevant, details about some of the following matters have been disclosed within the report of operations:

- a statement that declarations of pecuniary interests have been duly completed by all relevant officers of the Office
- details of shares held by senior officers as nominee or held beneficially in a statutory authority or subsidiary
- details of publications produced by the Office about the activities of the Office and where they can be obtained
- details of changes in prices, fees, charges, rates and levies charged by the Office for its services, including services that are administered

- details of any major external reviews carried out in respect of the operation of the Office
- details of any other research and development activities undertaken by the Office that are not otherwise covered either in the report of operations or in a document which contains the financial report and report of operations
- details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit
- details of major promotional, public relations and marketing activities undertaken by the Office to develop community awareness of the services provided by the Office
- details of assessments and measures undertaken to improve the occupational health and safety of employees, not otherwise detailed in the report of operations
- a general statement on industrial relations within the Office and details of time lost through industrial accidents and disputes, which is not otherwise detailed in the report of operations
- a list of major committees sponsored by the Office, the purposes of each committee and the extent to which the purposes have been achieved.

Structures and relationships



Our human resource strategies aim to ensure that we have a professional work force, and a safe working environment. From left, Andrew Prestage, Julia Boceski and Chris Yong.

Our people management policies and practices help us to deliver effective results, and they are in line with contemporary practice. Under our corporate plan, we aim to be a preferred employer. Our strategies to achieve this, and our achievements, are set out in the following pages.

Our progress against corporate strategies

Initiative	Achievement
Continue to review all human resources policies.	To meet our objective to be a preferred employer, we provide staff with a policy framework that encourages flexibility, responsibility and guidance about their conduct at work. We now have comprehensive policies on a range of entitlements, benefits and assistance for staff on our intranet.
Develop a reward and recognition scheme.	<p>We have formalised and built on our practice of recognising and rewarding staff achievements. Our revised scheme uses a 2-tiered model:</p> <ul style="list-style-type: none"> • We informally recognise achievements such as completed projects, personal events, completed studies and team achievements at our monthly staff communication meetings. This informal recognition gives immediate positive feedback. • We formally recognise achievements such as innovative ways of doing business, delivering outstanding service, consistently demonstrating corporate values or enhancing corporate culture, fostering community spirit, and reaching service milestones. The Auditor-General formally recognises these at our annual staff conference (see page 49).
Introduce a capabilities framework for career development, talent management and succession planning.	<p>In November 2003, the government implemented a non-executive staff career structure for the Victorian Public Service (VPS). This encourages our staff to continually develop their skills and professionalism so that our services and systems meet the needs of our clients and stakeholders. As part of this major initiative, we developed:</p> <ul style="list-style-type: none"> • <i>Position profiles and classification structure.</i> Using the VPS new job classification descriptors, we have non-executive position profiles that outline the required skills, knowledge and experience for each classification level of the Office. These profiles also define professional development procedures to help staff acquire skills to advance. • <i>Performance Development and Progression Plan.</i> This new plan will help staff identify their annual performance and development needs. Staff can advance within their allocated salary classification after achieving these predetermined performance standards. • <i>Learning and development framework.</i> We introduced a whole-of-career learning and development framework. It provides a stepping-stone approach for all staff. It outlines how staff in the operational audit groups can meet goals to help advance their careers.
Develop a work force planning reporting regime.	At the start of 2003-04, we introduced an improved tool for reporting our work force statistics. This quarterly report highlights the critical areas that affect our business operations. We monitor areas such as absenteeism, turnover, health and wellbeing, training and demographical data.
Do an annual staff survey.	Annual staff survey completed (see page 52).

Our progress against corporate targets

Our human resources leadership supports our Office’s purpose and objectives by continually improving, developing and implementing services and programs that add value and enhance employee and organisational effectiveness.

PEOPLE MANAGEMENT FRAMEWORK



Code of Conduct

We launched a revised Code of Conduct to all staff in November 2003. It incorporates the Commissioner of Public Employment’s code of conduct for employees in the Victorian public sector. We adapted our code to reflect our organisational environment, but it remains consistent with the public sector document.

The code is a public statement of how we conduct our business and the respect we have for parliament, the public, our audit clients and our colleagues. It builds on the employment and conduct principles contained in the *Public Sector Management and Employment Act 1998* and the values of integrity, teamwork, empowerment, and professional and personal growth.

We briefed all staff on the code in training sessions offered through our Merit and Equity Policy program.



providing assurance
improving performance
adding value

Recognising achievement



Patricia ní Ivor and Rob Fearnside were acknowledged for their contributions to Office activities.

At our 2003-04 annual staff conference in June, we recognised the following achievements.

Achievement award for enhancing new ways of doing business

- Patricia ní Ivor, for playing a leading role in developing the Plain English Strategy.

Achievement award for outstanding service delivery

- Rob Fearnside, for volunteering to take on additional responsibility for the Education sector issues in our *Reports on public sector agencies* to meet a shortage of resources in the Financial Audit Group.
- Tony Brown, for his activities in sector leadership and delivering 2 special reviews with minimal assistance.

Achievement award for demonstrating corporate values and enhancing corporate culture

- Joe Manders, for exemplifying our values over an extended time.

Retirement of Joe Manders

Joe Manders, Assistant Auditor-General, Corporate Planning and Parliamentary Liaison, retired on 30 June 2004, after 37 years of service. He was appointed Assistant Auditor-General in 1989 after holding many senior positions in the financial and performance auditing areas on the Office. Joe was involved in a number of significant performance audits undertaken during the late 1980s and 1990s.

Most recently, Joe was responsible for coordinating the Office's corporate and annual planning processes, and providing advice to the Auditor-General on parliamentary matters, particularly in relation to developments with our audit legislation. He also played a key role in the Office's liaison with parliamentary committees, interstate and overseas audit organisations, and visiting delegations.

An official farewell function, attended by over 100 guests, was held for Joe in June. We wish Joe the very best for his well-earned retirement, and thank him most sincerely for an outstanding contribution to the Victorian public sector, and to our Office.



Wayne Cameron farewells Joe Manders at the annual staff conference.

Secondments

We encourage staff to take secondments to or from other government departments and agencies. Secondments to or from the Office in 2003-04 were:

- Leigh Naunton, to the Department of Education and Training
- Mats Hallgren, to the Department of Justice
- Peter Stoppa, to the Department of Education and Training
- Steven Vlahos, to the Public Accounts and Estimates Committee
- Craig Angove, to the UK National Audit Office
- Annette Cruz, to the Public Accounts and Estimates Committee
- Kathryn O'Loughlin, from the Department of Education and Training
- Pauline Clancy, from the Department of Sustainability and Environment
- David Clark, from the UK National Audit Office.

Our staffing profile

CLASSIFICATION BY GENDER, AT 30 JUNE 2004 (a)

Classification	Full-time			Part-time		
	Male	Female	Total	Male	Female	Total
Executive officers –						
E02	5	1	6	-	-	-
E03	13	4	17	-	3	3
Sub-total	18	5	23	-	3	3
VPSG 6.2	3	1	4	-	1	1
VPSG 6.1	10	3	13	-	2	2
VPSG 5.2	13	1	14	-	-	-
VPSG 5.1	2	1	3	-	-	-
VPSG 4	7	10	17	-	1	1
VPSG 3.2	2	3	5	-	-	-
VPSG 3.1	10	7	17	-	-	-
VPSG 2.2	4	6	10	-	-	-
VPSG 2.1	5	9	14	-	-	-
Sub-total	56	41	97	-	4	4
Total	74	46	120	-	7	7

(a) Classification figures for 30 June 2003 are not available due to changes in Victorian public sector classification levels during 2003-04.

Recruitment and retention

We aim to use recruitment practices that keep pace with the external environment so we can attract and retain competent people.

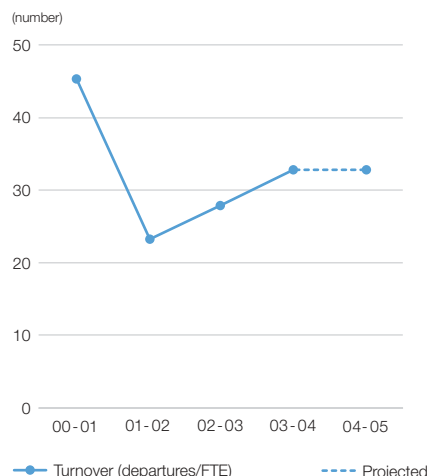
During 2003-04, we recruited 31 new staff. Our recruitment program supports our strategy for finding and attracting qualified job applicants and selecting people who best meet the criteria. Our program offers guidelines and compulsory training in interview skills and techniques for staff involved in recruiting.

Our induction program uses web-based technology that gives staff easy access to relevant Office information such as policies, forms and overviews of activities.

Our graduate program is a comprehensive 12-month program to help new graduates learn about the Office, accounting and auditing standards, the work environment, our human resources and the wider public service. We also encourage graduates to work towards Certified Practising Accountant or Chartered Accountant membership by providing financial and coaching opportunities.

In their first year, graduates are also involved in the Mentor Scheme, which supports their transition from an academic to a professional environment.

TURNOVER OF STAFF



Financial Audit Group member Melissa Burt conducting an information session for staff.

Occupational health and safety



Sharon Ryan coordinated a Mind, Body and Soul program as part of the Office's occupational health and safety management plan.

Our annual occupational health and safety (OH&S) management plan emphasises individual health and wellbeing. We encourage staff to use our workplace opportunities for better wellbeing and improved personal health and fitness. We are committed to managing our staff in an exemplary way and giving them a stimulating work environment. Our 2003-04 management plan included:

- continuing our 6-monthly OH&S workplace inspections of all areas of the workplace to identify hazards and agree on solutions to remove or minimise them
- introducing a Mind, Body and Soul program with activities such as yoga, pilates, fitball and a seminar on healthy eating
- promoting a Quit Program leading up to World No Tobacco Day
- promoting a free flu vaccination program, with a 50 per cent staff take-up rate; twice as many as previously
- promoting eye-fatigue management exercises.

Details of our OH&S statistics are on the inside back cover of this report.

