

2005-06

annual report

Victorian Auditor-General's Office



AUDITOR GENERAL
VICTORIA

Auditing in the Public Interest

Informing parliament and the community

Our vision

Recognised excellence in public sector auditing.

Our purpose

Improving performance and 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 successes
- Communicating honestly.

Corporate focus for 2005-06

During 2005-06, we sought to ensure that we ably informed parliament and the community through:

- our positive responses to external reviews on our operations, thereby enhancing our **performance and accountability to parliament**
- our value-adding **parliamentary reports and services**
- undertaking independent, professional audits of the **financial statements** of our audit clients
- the effective **management of our Office** so as to deliver our products and services economically and efficiently
- prudent management of the **financial performance of the Office.**



Snapshot of our Office

Our history

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

In the early 1980s, our financial statement auditing responsibilities were expanded to include performance auditing, which evaluates whether public sector agencies use their resources efficiently and effectively, 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 papers
- conducting financial statement audits for 615 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

The agencies we audit:

- earn approximately \$46 billion in revenue
- incur approximately \$41 billion in expenditure
- hold over \$174 billion in assets.

Available resources

At 30 June 2006, we:

- had 150 in-house staff (148 at 30 June 2005)
- engaged 32 external audit service providers (26 during 2004-05)
- received \$26.547 million in funding from parliament (\$24.923 million in 2004-05).

Office information

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Highlights for 2005-06

Accountability to parliament

- Our *2005-06 Annual Plan* was presented to parliament on 19 July 2005 (see page 10).
- We continued to implement recommendations directed at our Office contained in 2 reports issued by the independent performance auditor and the Public Accounts and Estimates Committee (see page 12).

Parliamentary reports and services

- We achieved an 81 per cent client satisfaction rating (target 80 per cent) from stakeholders on our surveyed parliamentary reports (see page 14).
- We broadened our contribution to enhancing public sector accountability and resource management through a comprehensive program of providing advice and contributions to government and professional bodies (see page 33).

Audit reports on financial statements

- We issued 631 audit opinions (target of 625); 27 more than 2004-05 (see page 41).
- Completion of education sector financial statement audits – the first sector to apply the new Australian equivalents to International Financial Reporting Standards (A-IFRS) (see page 42).
- Eighty-one per cent (target of 80 per cent) of our audit clients expressed their satisfaction with the way we conducted our financial statement audit work (see page 44).

Managing our Office

- We successfully introduced wireless technology for use by audit field staff (see page 56).
- Our knowledge management services and facilities were improved (see page 57).
- We received an award for our communications activities at the 2005 Royal Melbourne Show (see page 58).
- We launched our new financial audit toolset (IPSAM) in November 2005, and commenced a major review of our performance audit and special reviews methodology (EMPERA) (see page 59).
- We implemented a new People Strategy to enhance our human resources and organisational capacity (see page 62).
- Our Green Office Group continued to conserve energy, reduce waste and promote recycling (see page 67).

Financial management

- Our net financial result for the year was a surplus of \$909 074 (\$966 607, 2004-05) (see page 70).
- Audit fee income for the year was \$14.996 million (\$14.268 million, 2004-05) (see page 70).

Financial summary	2004-05	2005-06	Change
	(\$'000)	(\$'000)	(%)
Operating revenue	25 243	26 739	▲ 5.9
Operating expenses	24 277	25 830	▲ 6.4
Total assets	11 420	12 177	▲ 6.6
Total liabilities	4 784	4 633	▼ 3.2
Surplus	966	909	▼ 5.9
Net equity	6 635	7 545	▲ 13.7

Auditor-General's review 2005-06

“I have very much enjoyed my term in office ...”



Overview

This is my last report as Victorian Auditor-General, as I retire from the position on 19 September 2006. It is appropriate, therefore, that as part of this overview I reflect somewhat more broadly than in the past on our achievements, and observe what I think the future might bring for the Office.

Most of the first half of 2005-06 could be categorised as “business as usual”, but the second half changed quite markedly. The application of new international accounting standards across Australia, which impact on the public sector as well as the private sector, witnessed the tertiary education sector being some of the first institutions in Australia to apply the new standards. The run up to this year’s state election places additional demands on the Office for a variety of reasons. Historically, these demands tend to come in the form of matters being drawn to our attention for consideration for audit investigation.

The government announced that public sector agencies complete their public accountability obligations earlier than has been the case in the past. Agencies have been asked to table their annual reports (which will include their audited financial statements) before parliament rises in early October 2006.

This latter demand will exert some pressure on my staff and on our external audit service providers, as well as agencies themselves to meet the tighter deadlines. At the time of preparing this annual report, I am not in a position to say how well the Office will have responded to those demands but it will not be for the want of willingness and preparedness to do so.

External environment

No legislative auditor is immune from changes in the environment in which he or she undertakes their duties. Knowing, understanding, anticipating and responding to such forces should lead to better, more targeted, audit outcomes providing the best possible and timely assurance to parliament and the community. The Office has, during my time, committed substantial energy towards doing the right things, as well as doing things right. We call that “strategic audit planning”. When we commenced this journey 7 years ago, the concept was relatively new, but in preparing these final comments I am heartened to find that increasingly more and more of my legislative audit colleagues have pursued a similar approach to more overtly determining audit priorities having regard to the external environment around them.

I have mentioned earlier some of the changes in the professional accounting standards landscape that has influenced the work of my Office over the last few months, and will continue to influence its work in the years ahead. From 1 July 2006 onwards, an entirely new set of auditing standards will need to be implemented, with all the attendant requirements to adjust audit methodologies and related learning and development programs to familiarise staff and external audit service providers with these new requirements. It is for this reason that we have invested substantially in an upgraded learning and development program so that staff are fully aware and are thoroughly capable of understanding what the new accounting and auditing requirements mean so that they can competently fulfil their professional responsibilities.

Another event which has impacted on our operations during the year, as it has for other public sector agencies, includes Victoria’s hosting of the recent 2006 Commonwealth Games and the associated accounting requirements.

We have continued to maintain dialogue with the Department of Justice and the courts regarding access for the application of our broader audit mandate to the administrative activities of the courts. I was particularly pleased in recent discussions with the Chief Justice to reach in-principle agreement for our Office to resume our performance audit mandate in the courts, acknowledging the sensitivity of ensuring that our work focuses on the efficient and effective use of public resources and does nothing to impair the independence of the judiciary.

External review of our performance

I reported in last year’s annual report on the outcome of the independent performance audit of my Office. In that report, I indicated that we had commenced action to take up the various recommendations made in that audit report by responding constructively to the observations and, when not already doing so, addressing those areas that still required refinement. That audit was concluded and reported to parliament in November 2004.

In March 2006, the Public Accounts and Estimates Committee tabled its own report on the independent performance audit, and made a number of observations designed to improve the effectiveness of our Office.



Any auditor is well aware of how auditees respond to public reports and, in particular, to the findings in those reports and the conclusions therein. Much of the energy of an audit team is designed to ensure that there is no major debate about evidential findings, although there may be a difference of views about the conclusions that are drawn from those findings.

It was somewhat disappointing, therefore, to read some of the observations made and conclusions reached in the committee's report. A number of the facts referred to in the report were not drawn from the independent performance auditor's report, so I am left in some doubt about where that additional material came from, but they have led to some rather unfair and, in some instances, unjustifiable conclusions being drawn in the report. I have written to the committee identifying the conclusions of concern.

We continue to implement the recommendations made in the performance auditor's report and we will continue to regularly inform the committee about progress made in implementing those recommendations (see Appendix 1 of this annual report).

Improving operational effectiveness and efficiency

I signalled last year that we had embarked on a number of major initiatives to continue to build capacity and improve our internal efficiency. One major initiative concluded successfully during the year was the official launch in November 2005 of our IPSAM audit toolset, jointly-developed with our Queensland Audit Office colleagues. Its successful launch, on time and on budget, and the subsequent roll-out in both Offices has proven already what a tremendous initiative that was. The underpinning policies and processes embedded in that new initiative will improve audit efficiencies out into the future.

At the same time, we have continued to look for other ways to use technology to improve our efficiencies. One of the success stories of the year was the roll-out of fully-capable wireless computer facilities for field staff so that all of the replication functions inherent in field activities could be undertaken without any fear of malfunction, data corruption or delay when staff are located in off-site premises.

These developments are simple testimony to the strength of the skills in the Office to successfully develop and implement new technologies in such a way as to retain the confidence of staff and achieve efficiencies in the field.

How did we perform during the year?

Performance against 2005-06 Annual Plan

The performance objectives and targets for our Office are expressed in our annual plan. This plan, a statutory requirement designed to establish our goals and priorities for the year, sets out our key performance objectives and annual performance targets. It is supported by budgetary data to achieve those objectives and performance targets.



I am pleased to report that most key output targets set in our annual plan for 2005-06 were again materially met or exceeded. The number of financial audits continues to grow; partly because of a general growth in a number of public agencies and partly because of the downstream effects of legislative changes made in 2003 which saw majority-owned public sector entities included within my audit oversight. This number is expected to grow in the future following recent legal advice. That advice confirmed that a number of bodies that are not currently subject to public accountability requirements should, in fact, be so. Two groups of institutions that fall within this category are community health centres, and health industry communications and technology alliances. Both will become subject to audit by the Auditor-General from 1 July 2006.

Over the last 3 years we have pursued a number of different strategies aimed at encouraging public sector agencies to prepare and include in their annual reports, non-financial performance information as part of the information that informs parliament and the community about their performance. Such information would be subject to additional independent assurance by being audited by my Office. At this point in time, only local government and regional water authorities meet this more comprehensive performance reporting standard. We commenced working with technical and further education institutions to achieve this standard during the year. It is our hope that for the 2007 reporting year those institutions will prepare high-quality performance reports which include audited, non-financial performance information. During 2006, we commenced a preliminary assessment of health authorities with the same objective in mind.

We completed 631 financial audits during the year, 96 per cent of which were completed within one month of receipt of the financial statements; and we also completed 16 reports for presentation to parliament, 8 of which were performance audits (including 4 follow-ups), one a comprehensive analysis of the financial position of the state, 4 special-subject audits and 3 omnibus reports on the results of financial audit rounds and special investigations. Some of these latter activities flow from matters referred to our Office by members of parliament or the general public for consideration, or referrals from the Ombudsman under the Whistleblowers legislation. Protocols have been established between our Office and the Ombudsman to manage these arrangements.