Employee relations

Merit and equity

We maintain the following programs and policies to ensure our workplace remains free from discrimination:

- a trained Equal Opportunity (EO) contact officer to help staff with queries and concerns about EO, harassment, discrimination and our complaints process

- a Merit and Equity Policy to promote and support diversity through the Office. The annual staff survey measures our success in this area
- an Employee Assistance Program that gives staff professional and confidential counselling on work-related or personal problems that affect their work
- a Code of Conduct to help staff understand the behavioural standards they must meet as officers of the public service
- staff induction training, with information on anti-discrimination laws and expected behaviours
- comprehensive training in our Merit and Equity Policy in appropriate workplace behaviour. Our training covers sexual harassment laws, outlines relevant legislation, discusses flexible workplace arrangements and the staff's role in implementing the policy and complaints resolution. We have planned a continuous awareness program for 2004-05.

Industrial relations

The Office continues to maintain excellent industrial relations outcomes with no disputes lodge either internally or with the Australian Industrial Relations Commission, resulting in no lost time due to industrial disputes.

Flexible working arrangements

To help our staff maintain a good balance between professional and personal roles, we offer various work arrangements such as flexible work hours, telecommuting and extended leave.

Whole-of-government reporting on responsiveness to cultural diversity, women, youth and indigenous affairs

This new arrangement for the whole-of-government reporting process applies to the 4 community areas. The requirement applies to relevant departments with an external involvement in cultural diversity, women, youth and indigenous issues.

This requirement does not apply to the Victorian Auditor-General's Office.

Office social club

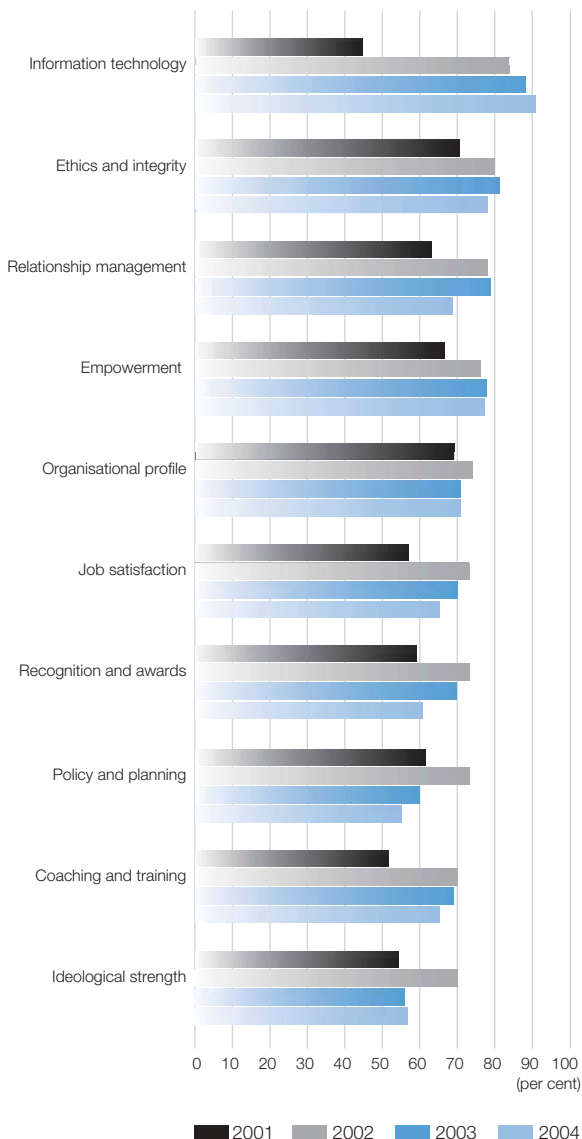
Our social club promotes staff friendship and teamwork, encourages Office morale, and coordinates cultural and recreational activities.

The club's activities in 2003-04 included a regular happy hour, a dinner dance, a fun run, a Christmas party and several sports days. The money we raise from these events sponsors a child in Uganda through World Vision.

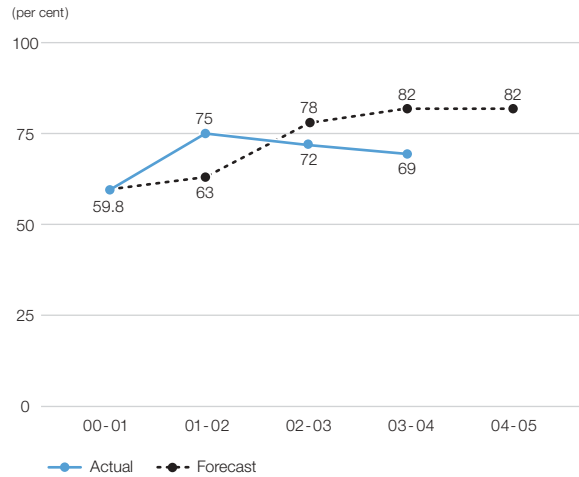
Staff survey

One of the ways we identify whether we are a preferred employer is through our annual staff survey. This is the fourth year of the survey, which asks staff to comment on our organisational effectiveness. Their answers give key organisation indicators and help us to develop programs to meet staff needs. We aim for increasingly positive survey results.

STAFF SURVEY, RESULTS FOR KEY ORGANISATION INDICATORS



STAFF SURVEY FEEDBACK, AVERAGE RESPONSE TO KEY INDICATORS



The key organisational indicators for 2003-04 have moved slightly downwards 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.

The survey identified that we can improve:

- relationships between the leadership team and staff
- modelling our values
- our knowledge sharing, especially between groups
- the demonstrated benefits of staying with the Office
- integrating career planning with the performance management process.

We aim to further improve our survey ratings in 2004-05.

Green office action plan

We are committed to running a “green office” and we have an action plan to reduce any negative environmental impacts of the Office.

The Green Office Interest Group manages our green office action plan. This group, made up of Office volunteers, encourages staff to reduce waste and energy use, and to reuse and recycle raw materials such as paper. It regularly does audits of the energy and materials we use, and it gives quarterly reports to the Senior Management Group.

Our efforts to manage our energy and waste in 2003-04 were acknowledged by EcoRecycle, Victoria’s Waste Wise Program, who awarded us with a Waste Wise Community Program certificate.

Financial performance

Our 2003-04 financial result was achieved in an environment of challenging economic conditions and continuing public sector change.

Our strong financial performance reflects our focus on responsible financial management and our efficient approach to resource management, particularly of business plans, processes and procedures.

Each year, we aim to exceed expectations, and improve the quality, cost and timeliness of our 2 outputs, namely:

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

We are funded by parliamentary appropriations.

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.

Total appropriation for the Office was \$24.277 million in 2003-04.

The cost of services facilitates an assessment of performance by showing the full cost and composition of resources consumed in conducting the operations of the Office. It shows the extent to which these costs were recovered through user charges and independent sources, and the net cost of operations to the state.

The following table shows modest movement in both revenues and expenses.

Item	Actual 2000-01	Actual 2001-02	Actual 2002-03	Actual 2003-04
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenues -				
Appropriation	22 067	22 613	23 380	12 259
Section 29	-	-	-	11 762
Special appropriation	203	211	231	256
Other	92	146	151	130
Total revenues	22 362	22 970	23 762	24 407
Total expenses	20 635	22 053	23 464	23 366
Surplus/(Deficit)	1 727	917	298	1 041

In 2003-04, appropriation authority for financial statement audits was 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 statement audits establishes the appropriation authority to enable the Office to incur expenditure.

This new arrangement added an important management challenge to the Office throughout the financial year.

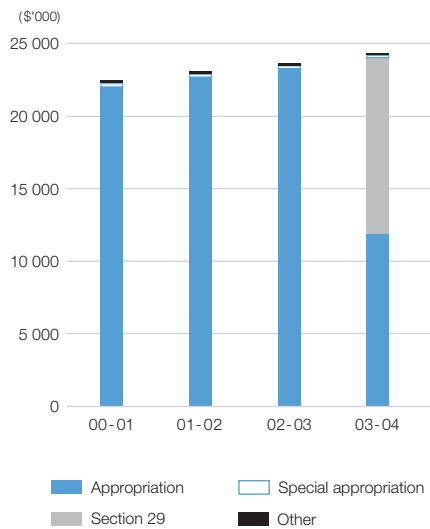
Our underlying operations generated a surplus of \$1.041 million for the 2003-04 financial year.



Stan Odachowski and Tass Flaounas from our Finance and Administration Section prepare information for inclusion in our financial statements.

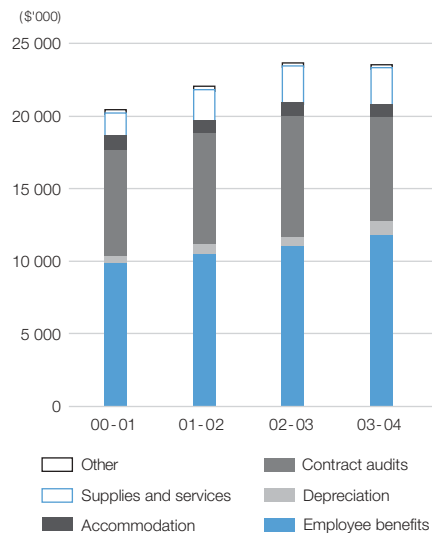
The following chart shows the source of our funding over the last 4 years.

REVENUES



The following chart shows our expenditure trends over the last 4 years.

EXPENSES



Expenses from ordinary activities comprised:

Item	Actual 2000-01	Actual 2001-02	Actual 2002-03	Actual 2003-04
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Expenses -				
Depreciation	594	664	794	909
Employee benefits	9 800	10 400	10 924	11 727
Contract audits	6 889	7 383	8 360	7 119
Accommodation	1 165	929	1 138	1 136
Supplies and services	2 067	2 549	2 103	2 338
Other	120	128	145	137
Total expenses	20 635	22 053	23 464	23 366

Total revenues

Total revenues and expenses for 2003-04 were attributed to outputs as follows.

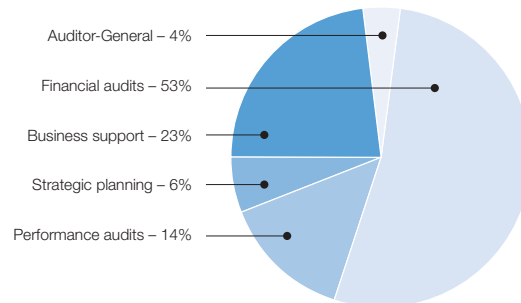
Output Group	Revenues	Expenses	Net result
	(\$'000)	(\$'000)	(\$'000)
1. Parliamentary reports and services	10 030	9 031	999
2. Audit reports on financial statements	14 377	14 335	42
Total	24 407	23 366	1 041

Annual expenses by business units

Annual expenses by Office operational business units for 2003-04 is shown in the opposite chart.

Depreciation, accommodation and some support costs (e.g. postage, utilities, office stationery and telephones) are managed by the Business Support Group on behalf of all operational groups.

EXPENSES BY BUSINESS UNITS, 2003-04



Financial position

The "Statement of financial position" (see page 58) provides information on assets and liabilities. The table below provides an overview of the assets and liabilities position of the Office.

Our financial position at 30 June 2004 remains strong with total assets of \$10.381 million, total liabilities of \$4.712 million and a total equity of \$5.669 million.

The table below shows asset and liability movement over 4 years, and indicates a slow but steady growth in the net assets of the Office.

Item	Actual 2000-01	Actual 2001-02	Actual 2002-03	Actual 2003-04
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Current assets	6 197	3 180	2 898	2 987
Non-current assets	1 869	6 208	6 543	7 394
Total assets	8 066	9 388	9 441	10 381
Current liabilities	2 788	3 026	2 830	2 875
Non-current liabilities	1 904	1 999	1 983	1 837
Total liabilities	4 692	5 025	4 813	4 712
Net assets	3 374	4 363	4 628	5 669

Impacts of adopting AASB equivalents to IASB standards

For reporting periods beginning on or after 1 January 2005, all Australian reporting entities are required to adopt the financial reporting requirements of the Australian equivalents to International Financial Reporting Standards (IFRS).

The Office has taken appropriate steps in managing the transition to Australian equivalents to IFRS.

Consultancies

The Office engaged consultants on 28 projects during the year. This cost \$234 168. No consultancy project undertaken exceeded \$50 000.

Financial statements

for the year ended 30 June 2004

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A glossary of terms used in these financial statements can be found on page 96.

Statement of financial performance

For the year ended 30 June

	Notes	2003-04 (\$)	2002-03 (\$)
Revenue from ordinary activities –			
Output appropriations		24 020 980	23 380 000
Special appropriations		256 242	231 000
Revenue from other parties		103 991	131 316
Resources received free of charge		26 400	20 000
	4	24 407 613	23 762 316
Expenses from ordinary activities –			
Employee benefits		11 726 990	10 923 542
Contract audits		7 119 043	8 360 451
Supplies and services		2 338 353	2 102 489
Rental expenses		1 136 000	1 137 974
Depreciation and amortisation		909 462	794 885
Capital assets charge		136 527	143 938
Assets written-off		-	1 333
	5	23 366 375	23 464 612
Result from ordinary activities –	13(a)	1 041 238	297 704
Adjustment to accumulated surpluses at 1 July 2002 as a result of the adoption of revised standard AASB 1028	1(r) 13(a)	-	(32 994)
Total revenue, expense adjustments recognised directly in equity		-	(32 994)
Total changes in equity other than those resulting from transactions with Victorian Government in its capacity as owner		1 041 238	264 710

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

Statement of financial position

As at 30 June

	Notes	2003-04 (\$)	2002-03 (\$)
Current assets –			
Cash	6	900	900
Receivables	7	2 916 887	2 785 197
Prepayments		69 544	39 488
Other financial assets	8	-	72 314
Total current assets		2 987 331	2 897 899
Non-current assets –			
Receivables	7	5 715 718	4 502 883
Property, plant and equipment	9	1 677 962	2 040 116
Total non-current assets		7 393 680	6 542 999
Total assets		10 381 011	9 440 898
Current liabilities –			
Payables	10	1 284 200	1 626 683
Interest-bearing liabilities	11	9 242	-
Provisions	12	1 581 157	1 203 369
Total current liabilities		2 874 599	2 830 052
Non-current liabilities –			
Interest-bearing liabilities	11	76 344	-
Provisions	12	1 761 181	1 983 197
Total non-current liabilities		1 837 525	1 983 197
Total liabilities –		4 712 124	4 813 249
Net assets		5 668 887	4 627 649
Equity –			
Contributed capital		350 127	350 127
Accumulated surplus		5 318 760	4 277 522
Total equity	13	5 668 887	4 627 649

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

	Notes	2003-04	2002-03
		(\$)	(\$)
Cash flows from operating activities –			
Receipts from government		22 964 000	23 613 968
Receipts from other parties		85 760	126 096
Payments to suppliers and employees		(23 586 797)	(24 349 911)
Capital asset charge		(136 527)	(143 938)
Goods and services tax recovered from the ATO		1 148 558	1 604 788
Net cash inflow from operating activities	18	474 994	851 003
Cash flows from investing activities –			
Payments for property, plant and equipment		(547 308)	(997 434)
Redemption of investments		72 314	146 431
Net cash (outflow) from investing activities		(474 994)	(851 003)
Cash flows from financing activities –			
Proceeds from capital contributions by the government		-	-
		-	-
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 2004

1. Summary of significant accounting policies

The financial statements have 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 statements are prepared on an accrual accounting basis and in accordance with the historical cost convention.

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 statements. 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 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 20.

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 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. Additionally, the Office is permitted under section 29 of the *Financial Management Act 1994* to have certain receipts annotated to the annual appropriation. The receipts which form part of a section 29 agreement are received by the Office and paid into the Consolidated Fund as administered revenue. At that point, section 29 provides for an equivalent amount to be added to the annual appropriation authority limit, which is then available for application by the Treasurer.

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 20.

(f) Receivables

Receivables mainly represent amounts owing from the Victorian Government. Receivables related to audit fees raised are reported as administered items in note 20.

(g) Valuation of non-current assets

Non-current assets are measured at cost.

(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, are as follows:

Furniture and fittings	Between 4 and 10 years
Computer equipment	3 years
Computer software	2.5 years
Office equipment	4 years
Motor vehicles - Leased	3 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 2001-02 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.

In October 2003, Cabinet endorsed the termination and wind-down over time of the existing motor vehicle lease facility with the CBA, and its replacement by a new internally managed VicFleet Lease Facility. Under this decision, all motor vehicle leasing arrangements made between VicFleet and the Office on or after 1 February 2004 constitute finance leases.

The Office is now directly responsible for all the risks and benefits of operating its motor vehicles.

(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:

	2003-04		2002-03
	VPS	EO	
Weighted average rates of increase in annual employee entitlements to settlement of the liabilities	4.50%	4.50%	4.50%
Weighted average discount rates	5.25%	3.12%	4.14%
Weighted average terms to settlement of the liabilities	13.58 years	6.08 years	12.31 years

In 2003-04 the *Victorian Public Service Agreement* certified changes to long services leave entitlements whereby VPS staff were entitled to long service leave payments after a period of 7 years of continued service.

(iii) Performance incentive payments

The executive officers' performance incentive entitlements for the performance review period to 30 June 2004, 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 (DTF).

Funds are allocated to DTF for this purpose and applied as required.

(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 2003-04 and 2002-03) 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 13.

(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

In 2002-03 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 an additional charge of \$35 233 of which \$2 239 relates to 2002-03. \$32 994 has been taken to the opening balance of annual leave provision.

The details of these are disclosed in note 13.

(s) Impacts of adopting AASB equivalents to IASB standards

For interim and annual reporting periods ending on or after 30 June 2004, AASB 1047 *Disclosing the Impacts of Adopting AASB Equivalents to International Financial Reporting Standards* requires narrative disclosure of how the transition process is being managed and an explanation of the key differences in accounting policies that are expected to arise from the transition to AASB equivalents to IASB pronouncements. Refer to note 21 for further details.

2. Office outputs

The Office has 2 major output groups:

(1) The provision of reports and services 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 statement audits
- (v) any investigations following inquiries by members of parliament and the general public
- (vi) other matters that merit investigation by this Office
- (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
- (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

	Reports and services to parliament		Financial audits		Total for the Office	
	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue –						
Output appropriations	9 828 980	9 818 378	14 192 000	13 561 622	24 020 980	23 380 000
Special appropriations	133 246	97 008	122 996	133 992	256 242	231 000
Revenue from other parties	54 075	55 146	49 916	76 170	103 991	131 316
Resources received free of charge	13 728	8 399	12 672	11 601	26 400	20 000
Total revenue	10 030 029	9 978 931	14 377 584	13 783 385	24 407 613	23 762 316
Expenses –						
Employee benefits	6 098 035	5 957 649	5 628 955	4 965 893	11 726 990	10 923 542
Contract audits	429 999	1 521 483	6 689 044	6 838 968	7 119 043	8 360 451
Supplies and services	1 368 584	1 054 622	969 769	879 061	2 338 353	1 933 683
Rental expenses	590 720	712 712	545 280	594 068	1 136 000	1 306 780
Depreciation and amortisation	472 920	433 527	436 542	361 358	909 462	794 885
Capital assets charge	70 994	78 503	65 533	65 435	136 527	143 938
Assets written-off	-	684	-	649	-	1 333
Total expenses	9 031 252	9 759 180	14 335 123	13 705 432	23 366 375	23 464 612
Operating surplus/(deficit)	998 777	219 751	42 461	77 953	1 041 238	297 704

Controlled assets and liabilities

As at 30 June

	Reports and services to parliament		Financial audits		Total for the Office	
	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Assets –						
Current assets	1 629 268	1 580 501	1 358 063	1 317 398	2 987 331	2 897 899
Non-current assets	4 032 479	3 568 209	3 361 201	2 974 790	7 393 680	6 542 999
Total assets	5 661 747	5 148 710	4 719 264	4 292 188	10 381 011	9 440 898
Liabilities –						
Current liabilities	1 567 793	1 543 497	1 306 806	1 286 555	2 874 599	2 830 052
Non-current liabilities	1 002 177	1 081 626	835 348	901 571	1 837 525	1 983 197
Total liabilities	2 569 970	2 625 123	2 142 154	2 188 126	4 712 124	4 813 249
Net assets	3 091 777	2 523 587	2 577 110	2 104 062	5 668 887	4 627 649

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		Financial Management Act 1994				Total parliamentary authority		Appropriations applied		Variance*			
	Annual appropriation		Section 3(2)		Section 29*		Section 32*		2002-03		2002-03			
	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03		
Controlled –														
Provision for outputs	23 069 000	23 110 000	123 500	-	11 761 633	-	395 000	665 000	35 349 133	23 775 000	24 020 980	23 380 000	11 328 153	395 000
Additions to net assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	23 069 000	23 110 000	123 500	-	11 761 633	-	395 000	665 000	35 349 133	23 775 000	24 020 980	23 380 000	11 328 153	395 000

* The Appropriation Act included \$13.4 million in output group 2 appropriation and parliamentary authority was increased through the establishment of a section 29 agreement.