Our performance results continue to highlight the need for increased attention to completing audit management letters more promptly than we currently do. Part of the reason for not meeting our target of issuing audit management letters within 4 weeks of opinion issue date (a target we set ourselves) is because we await a response from the audited agency before final issuance and this can cause delay. Revised procedures implemented in early 2006 should result in improved performance in this area in future.

I am particularly pleased to report the continuing improvement in our financial audit client satisfaction survey results. The results over the last 6 years have steadily risen from 70 per cent in 2000-01 to 81 per cent this year. Improvements are similarly noted in satisfaction results for parliamentary reports with the average over the last 5 years of 80 per cent being matched at 81 per cent this year.



The future – 2006-07 and beyond

Clearly, the future will no longer be in my hands and will fall to the responsibilities of the new Auditor-General to shape, as appropriate. In doing so, it would be my observation that some of the issues that merit ongoing consideration would include:

- balancing the ever-broadening demands on the work of the Office
- continuing to drive reporting and auditing of non-financial performance measurement across the public sector
- balancing the various and similar interests of the Ombudsman's office and the State Services Authority with our own unique mandate of serving the interests of parliament
- finding more suitable ways to retain valuable staff, particularly at around Audit Senior/Audit Manager levels within the organisation. These people are highly valuable and highly mobile within the auditing profession, and it is not unnatural for them to become attracted to other occupational environments, whether they are within Australia or off-shore. We clearly need to find better ways to retain these people. Some of our recent initiatives in the area of leadership development and succession management should go a long way towards meeting that objective.

Appreciation

Our key skill base lies in our people. We have done much in recent times to seek to develop our staff so that they are better equipped to not only undertake their roles and duties in this organisation, but for the world at large. Auditing is also very much a personal activity since, essentially, what it involves is individuals applying their particular skills and knowledge to a defined set of standards.

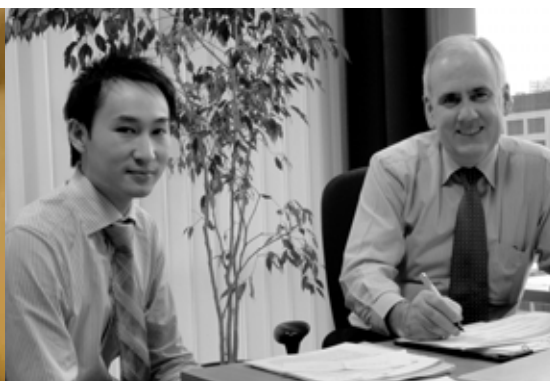
I have very much enjoyed my term in office and particularly enjoyed and appreciated the commitment, professionalism and energy of staff in achieving our goals. I must also include others in my expression of appreciation who assisted the Office in achieving its goals through the provision of contracted audit services and in supporting the audit teams whether they be financial, investigative or performance audit teams.

It is only fitting, therefore, that I publicly express in this, my final annual report, my sincere appreciation of the work of staff, external audit service providers and those who have provided advice to audit teams, and to myself, throughout the year and over the past 7 years, for their unfailing diligence and professionalism in contributing to improved accountability and performance across the Victorian public sector.



JW Cameron
Auditor-General

September 2006



Key achievements in term of office

2000

- Audit Act revised, restoring the Auditor-General's powers and strengthening his relationship with parliament.
- Abolition of Audit Victoria and reintegration of staff and audit responsibilities back into the Office of the Auditor-General.
- Inaugural development of the Auditor-General's annual work plan for discussion with the Public Accounts and Estimates Committee, and tabling of the plan in parliament.
- Expanded role for the Office – review of the estimated financial statements for the state in support of the state budget.

2001

- Developed new corporate plan for 2001-2004.
- Established broad policies regarding use of audit service providers – one-third of all audits for each sector to be done by Office staff.
- Celebrated 150 years as an audit office.
- First Gold Award for *2000-01 Annual Report*.
- Delivered 9 major reports to parliament and issued 549 audit opinions on agency financial statements.
- Fourth independent performance audit of the Office completed.

2002

- Establishment of external advisory panels for the local government, health and education sectors to inform strategic audit planning.
- Developed and promulgated model financial statements for local government, health agencies, TAFE and water industry bodies – designed to speed and ease the preparation of financial statements by auditees.
- Redeveloped computer technology platform, upgraded service and communication facilities.
- Established internal risk management framework.
- Revised management arrangements for contracted audits to improve client service and institute more active engagement for higher risk audits.

2003

- Revised audit legislation, key features of which saw the independence of the Auditor-General's position protected in the Constitution Act, and the inclusion of majority-owned public entities included within the Auditor-General's mandate.
- Commenced briefings of members of parliament on reports as near as possible after the date of tabling.
- Established protocols with the Public Accounts and Estimates Committee.
- New, more flexible, funding arrangements concluded to accommodate increasing number of public bodies requiring financial audit.
- Development of new MARS practice management system.
- Upgrade of Office intranet.
- Full roll-out of TRIM document management system.
- First of the compliance and control audits completed.

2004

- Established Special Investigations unit for rapid, special audit investigations.
- Fifth independent performance audit of the Office undertaken.
- Commenced development of new financial audit toolset as a joint venture with the Queensland Auditor-General.
- Three good practice guides issued.
- Delivered 16 major reports to parliament.
- Corporate plan for 2004-2007 launched.

2005

- New IPSAM audit toolset for financial audits launched.
- Commenced upgrade of EMPERA audit methodology for performance audits and special reviews.
- Development and promulgation of new PRISM audit methodology for the audit of non-financial performance indicators.
- Substantially upgraded the Learning and Development Program and developed guidance on the implementation of new A-IFRS accounting standards.

2006

- Complete revamp of financial audit policies to reflect changes to accounting and auditing standards.
- Roll-out of wireless capacity for field audit staff.
- Completion of education sector audits – the first sector to apply the new A-IFRS accounting standards.

Accountability to parliament



Key achievements

- Our *2005-06 Annual Plan* was presented to parliament on 19 July 2005 (see page 10).
- We continued to implement recommendations directed at our Office contained in 2 reports issued by the independent performance auditor and the Public Accounts and Estimates Committee (see page 12).

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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 Public Accounts and Estimates Committee (PAEC) 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 620 public sector agencies and report the results of all audits directly to parliament.

“One of Parliament's most important roles is to hold the government to account for the results it achieves with taxpayer dollars. To do this effectively, parliamentarians need objective information they can rely on to scrutinize government activities and spending. The Office of the Auditor-General is an independent source of such information ...”

The Hon. Christine Campbell, MP, Hansard, March 2006

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 use public resources economically, efficiently and effectively.

While much of the work of the Auditor-General is directed towards assuring parliament of the soundness of past public sector performance, the Office also advises agencies to help them improve their future performance.

Performance against 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 PAEC. 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.



Our 2005-06 *Annual Plan* was presented to parliament on 19 July 2005. It set out:

- key challenges and risks across the public sector
- our planned work program for 2005-06
- our business improvement initiatives for the year
- the funding to meet planned performance.

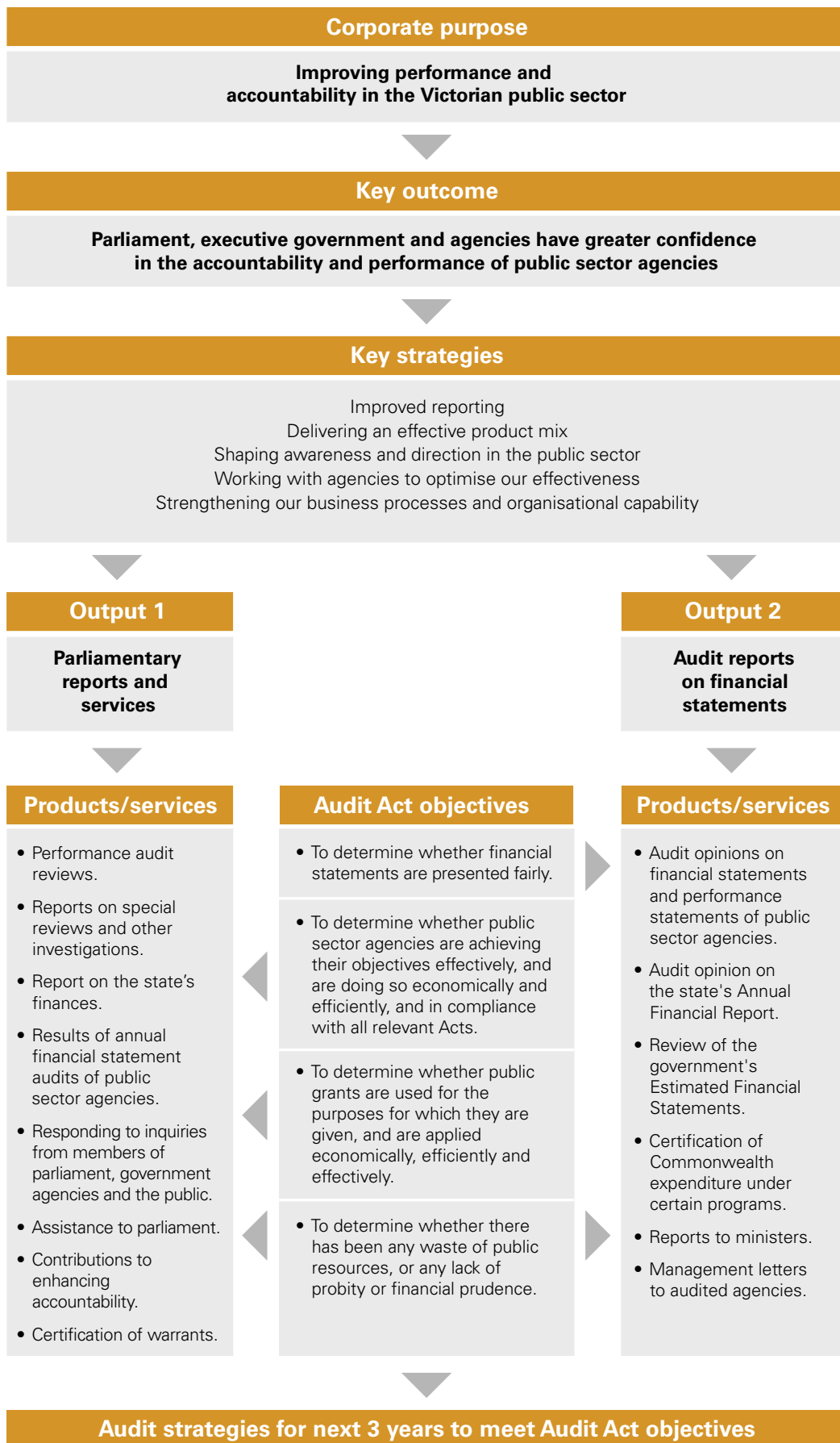
This annual report presents our achievements against the 2005-06 *Annual Plan*.