The variance in Provision for outputs of \$11 328 153 (2002-03, \$395 000) represents the manner in which section 29 appropriation was provided, and created the situation where the Office was provided a total parliamentary appropriation of \$11 032 153 greater than required for output group 2.

It also includes a variance in Provision for outputs of \$296 000 (2002-03, \$395 000) which 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 2003-04 were still in progress as at 30 June 2004
- delays in external service providers completing certain work as at 30 June 2004.

The Office also brought forward \$395 000 (2002-03, \$665 000) from its previous year's appropriation for provision for outputs as permitted under the Financial Management Act 1994, section 32.

(b) Summary of compliance with special appropriations

Authority	Purpose	Appropriations applied	
		2003-04	2002-03
Section 94A(6) of the Constitution Act 1975	Costs associated with Auditor-General	256 242	231 000
		(\$)	(\$)

4. Revenue

(a) Revenue by source

	Operating		Non-operating		Total	
	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue from government –						
Output appropriations	24 020 980	23 380 000	-	-	24 020 980	23 380 000
Special appropriations	256 242	231 000	-	-	256 242	231 000
Resources provided free of charge (a)	-	-	26 400	20 000	26 400	20 000
	24 277 222	23 611 000	26 400	20 000	24 303 622	23 631 000
Revenue from other parties –						
Interest received from Performance Incentive Payments Trust Account			1 371	5 113	1 371	5 113
Other –						
Secondment of staff	68 587	96 237			68 587	96 237
Sale of parliamentary reports	32 033	23 966			32 033	23 966
Royal Melbourne Show grant	2 000	6 000			2 000	6 000
	102 620	126 203	1 371	5 113	103 991	131 316
Total revenue	24 379 842	23 737 203	27 771	25 113	24 407 613	23 762 316

(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

	2003-04	2002-03
	(\$)	(\$)
Expenses –		
Depreciation –		
Furniture and fittings	80 803	106 761
Computer equipment and software	607 545	465 970
Office equipment	42 095	49 689
Total depreciation	730 443	622 420
Amortisation of -		
Leasehold improvements	175 705	172 465
Motor vehicles	3 314	-
Total amortisation	179 019	172 465
Total depreciation and amortisation	909 462	794 885
Capital charge on assets	136 527	143 938
Net losses on disposal of plant and equipment	-	1 333
Employee benefits	11 726 990	10 923 542
Contract audits	7 119 043	8 360 451
Rental expense relating to operating leases	1 136 000	1 137 974
Supplies and services –		
Recruitment and training	532 761	344 077
Information technology	346 111	245 934
Information management	531 882	544 942
Consultants	234 168	291 804
Other office expenses	693 431	675 732
Total expenses	23 366 375	23 464 612

(b) Revisions of accounting estimates

There were no revisions of estimates during the year.

6. Cash

	2003-04	2002-03
	(\$)	(\$)
Cash on hand	900	900
Balance per statement of cash flows	900	900

7. Receivables

	2003-04	2002-03
	(\$)	(\$)
Current –		
Amounts owing from Victorian Government	2 874 579	2 745 238
GST receivable	-	13 072
Other debtors	42 308	26 887
	2 916 887	2 785 197
Non-current –		
Amounts owing from Victorian Government	5 715 718	4 502 883
	5 715 718	4 502 883

The amount owing from 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 \$8 590 297 (2002-03, \$7 248 121) of which \$2 874 579 (2002-03, \$2 745 238) is likely to be drawn in the next financial year and is reported accordingly as a current receivable.

8. Other financial assets

	2003-04	2002-03
	(\$)	(\$)
Current	-	72 314

In accordance with the terms of the *Public Sector Management and Employment Act 1998*, a total of \$72 314 was available for executive officers' performance pay entitlements. These funds were held in the "Performance Incentive Payments Trust Account". The proceeds of this account were invested with the Treasury Corporation of Victoria.

Since performance pay entitlements are now paid on an annual basis, no further transfer of funds will be made to the investment account. The available funds were fully utilised in the 2003-04 financial year.

9(a). Property, plant and equipment

	2003-04	2002-03
	(\$)	(\$)
Leasehold improvements –		
At cost	1 785 211	1 708 276
Less: Accumulated amortisation	(1 237 236)	(1 061 531)
Total leasehold improvements	547 975	646 745
Furniture and fittings –		
At cost	432 437	428 111
Less: Accumulated depreciation	(425 267)	(344 464)
Total furniture and fittings	7 170	83 647
Computer software –		
At cost	780 842	652 824
Less: Accumulated depreciation	(401 387)	(203 466)
Total computer software	379 455	449 358
Computer hardware –		
At cost	1 299 498	1 238 621
Less: Accumulated depreciation	(681 357)	(458 181)
Total computer hardware	618 141	780 440
Office equipment –		
At cost	126 440	166 302
Less: Accumulated depreciation	(86 529)	(86 376)
Total office equipment	39 911	79 926
Motor vehicles, leased –		
At cost	88 624	-
Less: Accumulated depreciation	(3 314)	-
Total motor vehicles - leased	85 310	-
Total property, plant and equipment	1 677 962	2 040 116

9(b). Property, plant and equipment

	Leasehold improvements	Furniture and fittings	Computer software	Computer hardware	Office equipment	Motor vehicles – leased	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
2003-04 –							
Carrying amount at start of year	646 745	83 647	449 358	780 440	79 926	-	2 040 116
Additions	76 935	4 326	128 018	247 325	2 080	88 624	547 308
Disposals	-	-	-	(186 449)	(41 942)	-	(228 391)
Disposals – accumulated depreciation	-	-	-	186 449	41 942	-	228 391
Depreciation/amortisation expense	(175 705)	(80 803)	(197 921)	(409 624)	(42 095)	(3 314)	(909 462)
Carrying amount at end of year	547 975	7 170	379 455	618 141	39 911	85 310	1 677 962
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

10. Payables

	2003-04	2002-03
	(\$)	(\$)
Creditors	1 127 385	1 125 540
Other payables	156 815	501 143
Total	1 284 200	1 626 683

11. Interest-bearing liabilities

	2003-04	2002-03
	(\$)	(\$)
Current –		
Unsecured liabilities		
Lease liability (a)	9 242	-
	9 242	-
Non-current –		
Unsecured liabilities		
Lease liability (a)	76 344	-
	76 344	-

(a) Refer note 15.

12. Provisions

	2003-04	2002-03
	(\$)	(\$)
Current –		
Employee entitlements –		
Annual leave (a)	983 237	818 200
Long service leave (a)	388 034	222 669
Performance Incentive Scheme	209 886	162 500
	1 581 157	1 203 369
Non-current –		
Employee entitlements –		
Long service leave (a)	1 761 181	1 983 197
	1 761 181	1 983 197
Aggregate carrying amount of provisions –		
Current	1 581 157	1 203 369
Non-current	1 761 181	1 983 197
Total employee entitlements	3 342 338	3 186 566

The total number of FTE employees as at 30 June 2004 was 125 (2003, 129)

(a) Refer note 1(m).

13. Equity and movements in equity

(a) Accumulated surplus

	2003-04	2002-03
	(\$)	(\$)
Balance at beginning of the year	4 277 522	4 012 812
Adjustments for prior year (a)	-	(32 994)
Adjusted balance at beginning of the year	4 277 522	3 979 818
Result from ordinary activities	1 041 238	297 704
Balance at end of the year	5 318 760	4 277 522

(b) Contributed capital

	2003-04	2002-03
	(\$)	(\$)
Balance at beginning of the year	350 127	350 127
Balance at end of the year	350 127	350 127
Total equity at the end of the financial year	5 668 887	4 627 649

(a) 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 the revised standard has been applied against the opening balance of the accumulated surplus.

14. Auditor's remuneration

	2003-04	2002-03
	(\$)	(\$)
Audit fees	26 400	20 000

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 Terry Benfold from Pitcher Partners was appointed to this position in 2004. A condition of his appointment is that he does not provide other services to the Office, including contract financial statement audits.

15. Commitments

(a) Finance leases

	2003-04	2002-03
	(\$)	(\$)
Not later than 1 year	14 533	-
Later than 1 year but less than 5 years	83 772	-
Later than 5 years	-	-
Minimum lease payments	98 305	-
Less future finance changes	12 719	-
Total lease liability	85 586	-

Refer note 1(k) for further information.

(b) Operating leases

	2003-04	2002-03
	(\$)	(\$)
Not later than 1 year	1 353 659	1 599 866
Later than 1 year but less than 5 years	2 204 085	4 203 462
Later than 5 years	-	-
Total	3 557 744	5 803 328

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

(c) Contract audits

	2003-04	2002-03
	(\$)	(\$)
Commitments for the payment of future auditing services under contracts in existence at the reporting date, payable as follows:		
Not later than 1 year	4 778 984	6 017 668
Later than 1 year but less than 5 years	3 157 461	1 363 770
Total	7 936 445	7 381 438

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

16. Executive officers' remuneration

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.

Income band	Total remuneration		Base remuneration	
	2003-04	2002-03	2003-04	2002-03
	No.	No.	No.	No.
\$90 000 to \$99 999	-	-	-	1
\$100 000 to \$109 999	2	2	4	7
\$110 000 to \$119 999	5	6	7	5
\$120 000 to \$129 999	6	5	6	3
\$130 000 to \$139 999	3	2	1	-
\$140 000 to \$149 999	2	-	2	1
\$150 000 to \$159 999	3	3	2	2
\$160 000 to \$169 999	-	1	-	1
\$170 000 to \$179 999	1	1	-	1
\$180 000 to \$189 999	-	-	1	-
\$190 000 to \$199 999	-	1	-	-
\$200 000 to \$209 999	1	-	-	-
Total numbers	23	21	23	21
Total amount	\$3 185 334	\$2 797 541	\$3 000 583	\$2 572 252

17. Financial instruments

(i) Terms, conditions and accounting policies

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

Recognised financial instruments	Accounting policies	Terms and conditions
(a) Financial assets		
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.
(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 17(i)(a) above.

(iii) Net fair values

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

18. Reconciliation of results from ordinary activities to net cash inflow from operating activities

	2003-04	2002-03
	(\$)	(\$)
Result from ordinary activities	1 041 238	297 704
Depreciation and amortisation	909 462	794 885
Value of assets written-off	-	1 333
Changes in operating assets and liabilities –		
Decrease (increase) in receivables	(1 344 525)	(7 316)
Decrease (increase) in prepayments	(30 056)	9 080
Increase (decrease) in payables	(333 241)	(363 857)
Increase (decrease) in provisions	232 116	119 174
Net cash inflow from operating activities	474 994	851 003

19. Disclosures relating to ministers and accountable officers

Given the independent relationship of the Auditor-General with 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 JW Cameron – Auditor-General

Mr EM Hay (Acting, for 21 days during the period 1 July 2003 to 30 June 2004)

(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:

\$250 000 - \$259 999 (2002-03, \$210 000 - \$219 999)

The amount relating to the Acting Accountable Officer is included in "Executive officers' remuneration" (note 16).

(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.

20. Administered items

	2003-04	2002-03
	(\$)	(\$)
Administered revenue –		
Audit fees	14 228 446	14 030 335
Sale of fixed assets	15 637	10 052
Other	13 864	11 084
Total revenue	14 257 947	14 051 471
Administered expenses –		
Payments into the Consolidated Fund	14 260 024	14 051 471
Bad and doubtful debts	(2 077)	-
Total expenses	14 257 947	14 051 471
Revenue less expenses	-	-
Administered assets –		
Debtors	2 014 061	2 891 524
Work-in-progress	635 469	672 906
Total assets	2 649 530	3 564 430
Administered liabilities –		
Amounts owing to the State	2 649 530	3 564 430
Total liabilities	2 649 530	3 564 430
Net assets	-	-

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.

21. Impacts of adopting AASB equivalents to IASB standards

For reporting periods beginning on or after 1 January 2005, all Australian reporting entities are required to adopt the financial reporting requirements of the Australian equivalents to International Financial Reporting Standards (IFRSs). This requirement also extends to any comparative financial information included within the report. The first day of the comparative period, 1 July 2004, effectively becomes the transition date for the Office. Any adjustments arising from changes in the recognition or measurement of assets and liabilities at the transition date arising from the adoption of IFRS will be made against accumulated funds at the transition date.

The Office has taken appropriate steps in managing the transition to Australian equivalents to IFRS. It has identified a number of changes to the existing accounting policies that may have a material impact on the Office's future financial position and performance following the adoption of the requirements of Australian equivalents to IFRS (the new standards). These include:

Valuation of assets

The Office currently values its non-current physical assets at cost. Revaluations are assessed annually. The new standard continues to offer a choice for measuring each class of non-current physical assets either at cost or at fair value. However, non-current assets measured at fair value will only be required to be revalued at least every 3 to 5 years and all assets in a class must be revalued at the same time. The Victorian Government has not yet concluded whether it will make any changes to the valuation basis of any class of asset or the methodology or frequency at which revaluations are performed. The financial effects of any such changes are unknown.

Impairment of assets

Under the new standards, an asset will be required to be assessed for impairment each year. If indicators of impairment exist, the carrying value of an asset will need to be assessed to ensure that the carrying value does not exceed its recoverable amount, which is the higher of its value-in-use and fair value less costs to sell. For the Office, value-in-use of an asset is its depreciated replacement cost. Other than inventories and financial assets, impairment testing will apply to all assets regardless of whether they are measured on a cost or fair value basis. Where the carrying value of an asset exceeds its recoverable amount, the difference will be written-off as an impairment loss to the statement of financial performance except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that asset. Any impairment losses at transition date will be adjusted against the accumulated funds.

Finance leases

Existing Australian Accounting Standards require a lessee of a finance lease to recognise a lease asset and a lease liability equal to the present value of minimum lease payments at the beginning of the lease term. Under the new standard on leases, the asset and liability recognised would be equal to the lower of the present value of minimum lease payments and fair value of the leased asset. This may result in a write-down of the Office's lease assets and liabilities at the date of transition if the present value of minimum lease payments exceeds the fair value of the leased asset with the resulting adjustment made against accumulated funds. In addition, the guidance on whether a lease is a finance lease or operating lease is less prescriptive and there is a greater emphasis on the substance of the transaction when making a judgment.

In addition, a number of other changes in requirements have been identified which are expected to lead to changes in methodology or processes, increased disclosures and possibly changes in measurement of assets or liabilities. These changes are not expected to have a material impact.

Accountable Officer's and Chief Finance and Accounting Officer's declaration

We certify that the attached financial statements for the Victorian Auditor-General's Office have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Financial Reporting Directions, 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, presents fairly the financial transactions during the year ended 30 June 2004 and financial position of the Office as at 30 June 2004.

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



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

Melbourne
22 September 2004



SG Odachowski
Chief Finance and Accounting Officer
Victorian Auditor-General's Office

Melbourne
22 September 2004

Independent auditor's report

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Victorian Auditor-General's Office for the financial year ended 30 June 2004, comprising the statement of financial performance, statement of financial position, statement of cash flows, the accompanying notes and the declaration by Accountable and Chief Finance and Accounting officers (as set out on pages 57 to 80) 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 statements to confirm the information included in the audited financial statements presented on this website.

Scope

We have audited the financial statements of Victorian Auditor-General's Office for the financial year ended 30 June 2004 comprising the statement of financial performance, statement of financial position, statement of cash flows, notes to the financial statements and the declaration by Accountable and Chief Finance and Accounting Officers (as set out on pages 57 to 80).

The Auditor-General is responsible for the financial statements. We have conducted an independent audit of these financial statements in order to express an opinion on them, in accordance with the *Audit Act 1994*.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are represented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and 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 their operations and their cash flows.

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

Audit opinion

In our opinion, the financial statements of Victorian Auditor-General's Office are in accordance with:

- (a) the *Financial Management Act 1994*, including:
 - (i) giving a true and fair view of the Victorian Auditor-General's Office's financial position as at 30 June 2004 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia; and
- (b) other mandatory professional requirements in Australia.

Signed in Melbourne this 24th day of September 2004.



TJ Benfold
Partner
Pitcher Partners

Appendixes

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Appendix 1

Independent assessment of our performance – Terms of reference

The following information is extracted from the Public Accounts and Estimate Committee's Fifty-Seventh Report to Parliament titled *Report on the Appointment of Persons to conduct Financial and Performance Audits of the Victorian Auditor-General's Office*.

3.4 Directions

The committee has directed the person to conduct the performance audit as follows:

The appointed person should determine whether the Victorian Auditor-General's Office is achieving its objectives effectively, economically and efficiently and in compliance with the *Audit Act 1994*, as amended. In this context and without limiting the scope of the audit, the following matters should be addressed:

1. Assess the appropriateness of the purpose and objectives set by the Auditor-General in his Annual Plan and determine the extent to which they are being achieved.
2. Review key management issues, including:
 - (a) the adequacy and effectiveness of the annual planning process; having regard to risk factors and governance arrangements within agencies;
 - (b) the adequacy and effectiveness of internal systems, including Information Technology systems, to measure and improve productivity;
 - (c) the adequacy of the existing time recording and costing systems to ensure all recoverable costs are collected for Government and that there is no cross-subsidisation between chargeable and non-chargeable functions of the Office; or between performance and financial audits, and special reviews;
 - (d) the adequacy and appropriateness of all audit methodologies, practices and procedures;
 - (e) the culture of management and its effect on performance;
 - (f) the effectiveness of the relationship between the Office and its clients (particularly the Public Accounts and Estimates Committee and the Parliament) and any factors influencing that relationship;
 - (g) the extent to which best practice in public sector management and auditing has been adopted in the Office;
 - (h) the appropriateness of performance measures and benchmarks against which the Auditor-General's Office measures its performance both internally and externally;
 - (i) whether the Victorian Auditor-General's Office complies with Australian auditing standards, including the quality control process associated with contracted audits; and
 - (j) whether audits are supported by adequate plans and work papers, appropriate audit evidence and appropriate quality control procedures.
3. Review the efficiency and effectiveness of the management and conduct of performance audits and special reviews undertaken by the Victorian Auditor-General's Office, with particular attention to:
 - (a) the extent to which the selection criteria for performance audits ensures key risk areas and major programs within the public sector receive adequate coverage;
 - (b) the adequacy of the rationale supporting the selection of potential performance audit topics;
 - (c) the effectiveness of the planning and management of performance audits;
 - (d) the adequacy of the investigative process and quality control procedures to support conclusions arising from the performance audits;
 - (e) whether significant issues that arise during the course of a performance audit that were not identified in audit plans, are addressed;
 - (f) whether the existing practice of tabling a considerable number of performance audit reports should be varied to include large performance audit projects addressing significant issues of public interest;
 - (g) compliance with statutory requirements for the conduct and reporting of performance audits;
 - (h) the appropriateness of the mix between specialist expertise, contractors and suitably qualified in-house staff in undertaking particular performance audits; and
 - (i) the appropriateness of criteria against which the efficiency and effectiveness of performance audits and special reviews conducted by the Office are measured.
4. Determine whether there is value for the Auditor-General to actively assist public sector agencies through publication of good practice guides.