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 services performed and products delivered. It also shows the relationship of those products with our legislative mandate.



Assessments of our performance

Independent performance audit of the Office

Report of independent performance auditor, December 2004

The *Audit Act 1994* requires a person appointed by parliament, on the recommendation of the Public Accounts and Estimates Committee (PAEC), 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 May 2004 to undertake the performance audit and to report to parliament. The report of the performance auditor was tabled in parliament in December 2004, and concluded as follows:

Terms of reference	Conclusion
Is the Victorian Auditor-General and the Office operating in compliance with the Audit Act and achieving their objectives?	We have found the Victorian Auditor-General and the Office is complying with the legislative objectives, undertaking the audit mandate in accordance with the Act and Australian auditing standards and substantially achieving the corporate objectives. The Office is operating in compliance with the <i>Audit Act 1994</i> .
Is the Victorian Auditor-General and the Office operating effectively, economically and efficiently?	By reference to Audit Offices in other Australian jurisdictions, the Victorian Auditor-General and the Office are largely operating effectively, economically and efficiently. We have made a number of recommendations in this report to address areas of operations where improvements are required.

Our *2004-05 Annual Report* set out in full all the recommendations made by the performance auditor, our responses and the status of our action relating to the recommendations – at 30 June 2005. Appendix 1 of this annual report provides summarised information on the status of actions taken to implement the recommendations – at 30 June 2006.

Report by Public Accounts and Estimates Committee, March 2006

In March 2006, the PAEC released a report dealing with its response to the 2004 performance audit of the Office. The chair of the PAEC, the Hon. Christine Campbell, MP, said that the Victorian Auditor-General's Office has a very important role in the Westminster system of government in assisting parliament discharge its accountability obligations to the Victorian people. The Hon. Christine Campbell, MP, said that she was confident that the Office, after implementing the changes recommended by the performance auditor and the PAEC, would be well placed to meet the challenges ahead.

The Auditor-General has provided further comment on this PAEC report on page 4 of this annual report.

Report by Public Accounts and Estimates Committee on the 2004-05 Budget Outcomes

The PAEC annually reviews budget outcomes for the previous year. This process focuses on the operation and performance of departments over the previous financial year.

In its April 2006 *Report on the 2004-05 Budget Outcomes*, the PAEC included a number of recommendations relating to our Office. Details of these recommendations, and action taken or proposed, are outlined in Appendix 2 of this annual report.

Parliamentary reports and services



Key achievements

- We achieved an 81 per cent client satisfaction rating (target 80 per cent) from stakeholders on our surveyed parliamentary reports (see page 14).
- We broadened our contribution to enhancing public sector accountability and resource management through a comprehensive program of providing advice and contributions to government and professional bodies (see page 33).

In this section

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The Victorian Auditor-General presents for tabling stand-alone reports in parliament covering performance audits, major investigations and an annual assessment of the state's finances. These reports address issues of substantial interest to both parliament and the community.

This year, we also presented omnibus reports in December 2005 and June 2006 – which contained observations arising out of the preceding June and

December financial statement audit rounds, and any other audits completed at that time. We presented 2 further reports containing the results of audits and 4 follow-ups of performance audits conducted 2 years earlier.

The following table shows our performance for the *Parliamentary reports and services* output group (Output group 1) against our 2005-06 targets.

Performance against output targets

Performance measures		Target 2005-06	Actual 2005-06	Target 2006-07
Cost				
Delivering reports and services (see page 14)	(\$m)	10.8	10.4	11.28
Quantity				
Major audit reports (see page 16)	(no.)	16	16	16
Quality				
External satisfaction with major audit reports (see page 30)	(%)	80	81	80
Timeliness				
Finishing reports within time frames (see page 29)	(%)	100	<i>(a)</i> 69	100
Acknowledging inquiries from members of parliament and the public within 7 days, and responding within 4 weeks (see page 32)	(%)	95	81	95

(a) The achievement of this target was impacted by the need to undertake significant discussions with agencies between the time the preliminary draft and final report was prepared.

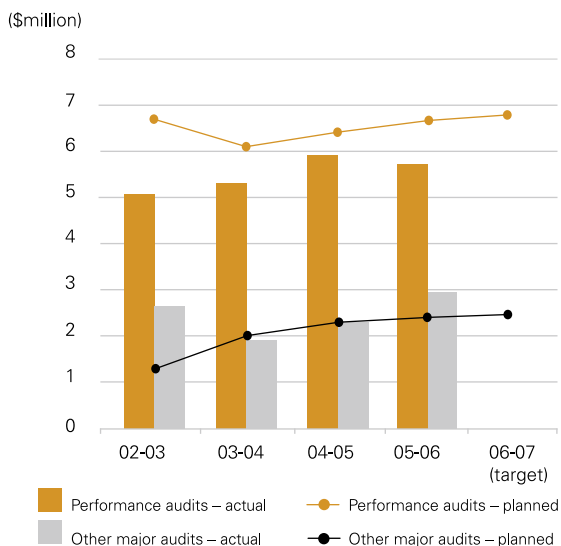
Cost of reports and services provided

The following table shows our performance by individual products against our 2005-06 targets.

Product	Target 2005-06	Actual 2005-06	Target 2006-07
	(\$m)	(\$m)	(\$m)
Parliamentary reports			
Performance audits	6.69	5.58	6.93
Other audits, investigations and results of annual financial statement audits	2.40	2.82	2.54
Report on the state's finances	0.38	0.32	0.40
Parliamentary services			
Assistance to parliament	0.30	0.36	0.32
Responding to inquiries from members of parliament and the public	0.21	0.23	0.22
Contributions to enhancing accountability	0.70	1.06	0.74
Liaison with international and interstate organisations	0.09	0.06	0.10
Examination and certification of warrants	0.03	0.02	0.03
Aggregate output costs	10.80	10.45	11.28

The following chart shows our performance, since 2002-03, for the cost of parliamentary reports and services against our plans.

COST OF PARLIAMENTARY REPORTS AND SERVICES AGAINST PLAN

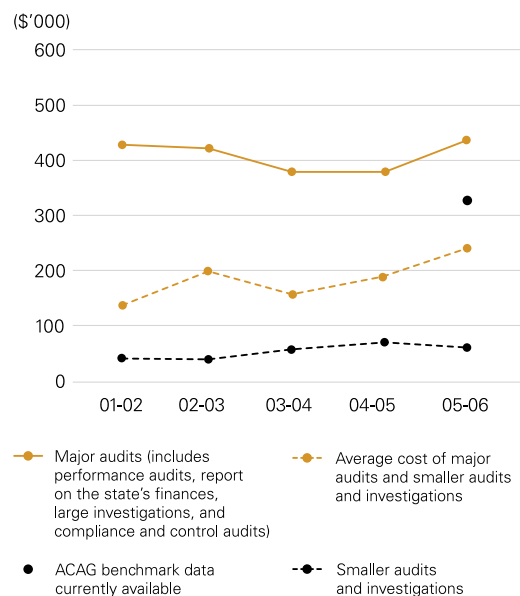


We spent less on performance audits in 2005-06 than planned because of the complexity of a number of other audits and investigations undertaken, such as the *Management of the Commonwealth Games Athletes' Village project*, *Rail gauge standardisation* and the *Review of major public cemeteries*.

In addition, 2005-06 saw increased resources applied to the requirement to put in place revised arrangements flowing from Australia's decision to adopt International Financial Reporting Standards, including the review of, and comment on, the exposure drafts associated with the Australian equivalent of these standards. This included review of new Financial Reporting Directions and the development of revised model financial statements for a number of sectors. Further information is contained on page 33.

The following chart compares our average cost of audits with the Australasian Council of Auditors-General (ACAG) benchmark data.

AVERAGE COST OF PARLIAMENTARY PRODUCTS



This chart shows our performance against the ACAG benchmark of \$325 400. The ACAG benchmark results reflect different mandates, however, the benchmark offers a useful comparison.

While our major audits cost more than the ACAG benchmark, 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

The following table shows our performance for each audit type against our 2005-06 targets.

Audit type	Target 2005-06	Actual 2005-06	Target 2006-07
Major audits -			
Performance audits	12	8	12
Other	–	4	–
Other parliamentary reports	3	3	3
Examination of the state's finances	1	1	1
Total	16	16	16

During 2005-06, we completed:

- 8 performance audits (10 in 2004-05) including a report containing 4 follow-ups of performance audits which were undertaken 2 years previously: *Management of food safety in Victoria*, *Drug education in government schools*, *Fire prevention and preparedness* and *Mental health services for people in crisis*, against our target of 12 (12 in 2004-05). Eight performance audits were in progress at 30 June 2006
- 4 other major audits: *Management of the Commonwealth Games Athletes' Village project*, *Rail gauge standardisation*, *Community planning services in Glenelg Shire Council* and *Review of major public cemeteries* were completed, and 2 other audits were in progress at 30 June 2006
- 2 reports on the results of the financial statement audits for 30 June 2005 and 31 December 2005, and one report on audits and other investigations.

While we have achieved our budget output target, the number of performance audits completed this year declined. This was due to the magnitude of a number of planned major audits and several unplanned investigations following requests from ministers, departmental secretaries and the general community; referrals from the Ombudsman of Victoria; and the need to respond to emerging critical issues in a timely manner, which resulted in changes to priorities identified in our *2005-06 Annual Plan*.

“The reports prepared by the Auditor-General are a valuable means for the Government to enhance the delivery of a wide range of services to all Victorians”.

The Hon. John Lenders, MP, Minister for Finance, November 2005

Parliamentary reports

Our parliamentary reports cover 3 segments of audit activity:

- examination of the state's finances
- major audits, including performance audits, grouped under 3 strategic themes around challenges and risks:
 - meeting community needs
 - public sector capability and resources
 - sound economic, financial and performance management, and accountability
- other parliamentary reports which are prepared at the end of each financial audit cycle, and report on the results of each audit round. These reports also include the results of special audits or investigations completed at that time.

Examination of the state's finances

Auditor-General's Report on the Finances of the State of Victoria, 2004-05 (November 2005)

The *Auditor-General's Report on the Finances of the State of Victoria, 2004-05* was tabled in parliament on 16 November 2005. It analyses the state's financial performance for the 2004-05 financial year, and comments on key transactions and events that impact on its financial position.