5. Survey a representative example of users of the Auditor-General's reports to the Parliament (Members of Parliament, Public Accounts and Estimates Committee, representatives of Executive Government and selected others) including key interest groups to determine whether the Auditor-General is meeting his objectives, particularly delivering value-added recommendations to agencies and providing value for money to the Parliament and the Victorian community.
6. Determine the adequacy of existing strategies within the Auditor-General's Office to recruit, train, adequately remunerate and retain suitably qualified and skilled staff to achieve its objectives.
7. Ascertain whether the existing processes for evaluating tenders from private audit contractors and consultancies are conducted with due regard to probity.
8. Determine the scope, quality and effectiveness of the internal audit function within the Auditor-General's Office.
9. Identify clear recommendations capable of implementation to affect improvement in the Auditor-General's Office where deemed possible/desirable.

The Committee further directs the person to:

- (a) conduct the audit in compliance with the *Audit Act 1994*, as amended; and
- (b) conduct the audit in compliance with Statement of Auditing Practice AUP 33 'Performance Auditing', and other relevant Auditing Standards and professional statements.

The report of the performance audit should:

- (a) specify the performance measures and benchmarks (both qualitative and quantitative) against which the Victorian Auditor-General's Office was measured and assessed;
- (b) provide an opinion on the Victorian Auditor-General's Office's compliance with Australian auditing and accounting standards;
- (c) detail conclusions and include clear recommendations capable of implementation to affect improvement where considered necessary; and
- (d) provide an overall opinion as to whether the Victorian Auditor-General's Office is achieving its objectives effectively, economically and efficiently and in compliance with the *Audit Act 1994*, as amended.

Appendix 2

Office publications

How to obtain our publications

Copies of publications of the Auditor-General, are available through either the Information Victoria bookshop, or through the Office, at the addresses listed below.

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

Requests for copies of publications may also be made by email to 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 (reports only)
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 (all publications)
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 2003-04

September 2003

- Report of the Auditor-General on Parliament's information technology upgrade
- Annual report of the Victorian Auditor-General's Office, 2002-03

October 2003

- Improving literacy standards in government schools
- Managing logging in State forests

November 2003

- Addressing the needs of Victorian prisoners
- Report of the Auditor-General on the Finances of the State of Victoria, 2002-03
- Report on Public Sector Agencies - Results of special reviews and 30 June 2003 financial statement audits

April 2004

- Beating the bugs: Protecting Victoria's economically significant crops from pests and diseases

May 2004

- Delivery of home and community care services by local government
- Budget development and management within departments
- Managing emergency demand in public hospitals
- Report on Public Sector Agencies - Results of special reviews
- Report on Public Sector Agencies - Results of special reviews and financial statement audits for agencies with 2003 balance dates other than 30 June

June 2004

- Maintaining public housing stock

Other publications

June 2004

- Corporate plan, 2004-05 to 2006-07
- Annual plan, 2004-05

Good practice guides

- 2004:1 Chief Finance Officer: Role and responsibilities (issued February 2004)
- 2004:2 Managing risk across the public sector (issued June 2004)
- 2004:3 Managing internet security (issued June 2004)

Occasional paper

- Measuring and reporting on sustainability: Beyond the triple bottom line (issued June 2004)

"Auditing in the Public Interest" newsletter

- New focus for our newsletter
Winter 2003 (issued August 2003)
- Adding value and enhancing accountability
Summer 2003 (issued December 2003)
- Winds of change
Autumn 2004 (issued April 2003)

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

Ombudsman, Office of the

Police, Office of the Chief

Commissioner

Premier and Cabinet, Department of

Primary Industries, Department of

Public Advocate, Office of

Public Employment, Office of

Public Prosecutions, Office of

Supreme Court, Senior Master of the

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 Education, Centre for

Adult Multicultural Education Services

Alpine Resorts Co-ordinating Council

Architects Registration Board of Victoria

Australasian Police Multicultural
Advisory Bureau, formerly National
Police Ethnic Advisory Bureau

Australian Centre for the Moving Image

Australian Food Industry Science Centre

Australian Grand Prix Corporation

Building Commission

Cancer Council of Victoria, The

Chief Electrical Inspector, Office of the

Chinese Medicine Registration Board
of Victoria

Chiropractors Registration Board
of Victoria

Country Fire Authority

Dairy Food Safety Victoria

Dental Practice Board of Victoria

Domestic Building (HIH) Indemnity
Fund

EcoRecycle Victoria

Emerald Tourist Railway Board

Falls Creek Alpine Resort
Management Board

Film Victoria

Gambling Research Panel

Gas Safety, Office of

Government Superannuation Office

Greater Victoria Wine Grape Industry
Development Committee

Greyhound Racing Victoria

Harness Racing Victoria

Health Purchasing Victoria

Heritage Council

Industry Supervision Fund

Infertility Treatment Authority

Lake Mountain Alpine Resort
Management Board

Legal Ombudsman, Office of the

Legal Practice Board

Legal Practitioners Liability Committee

Library Board of Victoria

Medical Practitioners Board of Victoria

Melbourne Market Authority

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 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

Network Tariff Rebate Trust Fund

Northern Victorian Fresh Tomato
Industry Development Committee

Nurses Board of Victoria

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

Port of Hastings Corporation, formerly
Hastings Port (Holding) Corporation

Prince Henry's Institute for Medical
Research

Psychologists Registration Board
of Victoria

Psychosurgery Review Board

Public Transport Ticketing Body

Residential Tenancies Bond Authority

Roads Corporation

Royal Botanic Gardens Board

Rural Finance Corporation of Victoria

Shrine of Remembrance Trustees

Southern and Eastern Integrated
Transport Authority

Spencer Street Station Authority

State Electricity Commission Victoria

State Library of Victoria Foundation
Surveyors Board of Victoria
Sustainable Energy Authority Victoria
Tourism Victoria
Transport Accident Commission
Treasury Corporation of Victoria
V/Line Passenger Corporation
Veterinary Practitioners Registration Board of Victoria
Victoria Legal Aid
Victorian Casino and Gaming 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 Regional Channels Authority, formerly Victorian Channels Authority
Victorian Relief Committee
Victorian Strawberry Industry Development Committee
Victorian Tertiary Admissions Centre
Victorian Trauma Foundation
Victorian Trauma Foundation Pty Ltd
Victorian Urban Development Authority, formerly Docklands Authority and Urban and Regional Land Corporation
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
Ambulance Service Victoria - Metropolitan Region
Austin Health
Bairnsdale Regional Health Service
Ballarat Health Services
Barwon Health
Bass Coast Regional Health, formerly Wonthaggi and District Hospital
Bayside Health
Beaufort and Skipton Health Service
Beechworth Health Service
Benalla and District Memorial Hospital
Bendigo Health Care Group
Boort District Hospital
Calvary Health Care Bethlehem Limited, formerly Bethlehem Health Care Melbourne Inc.
Caritas Christi Hospice Ltd
Casterton Memorial Hospital
Central Gippsland Health Service
Cobram District Hospital
Cohuna District Hospital
Colac Area Health
Coleraine District Health Services
Dental Health Services Victoria
Djerriwarrh Health Services
Dunmunkle Health Services
East Grampians Health Service
East Wimmera Health Service

Eastern Health
Echuca Regional Health
Edenhope and District Memorial Hospital
Gippsland Southern Health Service
Goulburn Valley Health
Hepburn Health Service
Hesse Rural Health Service
Heywood Rural Health
Inglewood and Districts Health Service
Kerang District Hospital
Kilmore and District Hospital
Kooweerup Regional Health Service
Kyabram and District Health Services, formerly Kyabram and District Memorial Community Hospital
Kyneton District Health Service
Latrobe Regional Hospital
Lorne Community Hospital
Maldon Hospital
Mallee Track Health and Community Service
Manangatang and District Hospital
Mansfield District Hospital
Maryborough District Health Service
McIvor Health and Community Services
Melbourne Health
Mercy Public Hospitals Incorporated
Moyne Health Services
Mt Alexander Hospital
Nathalia District Hospital
Northeast Health Wangaratta
Northern Health
Numurkah District Health Service
O'Connell Family Centre (Grey Sisters) Inc.
Omeo District Health
Orbost Regional Health
Otway Health and Community Services
Peninsula Health
Peter MacCallum Cancer Centre, formerly Peter MacCallum Cancer Institute
Portland and District Hospital
Queen Elizabeth Centre
Robinvale District Health Services
Rochester and Elmore District Health Service
Royal Victorian Eye and Ear Hospital
Rural Ambulance Victoria
Rural Northwest Health
Seymour District Memorial Hospital

South Gippsland Hospital
 South West Healthcare
 Southern Health
 St George's Health Service Ltd
 St Vincent's Hospital (Melbourne) Ltd
 Stawell Regional Health
 Swan Hill District Hospital
 Tallangatta Health Service
 Terang and Mortlake Health Service
 Timboon and District Healthcare Service
 Tweddle Child and Family Health Service
 Upper Murray Health and Community Services
 West Gippsland Healthcare Group
 West Wimmera Health Service
 Western District Health Service
 Western Health
 Wimmera Health Care Group
 Wodonga Regional Health Service
 Women's and Children's Health Care Service
 Yarram and District Health Service
 Yarrawonga District Health Service
 Yea and District Memorial Hospital

Superannuation funds

Emergency Services Superannuation Scheme
 Parliamentary Contributory Superannuation Fund
 State Superannuation Fund

Companies, trusts and joint ventures

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 Library Joint Venture
 City West Water Ltd
 City Wide Service Solutions Pty Ltd
 Deakin Networks Pty Ltd
 Deakinprime USA
 Driver Education Centre of Australia Ltd
 Federation Square Management Pty Ltd
 Food Science Australia
 Footy Consortium 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 SAPL Pty Ltd
 Gascor SNPL Pty Ltd
 Gascor WAPL Pty Ltd
 Gascor WPL Pty Ltd
 Geelong Performing Arts Centre Trust
 Gotec Limited
 Goulburn Murray Telecommunications (Holdings) Pty Ltd
 Goulburn Murray Telecommunications Infrastructure Limited
 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
 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 2006 Commonwealth Games Pty Ltd