While we issued a clear audit opinion on the government's 2004-05 *Annual Financial Report*, we included an "emphasis of matter" paragraph in the audit report because, in our view, there was a material inconsistency between the commentaries and explanations contained within the Annual Financial Report and the audited financial statements.



VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency
The report highlights areas of revenue-raising and expenditure that need to be monitored and managed.	The report provides an independent analysis of the state's financial performance and condition, and assists users to understand the key factors impacting on state finances.

Major audits – Themes and activity

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.

The following table includes the majority of areas of audit interest identified in our 2005-06 *Annual Plan* either as reports tabled in 2005-06, audits in progress as at 30 June 2006 or audits carried forward to the 2006-07 *Annual Plan*.

MAJOR AUDIT PROGRAM COVERAGE, 2004-05 TO 2006-07

Strategic influence	2004-05	2005-06	2006-07 (in progress or under consideration)
Challenges and risks to meeting community needs	<ul style="list-style-type: none"> Managing school attendance Managing patient safety in public hospitals Our children are our future: Improving outcomes for children and young people in Out of Home Care 	<ul style="list-style-type: none"> Access to specialist medical outpatient care Vocational education and training: Meeting the skill needs of the manufacturing industry (b) Making travel safer: Victoria's speed enforcement program (b) 	<ul style="list-style-type: none"> Giving Victorian children the best start in life (a) Investment in health promotion and prevention (a) Education programs for students with a disability (a) School performance – Student learning outcomes Learning technologies in government schools Access to public hospitals – Inpatient flow and bed management Housing and accommodation support services for people with a disability Services to young offenders

Strategic influence	2004-05	2005-06	2006-07 (in progress or under consideration)
Challenges and risks to public sector capability and resources	<ul style="list-style-type: none"> • Meeting our future Victorian Public Service work force needs • In good hands: Smart recruiting for a capable public sector • Management of occupational health and safety in local government • Managing intellectual property in government agencies • Regulating operational rail safety • Managing stormwater flooding risks in Melbourne • Measuring the success of the Our Forests, Our Future policy 	<ul style="list-style-type: none"> • Planning for a capable Victoria Police work force • Protecting our environment and community from failing septic tanks • Community planning services in Glenelg Shire Council: 1998-2005 • Management of the Commonwealth Games Athletes' Village project • Rail gauge standardisation project (b) • Progress of the EastLink project 	<ul style="list-style-type: none"> • Maintaining Victoria's rail infrastructure assets (a) • Integrity and protection of data in selected IT systems • Tendering and contract management practices in selected government departments (a); and in local government • Condition of public sector residential aged care facilities (a) • Maintaining the state's regional arterial road network • Maintenance and replacement of water infrastructure • Environmental management in Victorian parks • Biosecurity – Adequacy of primary industry and health planning • Urban planning • Regional fast rail project (a) • Specific ICT projects • Specific capital projects

Strategic influence	2004-05	2005-06	2006-07 (in progress or under consideration)
Challenges and risks to sound economic, financial and performance management and accountability (c)	<ul style="list-style-type: none"> • Administration of grants by local governments • East Gippsland Shire Council – Proposed sale of Lakes Entrance property • Review of Warrnambool City Council financial management practices • Cheltenham and Regional Cemeteries Trust – Review of expenditure and related matters 	<ul style="list-style-type: none"> • Health procurement in Victoria • Franchising Melbourne's train and tram system • Review of major public cemeteries (b) • Geelong Magistrate's Court: Investigation into alleged misuse of court funds 	<ul style="list-style-type: none"> • Victorian WorkCover Authority – Claims management (d) • Primary industry research (d) • Privately provided public bus services (a) • State investment in major events (a) • Government advertising (a) • Administration of courts • Records management in the public sector • Specific compliance audits and reviews of systems and processes

(a) Work in progress at 30 June 2006.

(b) Audit work completed and the related report was available for tabling in parliament in July 2006.

(c) Audit coverage each year in this area includes an analysis of the state's finances.

(d) Area of audit interest carried forward from 2005-06 Annual Plan.

Note: One area of audit interest identified in the 2005-06 Annual Plan, namely, leasing of assets in selected agencies, was not carried forward to the 2006-07 Annual Plan as a range of actions had commenced in this area. We will monitor this area and will reconsider it when determining future audit programs. Another area of audit interest identified in the 2005-06 Annual Plan, namely, internal management and performance monitoring and reporting in selected sectors, will be covered as part of a special review which is in progress.

We ask audited agencies for feedback on the majority of our major audits. The results (where available) are shown at the end of each reference below.

Commentary on major audits completed in 2005-06 follows.

Meeting community needs

Access to specialist medical outpatient care (June 2006)

Public hospital-based outpatient clinics are a core part of the acute health system. Along with emergency departments, they act as a major pathway for people to access inpatient care, including elective surgery. Outpatient clinics also perform an important preventative role through the early diagnosis and management of medical conditions, which may reduce the demand for inpatient services.

The objective of the audit was to examine whether Victoria's major public health services are providing accessible, responsive and efficient specialist medical care in an outpatient setting.

We found that central planning for, and management of, outpatient service delivery is weak, and while all health services we audited planned their outpatient services to some extent, much of this planning occurs without the use of robust data to inform decisions and direction.

Health services generally manage outpatient referrals and bookings well, although planning and management of outpatient services is not as effective as it could be. The management of outpatient services are hampered by outdated technology and inconsistent and undocumented processes. While the Department of Human Services (DHS) has previously issued guidance in these areas, the development of revised guidance, including model agreements, should be a priority

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
To aid clinical assessment, we recommended that DHS should develop clinical prioritisation protocols and clinical categories of urgency with performance standards for each category.	We recommended that DHS develop a range of benchmarks to measure service delivery performance in outpatient services.	We recommended that DHS develop a targeted access plan for outpatient services to ensure a consistent approach to the provision of care across the state.
Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – Level of agreement
83%	78%	94%

Vocational education and training: Meeting the skill needs of the manufacturing industry (completed June 2006)

Victoria's manufacturing industry is confronting major challenges – the industry competition; technology changes; and the availability of a skilled work force. The audit examined how well Victoria's publicly-funded vocational education and training (VET) system is meeting the skills needs of the manufacturing industry.

We found that there is an extensive planning framework for the provision of vocational education and training, however, there are weaknesses in the inputs to the framework, such as currency of information and incomplete industry advice.

The current purchasing arrangements between the Victorian Learning Employment Skills Commission (VLESC) and training institutions (TAFEs) are not adequate. Agreements that are based on a clear understanding of the business of each institution are required. These agreements would provide greater flexibility to TAFEs in meeting targets and would contain strengthened accountability arrangements.

We found an absence of comprehensive and reliable work force planning for the VET system. Unless this is addressed, TAFEs may not be able to recruit and retain sufficiently skilled staff to meet future education and training needs.



Up-to-date training methods are essential in meeting the skill needs of the manufacturing industry.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that VLESC broaden and strengthen its mechanisms for obtaining industry advice and move towards a rolling 3-year business plan with each institution.	We recommended that VLESC rationalise the current suite of performance indicators.	We recommended that VLESC support TAFE institutions to extend the skills of teaching staff to enhance, develop and maintain the work force in order to provide the necessary education and training needs of industry.

Note: The results of the client survey were not available at the time of publication.

Making travel safer: Victoria's speed enforcement program (completed June 2006)

In 2002, the government released its *arrive alive!* road safety strategy for 2002-07. The strategy identifies 17 key action areas to achieve a 20 per cent reduction in deaths and serious injuries by 2007. Enhanced speed enforcement to improve compliance with posted speed limits has been one of the more controversial parts of the *arrive alive!* strategy. Our audit assessed whether the speed detection and enforcement strategies are effectively contributing to safer roads for Victoria.

We found that the speed enforcement strategies are based on a solid foundation of research, and are implemented with safety, not revenue-raising, as the first priority. The results of the program to date show that compliance with posted speeds is improving, particularly in the areas where the greatest enforcement activity is located. We also reported that there have been significant reductions in road trauma in these areas.

Quality assurance procedures on detection technologies have improved over time, but further attention is needed in some areas of the penalties system, particularly in the administration of the demerit points system.



Police officers investigating a serious road crash. (Photo courtesy of Victoria Police.)

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that Victoria Police enhance its current safety camera data analysis, educate regional officers on strategic use of analytical tools and improve access by regional staff to central intelligence.	We recommended that detailed selection criteria for fixed speed camera locations be developed and documented.	We recommended that Victoria Police and VicRoads should develop formal arrangements for jointly reviewing speed camera sites where speed remains a problem after normal levels of enforcement, and implement additional measures to improve awareness of, and compliance with, the posted speeds in these zones.

Note: The results of the client survey were not available at the time of publication.

Follow-up of selected performance audits tabled in 2002 and 2003 (October 2005)

This report sets out progress made by agencies on implementing recommendations made in 4 performance audits we conducted during 2002 and 2003.

The *Management of food safety in Victoria* follow-up concluded that there has been some improvement in the regulation of food safety since our 2002 audit. However, compliance with the requirement to undertake annual inspections needs to be improved in around half of the councils we visited. The *Food Act 1984* does not require agencies to account for their performance in managing food safety, and significant performance improvement is unlikely unless this is changed.

The *Fire prevention and preparedness* follow-up found that, while fire management agencies have made considerable progress against our recommendations in areas such

as improved coordination across the state, they need to maintain their commitment to key long-term challenges such as developing and sustaining the work force.

The *Drug education in government schools* follow-up concluded that the Department of Education and Training has broadly addressed our recommendations and has established a sound model for sustainable drug education programs in schools.

The *Mental health services for people in crisis* follow-up found that the Department of Human Services (DHS) has improved performance monitoring and has deployed a soundly-based demand management strategy, although it is too soon to tell if this strategy will improve performance. We also note that more could be done to gauge the views of patients and carers.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We identified opportunities to leverage off the work undertaken by Southern Health in developing a centralised mental health triage model.	We recommended a need for DHS to review the regulatory framework for food safety with a view to improving public accountability around the effectiveness of food safety regulation.	We recommended that the Country Fire Authority revise its policy on vehicle management to ensure that vehicles are properly inspected and maintained.

Note: The initial performance audits undertaken in 2002 and 2003 were subject to client surveys. It is not our practice to undertake client surveys on follow-up audits.

Public sector capability and resources

Planning for a capable Victoria Police work force (May 2006)

This audit assessed whether Victoria Police is planning for a work force capable of achieving the outcomes established by the government's *Growing Victoria Together* policy, particularly in relation to the need to improve public safety.

We found that Victoria Police has implemented a range of well-planned initiatives to improve its operational capability, and has developed a new resource allocation model for identifying the overall capacity of its sworn officer work force. Unfortunately, this model does not address the number of unsworn personnel needed, or where they should be placed.

More significantly, we identified that Victoria Police does not have control over determining the composition of its work force, i.e. the number of sworn and unsworn officers.



Victoria Police officer at work.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that Victoria Police invests in a robust human resource information management system with an efficient and comprehensive reporting capability.	We recommended that Victoria Police determines and advises government of the appropriate mix of sworn and unsworn officers to deliver its policing services efficiently and effectively.	We recommended that Victoria Police improves its performance management system to ensure that it supports and monitors the culture change necessary for the move to proactive policing.
Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – Level of agreement
77%	80%	100%

Rail gauge standardisation project (completed June 2006)

In March 2001, the government approved the rail gauge standardisation (RGS) project for the conversion of 13 prioritised broad gauge lines across 4 rail corridors to standard gauge. Primary responsibility for developing and managing the project was assigned to the Department of Infrastructure (DoI).

The objective of the audit was to review the adequacy of DoI's planning and management of the RGS project.

We found that a rigorous cost-benefit analysis had not been undertaken at the time of government approval, and DoI's advice to government in 2000-01 was incomplete.

The government's commitment to convert 13 prioritised broad gauge lines to standard gauge by late 2005 had not been achieved. At the time of preparing the audit report, no physical work had commenced on any of the originally announced line conversions, and the estimated cost to standardise lines in the 4 rail corridors had risen from an estimated \$139 million to \$359 million.

We concluded that there is a need for a decision on the future of the project in the context of other rail projects and commitments announced by government which impact on the regional rail network.

VALUE-ADDING FEATURES OF THIS REPORT

The report provided an independent analysis of the delivery of an important rail project for the state and highlighted the importance of sound analysis and business case development to support significant infrastructure projects.

Note: The results of the client survey were not available at the time of publication.

Protecting our environment and community from failing septic tanks (June 2006)

Since the 1970s, successive governments have established backlog sewerage programs to address the risks of failing septic tanks. If the septic tank fails, wastewater seeps from the property and can pollute surrounding soils, waterways or groundwater, exposing the community to environmental, public health and amenity risks.

The objective of this audit was to determine whether the sewerage backlog programs were reducing environmental and public health risks across Victoria by providing affected properties with access to a reticulated sewerage or other appropriate wastewater system.

The audit was unable to conclude on the extent to which the sewerage backlog programs have been effective. As the number of metropolitan and rural properties with failing septic tanks has not been accurately determined, it is not possible to identify whether, over time, backlog numbers (and therefore risks) are decreasing or increasing. At best, backlog numbers (and risks) might be reducing, but over an extended time frame. At worst, the size of the backlog (and risks) could be larger than estimated. For some metropolitan communities, exposure

to environmental and health risks from failing septic tanks may continue for at least another 20 years (and for rural communities, an unknown period of time).



Greywater flowing into an open waterway.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that a statewide backlog plan be developed and implemented.	We recommended that backlog reporting requirements be established to monitor program results, including outcomes, and identify if government policy objectives are being achieved.	We recommended that the current septic tank regulatory framework be reviewed to clarify the roles and responsibilities and enforcement powers of relevant agencies. We also recommended that a comprehensive review be undertaken to accurately quantify backlog property numbers and locations across the state.
Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – Level of agreement
74%	77%	95%

Management of the Commonwealth Games Athletes' Village project (December 2005)

Melbourne hosted the 18th Commonwealth Games from 15 to 26 March 2006, involving 71 countries competing in 16 sports at venues in Melbourne and regional Victoria.

The objective of this audit was to examine the adequacy of project management by the Office of Commonwealth Games Coordination over the construction of the Athletes' Village. The results of this audit were included in the December 2005 *Results of 30 June 2005 financial statement and other audits* report.

We concluded that all systems of management and control were sound and that the contracting process for the village was rigorous and transparent. However, we did note some areas for improvement relating to the management of risks to the public sector arising from issues such as contamination of sites previously used by the public sector.

There were, however, significant changes to the scope of the project which had an impact on the costs of the village. We concluded that these major scope changes were driven by external pressures, especially demands for a higher standard of athlete accommodation than was originally envisaged. The scope changes were adequately managed in terms of integration into the overall project.

Based on our analysis of the value of the project to the state, we concluded that the net contribution by the state to the village project is estimated to be \$41 million. The state will have met its obligations to accommodate 6 000 athletes and officials in the games village, and delivered assets and amenity of benefit to the community.



Houses under construction in the Commonwealth Games Athletes' Village. (Photo courtesy of Major Projects Victoria.)

VALUE-ADDING FEATURES OF THIS REPORT

This report provided an independent analysis of the management and control of a major project for the state. It recommended that the state, when contributing land to projects where sites have had long-term occupancy by public sector users, develop tighter provisions to ensure more detailed and rigorous examination and mitigation of site risks. An independent value analysis of the Games Village project was also developed to assess the value of enduring amenities and retained public assets generated by the project.

Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – Level of agreement
67%	90%	100%

Sound economic, financial and performance management and accountability

Franchising Melbourne's train and tram system (September 2005)

After the Victorian Government split Melbourne's train and tram system into 5 franchises in 1999, several franchisees subsequently experienced financial difficulties. In 2004, the government stepped in to restructure the metropolitan train and tram system.



A new low-floor tram operated by Yarra Trams.

The aim of this audit was to determine if the process of developing the current franchises:

- took account of the lessons from the 1999 franchise agreement
- was managed effectively to ensure that the new agreements represented value-for-money.

We believe the lessons learnt from the renegotiation of those franchises should be applied to the government's guidelines to ensure that they remain up-to-date and reflect past experiences.

Our overall conclusion was that the government obtained as close to the best possible prices as it could have negotiated with the train and tram franchisees, and the current train and tram franchises represent reasonable value-for-money.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that the Department of Infrastructure (Dol) implement improved risk management practices that quantify all risks retained by the state and document, review and regularly update risk mitigation plans.	We recommended that when conducting financial benchmarking, Dol ensures that it can demonstrate that all relevant risks have been identified and that changes to financial benchmarks have been validated and endorsed.	We recommended that Dol reviews its probity practices to ensure that probity plans fully meet the Victorian Government Purchasing Board's minimum requirements.
Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – Level of agreement
80%	80%	100%

Health procurement in Victoria (October 2005)

Victoria's public hospitals and health services spend some \$1.6 billion each year on goods and services. Our audit focused on determining the extent to which the activities of public hospitals, health services and Health Purchasing Victoria (HPV) had delivered savings and other benefits in procuring health goods and services since then.

We found that central procurement has clearly delivered savings to hospitals, particularly small hospitals, through central contracting and better prices for some goods. Hospitals have also made savings by introducing their own procurement initiatives. Hospitals need to build on their current procurement initiatives to harness further efficiencies and improve their effectiveness. HPV needs to target its central contracting activities to goods with the potential to deliver larger savings.

It is timely to review the procurement model to examine whether it meets the needs of the sector and whether the Department of Human Services (DHS), hospitals and HPV are contributing adequately to the delivery of better outcomes.



Public hospitals spend around \$300 million a year on pharmaceuticals.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that DHS review the current procurement model to ensure that it is operating to best effect.	We recommended that HPV develop performance indicators and set measurable, auditable targets for monitoring and reporting its performance.	We recommended that DHS, hospitals and HPV work together to improve relationships and achieve better procurement outcomes for the health sector.
Client satisfaction with report quality	Client satisfaction with audit process	Recommendations – Level of agreement
83%	84%	96%

Community planning services in Glenelg Shire Council: 1998-2005 (October 2005)

Planning for the future of a community is arguably a council's most important responsibility. Planning decisions shape communities and impact on their quality of life and local environments. They affect peoples' livelihood and amenity. The consequences of these decisions are around for a very long time.

Our report examined Glenelg Shire Council's community planning activities, following concerns expressed about the quality of its processes and decisions. The impact of council decisions on the conservation and protection of significant state and local cultural, historic and environmental assets were the basis of many of the concerns.

We found serious deficiencies with the council's delivery of its planning services, including:

- inappropriate notification or advertising of development proposals
- failure to refer development proposals to government agencies and bodies for feedback
- approval of permits inconsistent with the council's planning scheme
- a failure to maintain adequate documentation evidencing the assessment process and planning decisions.



Selection of newspaper headlines outlining concerns with the council's planning services.

Community planning services were provided by an external provider without appropriate oversight by the council to ensure that these responsibilities were handled appropriately, and in accordance with legislative requirements and the council's planning scheme.

VALUE-ADDING FEATURES OF THIS REPORT

The Glenelg Shire Council was the first Victorian council to outsource its planning function. Our review of Glenelg's planning function provides valuable information to other councils on the effective management of similar outsourced functions.

Note: Due to the nature of the inquiry, a client survey was not undertaken.

Review of major public cemeteries (completed June 2006)

Victoria's 14 largest cemeteries, in aggregate, have annual revenues, expenditure and net assets of \$73 million, \$51 million and \$388 million, respectively.

Our audit found that the cemetery industry has evolved with little or no strategic direction and with little central direction or regulation by the state. The role of the Department of Human Services (DHS), as a central administrator for the industry, is not clearly defined and understood by all stakeholders, and its effectiveness has been hampered by poor communication and the lack of effective governance arrangements.

We also found that the larger cemeteries have generally not established appropriate management arrangements such as strategic planning functions, risk management processes, performance measurement procedures or effective internal audit systems.

Our review of cemetery expenditure, tendering arrangements, and staff remuneration and entitlements revealed a number of issues of concern, e.g. expenditures which were not appropriately authorised or supported, inadequate tendering procedures and practices, and a lack of compliance with the government executive remuneration policy.

We uncovered a significant payroll fraud at one cemetery and disclosed that some cemeteries had entered into arrangements to purchase goods or services with individuals or organisations related to trust members or senior management. We also identified a number of other acts and practices that we considered to be potentially illegal, contrary to government policy, inappropriate or poor practice.



The Necropolis Springvale – Smith Pools Memorials. Legislation places a specific responsibility on cemetery management to maintain their cemeteries in perpetuity. (Photo courtesy of The Necropolis Springvale.)