Melbourne and Olympic Parks Trust
 Melbourne Convention and Exhibition Trust
 Melbourne Enterprises International Limited
 Melbourne Information Management Pty Ltd
 Melbourne University Private Limited
 Melbourne University Private (NZ) Ltd
 Melbourne University Publishing 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 IT Pty Ltd
 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
 Monash Ultrasound Pty Ltd
 Monash Ultrasound Trust
 Monash Unicomm Pty Ltd
 Monash University Foundation Pty Ltd
 Monash University Foundation Trust
 Monash University South Africa
 Monsu Catering Trust
 Montech Medical Developments Pty Ltd
 Montech Pty Ltd
 Monyx Education Services Pty Ltd
 Monyx Pty Ltd
 Monyx Services Food and Beverage Pty Ltd
 Monyx Services Pty Ltd
 Monyx Services Retail Pty Ltd
 Moorotec Limited
 MUP Services Pty Ltd
 National Institute of Circus Arts Limited
 National Stem Cell Centre Limited
 Overseas Projects Corporation of Victorian Ltd
 Paragon Trust No. 1
 Paragon Trust No. 2
 Peter Dibble Memorial Trust
 Phytogene Pty Ltd

Port of Melbourne Corporation,
formerly Melbourne Port
Corporation
Prahran Market Pty Ltd
Premium Cash Fund
Premium Diversified Fund
Premium Equity Fund
Premium Fixed Interest Fund
Premium International Fund
Premium Mortgage Fund
Premium Property Fund
Prostate Diagnostics Pty Ltd
Queen Victoria Market Pty Ltd
Queen Victoria Women's Centre Trust
Regent Management Company Pty Ltd
RMIT (Malaysia) Sdn Bhd
RMIT Foundation
RMIT Innovation Ltd
RMIT International Pty Ltd
RMIT International University Vietnam
RMIT Training Pty Ltd
RMIT Union
RMIT Vietnam Holdings Pty Ltd
Rolling Stock (VL-1) Pty Ltd
Rolling Stock (VL-2) Pty Ltd
Rolling Stock (VL-3) Pty Ltd
Rolling Stock Holdings (VIC)
Rolling Stock Holdings (Victoria-VL)
Pty Ltd
Securities Finance Corporation Ltd
Sir John Monash Business Centre
Pty Ltd
Smart Water Fund
South East Water Ltd
South Eastern Medical Complex Ltd
Spatial Vision Innovations Pty Ltd
Special Power Payments Trust Fund
State Sport Centres Trust
State Trustees Common Fund No. 1
State Trustees Common Fund No. 2
State Trustees Common Fund No. 3
State Trustees Common Fund No. 4
State Trustees Common Fund No. 5
State Trustees Common Fund No. 6
State Trustees Common Fund No. 10
State Trustees Limited
STL Financial Services Ltd
Streetsahead Cleaning Service
Sustainable Melbourne Trust Fund
Swinburne Graduate School of
Integrative Medicine Pty Ltd
Swinburne Intellectual Property Trust

Swinburne Limited
Swinburne Ventures Ltd
TAC Law Pty Ltd
Tattersall Gaming Pty Ltd
Tattersall Sweeps Pty Ltd
Tattersall's Club Keno Pty Ltd
Telematics Course Development Fund
The Fire Services College
The Gordon Foundation Ltd
The School of Forestry Creswick Ltd
The School of Mines and Industries
Ballarat Ltd
Tricontinental Corporation Ltd
Tricontinental Holdings Ltd
Trust for Nature (Victoria)
Twin Waters Resort Pty Ltd
Unilink Ltd
V/Line Passenger Pty Ltd
VFM Australian Equities Trust
VFM Australian Fixed Interest Trust
VFM Emerging Markets Trust
VFM Global Bond Trust
VFM Global Small Companies Trust
VFM Hedged International Equities
Trust
VFM Income Trust
VFM Indexed Bonds Trust
VFM International Equities Trust
VFM Short Term Money Market Trust
Vicfleet Pty Ltd
Victoria University Enterprises Pty Ltd
Victoria University Foundation Ltd
Victoria University International Pty Ltd
Victoria University of Technology
(Singapore) Pte Ltd
Victoria University of Technology
Foundation
Victorian Arts Centre Trust
Victorian Energy Networks
Corporation
Victorian Institute of Sport Limited
Victorian Institute of Sport Trust
Victorian Rail Services Pty Ltd
Victorian Trade and Investment Office
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 Water, formerly North East
Region Water Authority
Port Phillip and Westernport
Catchment Management 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
 City of Whittlesea, formerly Whittlesea City 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
 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 Altona 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 audit opinions, 2003-04

(expenditure less than \$5 million)

Agency	Audit service provider	Firm
Alexandra and District Ambulance Service	B Potgeiter	WHK Day Neilson
Alexandra District Hospital	C Kenny	KPMG
Andersons Creek Cemetery Trust	M Peters	HLB Mann Judd
Architects Registration Board of Victoria	A Roberts	Haines Norton
Ballaarat General Cemeteries Trust	K Richmond	Richmond Sinnott & Delahunty
Barwon Regional Waste Management Group	C Kol	Coffey Hunt and Co.
Bendigo Cemeteries Trust	K Richmond	Richmond Sinnott & Delahunty
Boort District Hospital	K Richmond	Richmond Sinnott & Delahunty
Brain Sciences Institute Trust	M Strickland	RSM Bird Cameron
Calder Regional Waste Management Group	R Fraser	WHK Day Neilson
Casey-Cardinia Regional Library Corporation	M Strickland	RSM Bird Cameron
Central Murray Regional Waste Management Group	H McKenzie-McHarg	Johnsons MME
Centre for Innovation and Enterprise Pty Ltd	M Strickland	RSM Bird Cameron
Chinese Medicine Registration Board of Victoria	S O'Kane	Avenir Group
Chiropractors Registration Board of Victoria	S O'Kane	Avenir Group
Corangamite Regional Library Corporation	B Potgeiter	WHK Day Neilson
Dairy Food Safety Victoria	D Nairn	HLB Mann Judd
Deakin Networks Pty Ltd	S Naylor	RSM Bird Cameron
Desert Fringe Regional Waste Management Group	M Gunn	Coffey Hunt and Co.
Eastern Regional Waste Management Group	M Crossley	WHK Day Neilson
Geelong Cemeteries Trust	K Richmond	Richmond Sinnott & Delahunty
Geelong Performing Arts Centre Trust	J Pasiak	Pannell Kerr Forster
Geelong Regional Library Corporation	P Delahunty	Richmond Sinnott & Delahunty
Gippsland Regional Waste Management Group	K Wood	RSM Bird Cameron
Glenelg Regional Library Corporation	B Potgeiter	WHK Day Neilson
Goulburn Valley Regional Waste Management Group	M Crossley	WHK Day Neilson
Grampians Regional Waste Management Group	M Gunn	Coffey Hunt and Co.

Delegation provided to external audit service providers for signing audit opinions, 2003-04 – *continued*

(expenditure less than \$5 million)

Agency	Audit service provider	Firm
Greater Victoria Wine Grape Industry Development Committee	M Phillips	Pannell Kerr Forster
Hastings Port (Holding) Corporation	D Shewring	Ernst and Young
Hesse Rural Health Service	R Hutton	Haines Norton
Heywood Rural Health	C Kol	Coffey Hunt and Co.
High Country Library Corporation	G Marriott	Hall Chadwick
Highlands Regional Waste Management Group	R Fraser	WHK Day Neilson
Ingenko Pty Ltd	M Strickland	RSM Bird Cameron
Inglewood and Districts Health Service	K Richmond	Richmond Sinnott & Delahunty
Inquirion Pty Ltd	S Cogle	PricewaterhouseCoopers
Maldon Hospital	K Richmond	Richmond Sinnott & Delahunty
Manangatang and District Hospital	R Fraser	WHK Day Neilson
Monyx Services Food and Beverage Pty Ltd	M Strickland	RSM Bird Cameron
McIvor Health and Community Services	K Richmond	Richmond Sinnott & Delahunty
Mildura Cemetery Trust	P Delahunty	Richmond Sinnott & Delahunty
Mildura Regional Waste Management Group	S Wight	Davidsons
Monash Digital Media Pty Ltd	M Strickland	RSM Bird Cameron
Monash Investment Holdings Pty Ltd	M Strickland	RSM Bird Cameron
Monash Investment Trust	M Strickland	RSM Bird Cameron
Monash IT Pty Ltd	M Strickland	RSM Bird Cameron
Monash Learningfast Pty Ltd	M Strickland	RSM Bird Cameron
Monash IVF Pathology Services Trust	M Strickland	RSM Bird Cameron
Monash Property Management Pty Ltd	M Strickland	RSM Bird Cameron
Monash Reproductive Health Enterprises Pty Ltd	M Strickland	RSM Bird Cameron
Monash Reproductive Pathology and Genetics Pty Ltd	M Strickland	RSM Bird Cameron
Monash Ultrasound Pty Ltd	M Strickland	RSM Bird Cameron
Monash Ultrasound Trust	M Strickland	RSM Bird Cameron
Monash Unicomm Pty Ltd	M Strickland	RSM Bird Cameron
Monash University Foundation Pty Ltd	M Strickland	RSM Bird Cameron
Montech Medical Developments Pty Ltd	M Strickland	RSM Bird Cameron
Montech Pty Ltd	M Strickland	RSM Bird Cameron
Mornington Peninsula Regional Waste Management Group	M Crossley	WHK Day Neilson
Murray Valley Citrus Board	S Wight	Davidsons
Murray Valley Wine Grape Industry Development Committee	S Wight	Davidsons
Nathalia District Hospital	P Delahunty	Richmond Sinnott & Delahunty

Delegation provided to external audit service providers for signing audit opinions, 2003-04 – *continued*

(expenditure less than \$5 million)