VALUE-ADDING FEATURES OF THIS REPORT

The audit identified the governance and financial management arrangements required to manage the operations of a cemetery, and the processes and procedures required by DHS to effectively oversight the cemetery industry. This model for the management of the cemetery industry could equally be applied to other industries managed by government departments.

Note: The results of the client survey were not available at the time of publication.

Other parliamentary reports

Results of special reviews and other investigations (October 2005)

This report set out the results of 3 audit investigations and 2 other audits.

The audit investigations examined the validity of a number of significant allegations and concerns conveyed to our Office by external parties about:

- the tender and administration of a major supply contract
- the management of a tender for the outsourcing of printing functions
- the possible misuse of court funds at a major magistrate's court.

The audits examined:

- the operation and management of the Regional Infrastructure Development Fund (RIDF)
- how well 5 local governments administered grants (including various forms of financial assistance) provided to third parties.



The report identified opportunities for improvement in each of the areas examined, and made recommendations to strengthen the audited agencies' practices and performance. A number of the observations and recommendations in the report are common to public sector agencies, for example, the tender and administration of contracts, and the administration of grants programs. Accordingly, they also provided useful insights and lessons to be learned for other agencies with similar activities.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
<p>We highlighted the need to:</p> <ul style="list-style-type: none"> • undertake annual grant program evaluations to inform the future operation of such programs • improve the strategic management of the RIDF • improve the management of contracted supplier performance • improve the allocation and disbursement of funds managed by magistrate's courts. 	<p>Our report provided an independent assessment of several matters of concern referred to our Office by external parties, facilitating transparency on these matters. It also identified the need for:</p> <ul style="list-style-type: none"> • improved public information about the overall performance of the RIDF and its operations • improved departmental oversight over funds managed by magistrate's courts. 	<p>Our report made several recommendations aimed at improving:</p> <ul style="list-style-type: none"> • the strategic and operational management of grant programs • the quality of performance assessments made in relation to the operation of the RIDF • the administration of public tenders and related supply contracts • financial management practices at magistrate's courts.

Note: Due to the broad scope of the issues covered by this report which impacted across the public sector, we did not conduct a client survey.

Results of 30 June 2005 financial statement and other audits (December 2005)

This report set out:

- the results of financial statement audits for state and local government agencies with a 30 June 2005 balance date
- the outcomes of 3 audits, examining the progress of the EastLink project; management of the Commonwealth Games Athletes' Village development referred to previously in this report; and the adequacy of consultation on harness racing industry reforms
- an update on the status of an audit of the regional fast rail project.

The 30 June 2005 audit round resulted in the issue of 456 clear audit opinions and 11 qualified audit opinions on the financial statements of public sector agencies. The audit opinions on the financial statements of local governments and regional library corporations also referred to "standard" statements prepared by these entities, with 3 audit opinions on "standard" statements subject to qualification. We also issued 92 clear audit opinions and 2 qualified audit opinions on performance statements of municipal councils and regional water authorities.

The number of qualified audit opinions slightly increased in 2004-05. This was mainly due to

difficulties experienced by some local government entities in complying with the legislative requirements associated with the introduction of more comprehensive "standard" statement reporting in the year. There was some improvement in the time taken by agencies to complete their audited financial and other accountability statements. This outcome was particularly pleasing, given the additional disclosures required for 2004-05 financial reports associated with the transition to Australian equivalents to International Financial Reporting Standards from 2005-06.

While public sector agencies had generally established effective systems of internal control, our audits found scope for improvement by some agencies – particularly in relation to the implementation of effective risk management (including fraud prevention) frameworks and information technology (IT) controls.

The report highlighted the continuing financial difficulties faced by a number of the state's public hospitals and municipal councils, and the need to strengthen the accountability arrangements for the state's 1 617 government schools. It also highlighted the increasing incidence of reported fraud across the public sector, requiring ongoing agency attention to ensure that effective prevention strategies are in place.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
<p>The report highlighted the need for ongoing monitoring of the financial performance and condition of several hospitals and local governments to ensure their ongoing viability. It also identified the need for agencies to improve their risk management and fraud prevention practices. Further, we made several recommendations aimed at improving business case development and assessment for major projects – supporting more informed decision-making.</p>	<p>We identified the need for more timely annual reporting by agencies to parliament. We also highlighted the need, and work in progress, to improve the accountability arrangements for government schools.</p>	<p>Our report identified several opportunities for agencies to improve information technology (including security management) controls, to strengthen their internal control environments and integrity of management information.</p>

Note: Major special audits incorporated into the report were subject to client surveys (and where appropriate the results are disclosed elsewhere in this annual report). Due to the broad scope of the other issues covered by the report which impacted across the public sector, we did not conduct a client survey on those issues.

Results of financial statement audits for agencies with other than 30 June 2005 balance dates, and other audits (June 2006)

This report contained the results of:

- financial statement audits for agencies with 2005 balance dates other than 30 June (mainly universities, TAFE institutes and alpine resorts)
- 3 audit investigations examining:
 - the disposal of state government vehicles at the end of their lease terms by a contracted auctioneer
 - the management and control of the Latrobe Valley Marketing Advisory Panel's finances
 - the propriety of travel and entertainment expenses incurred by a senior executive of the Transport Accident Commission
- one audit examining the adequacy of annual reporting of performance information by Victorian public health services.

We issued 119 clear audit opinions on the financial statements of agencies with balance dates other than 30 June 2005. Of these, 2 contained “emphasis of matter” comment to draw attention to issues impacting on the financial viability of the respective agencies.

Four further opinions were qualified – 2 of which alerted users of the financial reports to an inherent risk involved in the collection of cash donations (a risk that cannot be mitigated by further internal controls), and the other 2 referred to grant income that was not appropriately recognised as income in the financial statements.

The report identified that, in 2005, a considerably smaller percentage of agencies than in 2004 completed their audited financial statements within 12 weeks (51 per cent compared with 76 per cent in 2004). This was disappointing given the improvements in timeliness achieved in 2004, and resulted primarily from the first-time implementation of Australian equivalents to International Financial Reporting Standards. Agencies (particularly universities and their subsidiaries) underestimated the amount of extra work they would need to do to comply with the revised standards.

The report also identified the need for further improvement in selected aspects of financial management, including risk management practices, information technology controls and the management of employee leave balances.

Scope for improvement was found for each of the areas investigated or subject to special review, with many recommendations made to improve agency practices.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
<p>We assessed the financial performance and condition of the state's universities' controlled entities and TAFE institutes – including factors impacting thereon. In doing so, we highlighted the need for ongoing monitoring of the relevant entities' financial performance and condition, to ensure their ongoing viability.</p> <p>The report also identified several opportunities to improve risk management practices and IT controls.</p>	<p>Our report provided an independent assessment of several matters of concern referred to our Office by external parties, facilitating transparency on these matters.</p> <p>The report also identified the need for improved annual reporting of performance information by public health services, facilitating improved accountability.</p>	<p>Our report made several recommendations aimed at improving the management of grants provided by state agencies.</p>

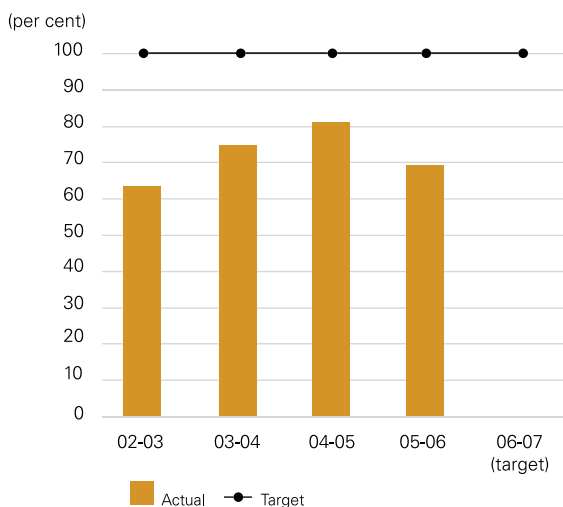
Note: Due to the broad scope of the issues covered by the report which impacted across the public sector and the fact that the report did not contain any major special audits, we did not conduct a client satisfaction survey.

Performance against timeliness targets

The Auditor-General has set timeliness targets for completing audits and reporting to parliament. The Office has an external target – to present 16 reports to parliament and to complete these audits within agreed time frames in 2005-06 – and also uses internal targets to monitor the completion of each audit.

The following chart shows our performance against our targets since 2002-03.

TIMELINESS OF COMPLETING AND REPORTING AUDITS TO PARLIAMENT



While we completed our targeted 16 audits for the year, the above chart shows that we were unable to achieve our internal performance milestones for 31 per cent of the audits completed. There are a variety of reasons for this, some of which are manageable, and some which are difficult to manage, for example, particular audits becoming complex or large, or through the intervention of having to undertake unplanned audits.

It is the nature of auditing, particularly for major audits, that one cannot always predict how much time is required to complete an audit to the requisite standard. Once an audit commences, our responsibilities are not only to complete it expeditiously, but to give high priority to it being conducted to the highest professional standards and to ensure that natural justice processes are observed.

We continue to work towards finding more efficient ways to conduct audits so that our stretch timeliness targets are reached over time.

Performance against quality and client satisfaction targets

Feedback on reports from members of parliament and external assessors

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 members of the Public Accounts and Estimates Committee provide 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
- from a small group comprising a retired parliamentarian, a senior public servant, an expert in local government and 2 academics.

A survey of members of parliament was not undertaken in the year due to the fact that the next independent performance audit of the Office is due in 2007, and the survey of members is a key aspect of that audit.

External assessors

In 2005-06, 2 of our performance audit reports tabled in 2004-05 – *Our children are our future: Improving outcomes for children and young people in Out of Home Care* and *Managing stormwater flooding risks in Melbourne*, were examined by 2 independent external reviewers who are familiar with parliamentary, public sector and local government needs. A further 4 audit reports – *Managing intellectual property in government agencies* (2004-05), *Franchising Melbourne's train and tram system* (2005-06), *Health procurement in Victoria* (2005-06), and *In good hands: Smart recruiting for a capable public sector* (2004-05), were examined by 2 academics.

The external reviewers used an assessment method developed by the Australasian Council of Auditors-General that involved rating performance against 6 set criteria. The following table shows the scores out of a possible 5, against each criteria for each report.