Agency	Audit service provider	Firm
National Institute of Circus Arts Limited	M Strickland	RSM Bird Cameron
North Central Goldfields Regional Library Corporation	B Potgeiter	WHK Day Neilsen
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	RSM Bird Cameron
Omeo District Health	E Jewell	Armitage Downie
Osteopaths Registration Board of Victoria	S O'Kane	Avenir Group
Otway Health and Community Services	R Hutton	Haines Norton
Phytogene Pty Ltd	C Mortell	KPMG
Podiatrists Registration Board of Victoria	S O'Kane	Avenir Group
Preston Cemetery Trust	R Lindner	Haines Norton
Prostate Diagnostics Pty Ltd	M Strickland	RSM Bird Cameron
RMIT Foundation	S Cogle	PricewaterhouseCoopers
RMIT Innovation Ltd	S Cogle	PricewaterhouseCoopers
Shrine of Remembrance Trustees	S Naylor	RSM Bird Cameron
Sir John Monash Business Centre Pty Ltd	M Strickland	RSM Bird Cameron
South Gippsland Hospital	J Howson	Armitage Downie
South Western Regional Waste Management Group	M Gunn	Coffey Hunt and Co.
Spatial Vision Innovations Pty Ltd	S Cogle	PricewaterhouseCoopers
Swinburne Graduate School of Integrative Medicine Pty Ltd	M Strickland	RSM Bird Cameron
Swinburne Intellectual Property Trust	M Strickland	RSM Bird Cameron
Swinburne Limited	M Strickland	RSM Bird Cameron
Swinburne Ventures Ltd	M Strickland	RSM Bird Cameron
Templestowe Cemetery Trust	M Peters	HLB Mann Judd
Timboon and District Healthcare Service	C Kol	Coffey Hunt and Co.
Trust for Nature (Victoria)	D Nairn	HLB Mann Judd
Trustees of the Lilydale Memorial Park and Cemetery	M Peters	HLB Mann Judd
Tweddle Child and Family Health Service	M Peters	HLB Mann Judd
Veterinary Practitioners Registration Board of Victoria	C Mortell	KPMG
Victorian Meat Authority	D Nairn	HLB Mann Judd
Victorian Strawberry Industry Development Committee	S Naylor	RSM Bird Cameron
West Gippsland Regional Library Corporation	G Marriott	Hall Chadwick
Western Regional Waste Management Group	M Crossley	WHK Day Neilson
Wyndham Cemeteries Trust	S O'Kane	Avenir Group
Yea and District Memorial Hospital	P Delahunty	Richmond Sinnott & Delahunty

Appendix 5

Additional staff statistics

Number of executives and executive vacancies

(at 30 June 2004)

	Ongoing executive officers	Special projects executive officers	Total
Executives employed	26	-	26
Vacancies being filled	1	-	1

Reconciliation with executive numbers

(at 30 June 2004)

	2000-01	2001-02	2002-03	2003-04
Executives with remuneration over \$100 000 (a)	16	19	20	23
Add –				
Recruiting for vacant positions	5	1	1	1
Executives employed with total remuneration below \$100 000	3	6	3	3
Accountable officers (b)	-	-	-	-
Total executive numbers at 30 June	24	26	24	27

(a) Refer to executive officers' remuneration, note 16 of the financial statements.

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

Exemptions from notification of vacancy, 2003-04

Number of exemptions	Classification	Circumstances as defined in Office policy
-	-	-

Appendix 6

Glossary of terms

Terms used throughout the annual report

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 reviews (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 Victorian 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.

Terms used in the financial statements

Accrual accounting

An accounting method in which revenue and costs are recognised for the period in which they are incurred, rather than as cash is received or disbursed.

Australian Accounting Standard (AAS)

Accounting standards jointly issued by the Institute of Chartered Accountants and the Australian Society of Certified Practising Accountants.

Budget

The originally published budget of the Office.

Fair value

The amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms-length transaction, i.e. current market value of an asset.

Fixed assets

Physical assets owned or controlled by the Office and used for its operational requirements.

Gain/(loss) on disposal

The gross proceeds of sale, less the carrying amount of the asset at the time of disposal and expenses directly incurred in disposing of that asset.

General ledger

The accounting system that records the entries that affect each account.

GST

Goods and services tax.

Key performance indicators

A set of indicators that assist in measuring overall performance.

Liabilities

Future sacrifices of service potential or economic benefits that an entity is presently obliged to make to other entities as a result of past transactions or other past events.

Notes

Provide further information in relation to the rules and assumptions used to prepare the financial statements as well as additional information and detail about specific items within the statements.

Operating leases

A lease under which the lessor effectively retains substantially all the risks and benefits incidental to ownership of the leased asset.

Ordinary activities

Operations of a kind carried on regularly from reporting period to reporting period to achieve the objectives of the Office.

Performance indicator

A statistic identifying the extent of activity in meeting a specific objective.

Revaluation

The process where the fair value of an asset or the useful life of an asset is reassessed.

Statement of cash flows

Summarises the Office's cash receipts and payments for the financial year and the net "cash in hand" position.

Statement of changes in equity

Summarises the change in the Office's net worth.

Statement of financial performance

Measures the Office's operating performance over the year and shows if a profit or loss has been made in delivering services.

Statement of financial position

Sets out the Office's net accumulated financial worth at a point in time. It shows the assets that the Office holds, as well as the liabilities or claims against these assets.

Useful life

The estimated period of time over which a depreciable asset is expected to be able to be used, or the benefits represented by the asset are expected to be able to be derived.

User charge

A cost-reflective fee or charge imposed on the users of services.

Work-in-progress

Works where the project is not yet completed and has not been expensed at the end of the reporting period.

Write-off

This term is used where an amount previously recognised as receivable is deemed uncollectible.

Written-down value

The fair value of the asset, less the accumulated depreciation.

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Indexes

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Disclosure index

The annual report of the Victorian Auditor-General's Office is prepared in accordance with all relevant Victorian legislation. This index has been prepared to facilitate identification of the Office's compliance with statutory disclosure requirements.

Legislation	Requirement	Page reference
Ministerial directions		
Report of operations		
<i>Charter and purpose</i>		
FRD 22	Manner of establishment and the relevant ministers	<i>Inside front cover</i>
FRD 22	Objectives, functions, powers and duties	<i>Inside front cover</i>
FRD 22	Nature and range of services provided	<i>Inside front cover</i>
<i>Management and structure</i>		
FRD 22	Organisational structure	37
<i>Financial and other information</i>		
FRD 22	Statement of work force data, and merit and equity	50, 51
FRD 22	Summary of the financial results for the year	53
FRD 22	Significant changes in financial position during the year	55
FRD 22	Operational and budgetary objectives and performance against objectives	8, 28, 36
FRD 22	Major changes or factors affecting performance	30
FRD 22	Application and operation of <i>Freedom of Information Act 1982</i>	46
FRD 22	Statement on National Competition Policy	46
FRD 22	Application and operation of the <i>Whistleblowers Protection Act 2001</i>	45
FRD 22	Details of consultancies over \$100 000	55
FRD 22	Details of consultancies under \$100 000	55
FRD 12	Disclosure of major contracts	91
FRD 22	Statement of availability of other information	46
FRD 22	Occupational health and safety	51
FRD 15	Executive officer disclosures	77
FRD 10	Disclosure index	98
FRD 24	Reporting of office-based environmental impacts	52
Premier's Circular		
2003/3	Whole-of-government reporting on responsiveness to cultural diversity, women, youth and indigenous affairs	51

Legislation	Requirement	Page reference
Financial statements		
Financial statements required under Part 7 of the Financial Management Act		
SD 4.2(c)	Compliance with Australian accounting standards and other authoritative pronouncements	60
SD 4.2(c)	Compliance with ministerial directions	60
SD 4.2(d)	Rounding of amounts	63
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FRD 11	Disclosure of ex-gratia payments	n.a.
FRD 13	Disclosure of parliamentary appropriations	66
FRD 21	Responsible person and executive officer disclosures	77
FRD 23	Superannuation liabilities and disclosure	62
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	<i>Freedom of Information Act 1982</i>	46
	<i>Building Act 1983</i>	n.a.
	<i>Whistleblowers Protection Act 2001</i>	45
	<i>Victorian Industry Participation Policy Act 2003</i>	n.a.

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Also refer to "Disclosure index" on page 98.

Four-year statistics

		2000-01	2001-02	2002-03	2003-04
Parliamentary reports and services					
Reports tabled in parliament –					
Report of the Auditor-General on the state's finances	(number)	1	1	1	1
Reports on public sector agencies	(number)	1	2	3	4
Major (including performance) audit reports	(number)	6	9	12	11
Client satisfaction with parliamentary reports	(per cent)	81	80	77	84
Non-parliamentary products -	(number)	-	-	-	4
Audit reports on financial statements					
Audit responsibilities (entities at 30 June)	(number)	551	566	587	600
Audit reports on financial statements –					
Unqualified opinions issued during reporting year	(number)	490	510	558	588
Qualified opinions issued during reporting year	(number)	32	38	29	23
Total opinions issued during reporting year	(number)	522	548	587	611
Audit reports on local government performance statements –					
Unqualified opinions issued during reporting year	(number)	68	65	69	74
Qualified opinions issued during reporting year	(number)	10	13	9	5
Total opinions issued during reporting year	(number)	78	78	78	79
Audit opinions issued within time frame	(per cent)	88	90	94	98
Client satisfaction with audit services	(per cent)	71	70	75	74
Resources					
In-house staff	(number)	118	127	129	127
External audit service providers	(number)	50	48	47	46
Days sick leave per employee	(number)	8.4	16.2	5.0	5.5
Workers compensation claims	(number)	-	2	-	-
Injuries reported	(number)	1	6	7	7
Grievances lodged	(number)	-	-	-	-
Staff training and professional development per employee	(days)	2.1	9.4	9.5	8.8
Financial management					
Expenditure on external audit service providers	(\$million)	5.77	6.52	6.84	6.69
Revenue from audit fees	(\$million)	11.57	13.12	14.03	14.23
Operating surplus/(deficit)	(\$million)	2.06	0.92	0.30	1.04
Assets	(\$million)	8.07	9.39	9.44	10.38
Liabilities	(\$million)	4.69	5.02	4.81	4.71
Financial audit costs recovered from clients	(per cent)	95	97	102	100

Note: Figures are only available from 2000-01 due to the amalgamation of the Victorian Auditor-General's Office and the former Audit Victoria in 2000.

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VICTORIA

Auditing in the Public Interest