Criteria	Managing stormwater drainage	Out of Home Care
Scope and potential for significant impact	4 to 5	3 to 5
Focus on effectiveness, efficiency and economy	3 to 4	2.5 to 4
Persuasiveness of conclusions	4 to 4.5	3 to 5
Communication – Printed report	4 to 4.5	3 to 4
Communication – Online report	4	4
Usefulness to the customer	4 to 5	3 to 5

One reviewer commented that *Out of Home Care* would have been more valuable if it related the issues of process and strategy to actual performance of the program. Both reviewers indicated that the *Managing stormwater drainage* report was a highly useful and a very good quality report, and was well-balanced in content and structure.

The academic reviewers assessed the other 4 reports against 6 criteria, namely: consistency with Office objectives; context; scope; methodology; analysis, conclusions and recommendations; and report presentation and drafting.

The suggestions and comments made in the assessments are being addressed in current audits and parliamentary reports.

Views of client agencies on tabled reports

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



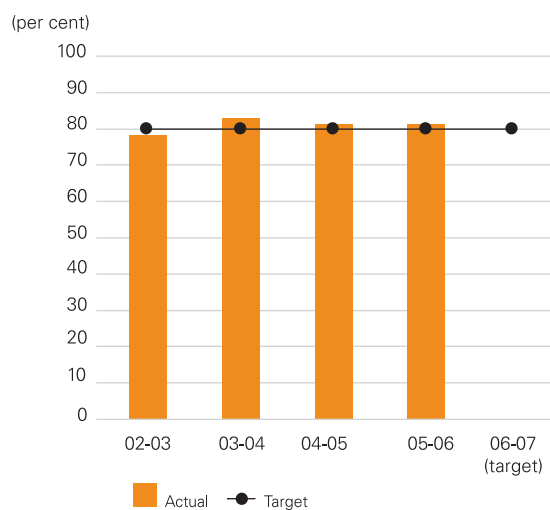
Rossina Scarmozzino from our Strategic Audit Planning, Policies and Standards Group collating client survey information.

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 it against our satisfaction target. Our target for 2005-06 was 80 per cent.

OVERALL CLIENT SATISFACTION WITH PARLIAMENTARY REPORTS



At 81 per cent, client satisfaction exceeded our 2005-06 target and was consistent with our 2004-05 result. This high level of satisfaction shows that our reports are useful and add value to agencies' operations.

In conjunction with the Australasian Council of Auditors-General, we are currently implementing a common methodology that would allow us to benchmark the results of our client satisfaction surveys against other Australian audit offices.

Enhancing our parliamentary reports

Our 2004-05 Annual Report indicated that we sought to:

- complete all audit activities efficiently and effectively within budgetary and other performance targets
- continue our audit focus around the maintenance of capacity across the public sector – particularly human resources and infrastructure
- undertake specifically-targeted work on contracting and tendering practices
- undertake the audit of the Commonwealth Games and make adjustments for the attendant increased audit activity that will, and already has, accompanied this important state event
- continue to review our reports to parliament to ensure that they reflect the highest professional standards in presentations and content, and met the expectations of our stakeholders
- continue our work on implementing our plain English initiative through introductory, refresher and advanced training programs; appraisal of staff skills; and re-engage our standard document templates.



These initiatives were all designed to enhance both our audit activities and our parliamentary reports.

In respect of each of these, during 2005-06 we:

- did not complete all audit activities within budgetary and other performance targets. As indicated previously, we undertook a number of large and particularly complex major audits that required extensive planning and protracted discussion with agencies prior to completion. This resulted in both the estimated cost and completion dates to be exceeded. A primary objective for 2006-07 is to find better ways to plan our audits and engage in the sensitive discussions with agencies earlier
- undertook an audit of work force planning within Victoria Police and continued our review of major infrastructure projects such as the rail gauge standardisation project and the Commonwealth Games Athletes' Village project. During 2006-07, we will continue this emphasis with audits planned for the state's regional arterial road network and the state's water infrastructure
- commenced a major audit into tendering and contract management practices in selected government departments and in local government. The results of this audit will be completed in 2006
- completed an audit of the Commonwealth Games Athletes' Village project and reported to parliament. We propose to report to parliament on the audit of the Commonwealth Games' financial statements in the 2006 Spring session of parliament
- reintroduced a review of selected major audits by 2 academics and continued the practice of external review by experts in the parliamentary, public and local government sectors. The purpose of these reviews is to assess whether our reports reflect the highest professional standards and met the expectations of our stakeholders. The results are reported at page 29 of this annual report
- completed our plain English initiative which is now part of our learning and development program for new starters. We also reviewed our standard document templates which are part of our new financial statement audit software tool IPSAM and will form part of a new major audit software tool for performance audits and special investigations which will be completed by the end of 2006.

Parliamentary services

Other services provided to parliament

We provide a range of services that complement our reports to parliament. They include 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

Legislation requires us to consult with the Public Accounts and Estimates Committee (PAEC) on the Auditor-General's annual plan and budgetary needs. The annual plan includes our assessment of the challenges and risks to public sector performance and accountability, and areas of audit interest that we consider are a priority. It provides an opportunity to focus on broader challenges and risks to the public sector and the audit response that will be taken to provide parliament with the necessary assurance.

During the year, we briefed members of parliament on each of our reports as soon as possible after the reports were tabled. The briefings aim to assist members to better understand the contents of our reports. In order to make members of parliament aware of forthcoming reports and the timing of briefing sessions, we continually updated tabling dates on our website and, at the start of the tabling week, provided members with the report title.

During 2005-06, we regularly liaised with the PAEC on performance audit specifications. In addition, a number of staff were seconded to the PAEC to help with its research activities.



Members of parliament regularly ask the Auditor-General to investigate issues concerning the management of public resources.

(Reproduced with the permission of the Parliamentary Library, Parliament of Victoria.)

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 2005-06, we received 97 inquiries: 26 were from members of parliament and 71 were from the general public and community groups (114 inquiries received in total in 2004-05).

We aim to initially respond to all inquiries within 7 days, and finally within 4 weeks. This time frame includes considering whether the issue should be investigated by us. Following preliminary analysis, a number of matters referred to us led to specific audits or investigations, the results of which are included, in the main, in the next available omnibus report presented to parliament.

In 2005-06, we:

- acknowledged 78 per cent of inquiries from members of parliament and the public within 7 days (66 per cent in 2004-05)
- responded to 84 per cent of these within 4 weeks (75 per cent in 2004-05).

The benchmarks of 95 per cent were not achieved as a number of letters were not responded to within timelines as we were waiting for the release of agency reports. We will continue to seek to achieve the performance goals we set, notwithstanding the difficulties which can be encountered in completing sufficient preliminary work to allow a decision to proceed further or not, to be made.

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 2005-06, 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. A major demand on this aspect of our work this year accompanies the introduction of the new accounting standards following Australia's decision to adopt International Financial Reporting Standards for reporting periods commencing on or after 1 January 2005. As these standards were being implemented, a range of issues emerged which required addressing. Further, a number of the standards have been updated by the Australian Accounting Standards Board which have required active participation in their review and the development process. These changes affect all public sector bodies.

We also:

- issued regular newsletters to agencies about current and topical public administration and governance matters, and the results of recent major audits



"Auditing in the Public Interest" newsletters keep our stakeholders informed about current and emerging issues in public sector accountability and resource management.

- advised TAFE institutes, Victorian government departments, ambulance services and public hospitals on model financial reports and reporting guidelines
- developed and provided water authorities and university subsidiary companies with 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.

Good practice guides

The Office publishes good practice guides for public sector managers in selected areas. Our guides draw on the work done in recent audit examinations on good and better management practices for public sector agencies. These guides are available on our website.

Contributions to professional bodies

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

The Auditor-General is the Australian representative on the International Public Sector Accounting Standards Board (IPSASB).

During the year, a number of presentations to external organisations were made by senior staff.

"Thank you for attending our Professional Development Seminar ... We thank you for taking an interest in our group too, and for giving so much of your time and your knowledge to our members".

Secretary, Local Government Finance Professionals

PRESENTATIONS BY STAFF

Presenter	Topic
Wayne Cameron	Quality reporting in the public sector. Presentation to Department of Sustainability and Environment Portfolio Authorities, Seminar on Reporting, Melbourne, June 2006.
Wayne Cameron	Performance auditing. Presentation to Beijing Municipal Audit Bureau, Beijing, China, June 2006.
Scott Bayley	Evidence requirements for evaluating program impacts. Presentation to the Australian Evaluation Society, Melbourne, June 2006.
Martin Thompson	VicWater Finance Issues Workshop. Presentation to the Victorian Water Industry Association Inc., Melbourne, May 2006.
Martin Thompson	The Auditor-General's perspective on Asset Management in Local Government. Presentation to the Municipal Association of Victoria, MAV International Local Government Asset Management Conference, Melbourne, April 2006.
Steve Mitsas	Administration of grants by local governments. Presentation to the Local Government Community Grantmakers Network, Melbourne, December 2005.
Russell Walker	Corporate Governance. Presentation to the Audit and Risk Management Conference, Melbourne, December 2005.
Wayne Cameron	Good governance in Victorian universities. Presentation to the University Councils Audit Committee Members, Melbourne, November 2005.
Ray Seidel-Davies and Ray Winn	Performance audit, Managing stormwater flooding risks in Melbourne. Presentation to the Stormwater Industry Association Inc., Melbourne, October 2005.
Scott Bayley and Celinda Estallo	Evaluating the provision of policy advice. Presentation to the Canadian and American Evaluation Societies, Toronto, Canada, October 2005.



Auditor-General, Wayne Cameron (centre, right), meeting with members of the Beijing Municipal Audit Bureau, in Beijing, China.

Interstate organisations and international delegations

Visiting delegations

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

During 2005-06, we hosted delegations from:

- Zhejiang Provincial Government, China
- Chinese National Audit Office
- South African Public Accounts and Estimates Committee and Gauteng Public Accounts Committee
- Zhongshan Municipality, China
- Office of the State Audit of Vietnam
- Beijing Municipal Audit Bureau
- Guangzhan Bureau of Audit
- Iraq Board of Supreme Audit
- Bangladesh Supreme Audit Institution
- Guangdong Province, China.

“On behalf of Beijing Municipal Audit Bureau, I would like to express my sincere gratitude to you and your Office for hosting our delegation ... in October 2005. They had gained some valuable knowledge of your Office and found the visit very inspiring.”

Executive Director, Beijing Municipal Audit Bureau

In addition, senior staff from the Audit Office of British Columbia, Canada, spent 2 weeks in our Office to obtain an understanding of our audit approaches, including the review of the state budget.

Through such visits, we aim to build relationships and share information with our interstate and overseas colleagues for mutual benefit.



Scott Bayley (back row, fourth from left), and Michelle Kaye (front row, centre) from our Office, with members of the visiting Iraq Board of Supreme Audit delegation, November 2005.

Australasian Council of Auditors-General

We hosted meetings of the Australasian Council of Auditors-General (ACAG) Financial Reporting and Auditing Committee in July 2005 and February 2006. This committee, which comprises 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 on such issues across Australian and New Zealand audit offices. These meetings provide a forum for a sharing of views and experiences between our Office and ACAG members.

In June 2006, staff from our Office involved in communications activities attended the 2006 ACAG Corporate Communications Network Conference in Sydney. The conference enables staff engaged in communications and publishing practices to share knowledge and expertise on a range of related issues.

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 2005-06, the Auditor-General certified 38 warrants authorising Consolidated Fund expenditure of up to \$30.3 billion (2004-05, 25 warrants of \$26.4 billion).

Outlook for 2006-07

In the coming year, we will:

- review our approach to the planning of major audits to improve our performance in meeting budgetary and timetable targets
- undertake a review of the style and structure of our parliamentary reports to assess whether they continue to reflect contemporary practice
- finalise our project to upgrade our performance audit processes and methods.

Audit reports on financial statements



Key achievements

- We issued 631 audit opinions (target of 625); 27 more than 2004-05 (see page 41).
- Completion of education sector financial statement audits – the first sector to apply the new Australian equivalents to International Financial Reporting Standards (A-IFRS) (see page 42).
- Eighty-one per cent (target of 80 per cent) of our audit clients expressed their satisfaction with the way we conducted our financial statement audit work (see page 44).

In this section

<i>Financial audit mandate</i>	38
<i>Performance against output targets</i>	39
<i>Resourcing financial statement audits</i>	45

Financial audit mandate

The Auditor-General is required by law to examine the annual financial statements of departments and public bodies, and express an audit opinion on each of those statements. The Auditor-General must also provide an audit opinion on each performance statement prepared by municipal councils and certain water bodies.

The following table summarises the Auditor-General's financial audit responsibilities at 30 June 2005 and 2006.

Type of entity	2004-05	2005-06
<i>Parliamentary bodies -</i>		
Parliament	1	1
<i>State accounts -</i>		
Annual Financial Report	1	1
Estimated Financial Statements	1	1
<i>State entities -</i>		
Departments and other independent budget agencies	22	24
Companies, trusts and joint ventures	208	202
Public bodies	117	118
Public cemeteries	14	14
Public hospitals and ambulance services	93	94
Regional waste management groups	16	16
Superannuation funds	3	2
Universities and other educational institutions	24	25
Water authorities	28	27
<i>Local government entities -</i>		
Municipal councils	79	79
Regional library corporations	14	13
Total	621	617

Appendix 4 of this annual report lists all the agencies subject to audit at 30 June 2006.

The following table shows our performance for the *Audit reports on financial statements* output group (Output group 2) against our 2005-06 targets.

Performance against output targets

Performance measures		Target 2005-06	Actual 2005-06	Target 2006-07
Cost				
Delivering services within output cost (see page 39)	(\$m)	15.07	15.38	15.52
Quantity				
Audit opinions issued (see page 41)	(no.)	625	(a) 631	657
Audit opinion on the 2004-05 Annual Financial Report of the state (see page 41)	(no.)	1	1	1
Review of the Estimated Financial Statements forming part of the 2006-07 state budget (see page 42)	(no.)	1	1	1
Audit opinions on non-financial performance indicators (see page 41)	(no.)	94	94	113
Timeliness				
Audit opinions within statutory deadlines (see page 42)	(%)	100	96	100
Management letters and reports to ministers in set time frames -				
Management letters (see page 43)	(%)	100	(b) 70	100
Reports to ministers	(%)	100	100	100
Quality				
Overall external satisfaction with how we conducted financial statement audits (see page 44)	(%)	80	81	80

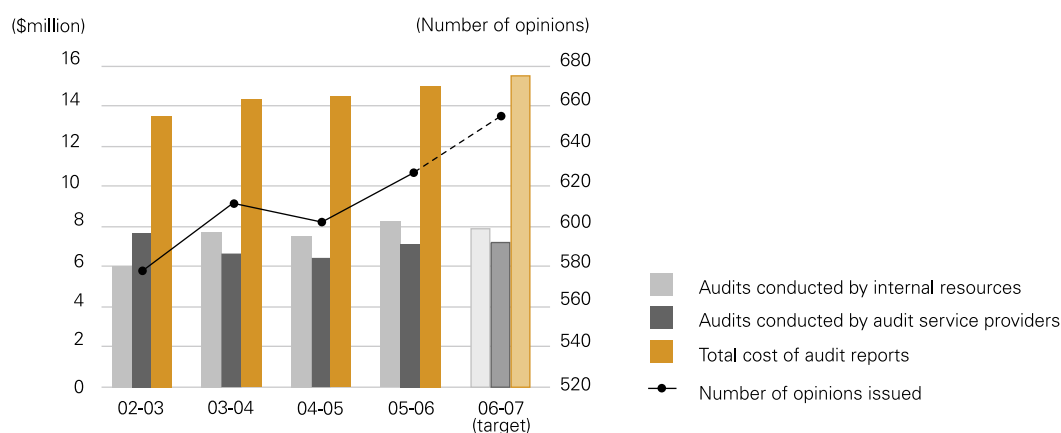
(a) Target exceeded due to opinions required by agencies which became subject to the provisions of the Audit Act during the year, and agencies that ceased operation during the year requiring final opinions.

(b) Target not achieved due to policy of consulting with agencies on complex issues, and delays in obtaining formal management comments before issuing final management letter.

Cost targets

Item	Target 2005-06	Actual 2005-06	Target 2006-07
	(\$m)	(\$m)	(\$m)
Audit reports on financial statements -			
Audits conducted with internal resources	7.59	8.22	7.91
Audits involving external audit service providers	7.10	6.73	7.18
Audit opinion on the Annual Financial Report of the state	0.21	0.18	0.21
Review of Estimated Financial Statements in the state budget	0.17	0.25	0.22
Aggregate output costs	15.07	15.38	15.52

COST OF AUDIT REPORTS ON FINANCIAL STATEMENTS



The total actual cost of audit opinions increased from \$14.45 million last year, to \$15.38 million this year. This was largely in accordance with expectations – our planned total cost was \$15.07 million.

The increase in cost from last year is explained largely by increased financial audit activity – we undertook more audits and issued 27 more audit opinions. It is also explained by general and wages cost increases, reflected in consumer price index movements and enterprise agreement outcomes.

TRENDS IN AVERAGE COST OF AUDIT OPINIONS

		Actual 2002-03	Actual 2003-04	Actual 2004-05	Actual 2005-06	Target 2006-07
Audit opinions	(no.)	587	611	604	631	657
Cost	(\$m)	13.7	14.3	14.45	15.38	15.52
Average cost per audit	(\$'000)	23.4	23.4	23.9	24.4	23.6

The average cost per audit opinion increased marginally compared to last year largely as a result of the impact of additional audit effort required to address the introduction of new accounting standards (Australian equivalents to International Financial Reporting Standards).

We estimate that the output group's costs will rise again in 2006-07, largely because of a greater number of audited agencies, forecast rises in employment costs and certain sectors needing extra audit work on performance indicators.

Quantity targets

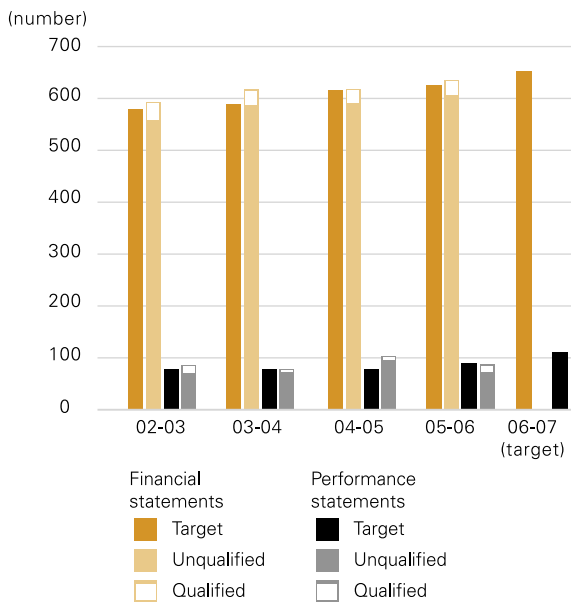
Audit opinions issued to agencies

In 2005-06, we issued 631 audit opinions (604 in 2004-05) to agencies compared with our target of 625. There were a further 14 audit opinions unissued at 30 June 2006 because the relevant agencies had yet to finalise their financial statements.

We also issued 79 audit opinions on performance statements to local government councils (79 in 2004-05), and 15 audit opinions on performance statements to regional water authorities (15 in 2004-05).

We report on the results of our financial statement and performance statement audits to parliament each year (see page 27 and 28).

NUMBER OF AUDIT OPINIONS ON FINANCIAL STATEMENTS AND PERFORMANCE STATEMENTS



Ninety-seven per cent of audit opinions on financial statements were unqualified.

The financial statements of 15 agencies were qualified for a variety of reasons. We most commonly issued a qualified opinion where agencies:

- inappropriately accounted for certain grants, expenses, assets, liabilities and contributed capital
- failed to consolidate “controlled entities”
- were unable to attest to the completeness of cash donations as the risks associated with such collections could not be mitigated by internal controls.

Ninety-eight per cent of audit opinions on performance statements were unqualified.

Two local government councils received qualified performance statements because they had failed to comply with certain legislative requirements.

Audit opinion on the 2004-05 Annual Financial Report of the state

A key feature of the state’s accountability framework is that the 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 the state’s financial report.

On 30 September 2005, the Auditor-General issued an unqualified audit opinion on the Annual Financial Report of the state for 2004-05. However, an emphasis of matter was included in that report because there was a material inconsistency between the audited financial statements and the commentaries and explanations that accompanied the financial statements. The commentaries and explanations in relation to the net result were not consistent with the net result presented in the financial statements.

The government presented its audited financial report to parliament on 6 October 2005.

The government's Estimated Financial Statements

On 25 May 2006, we completed our review of the government's Estimated Financial Statements for the financial year ending 30 June 2007 and the following 3 years. The government's *Budget Papers*, presented to parliament on 30 May 2006, included our short-form audit report on the results of this review.

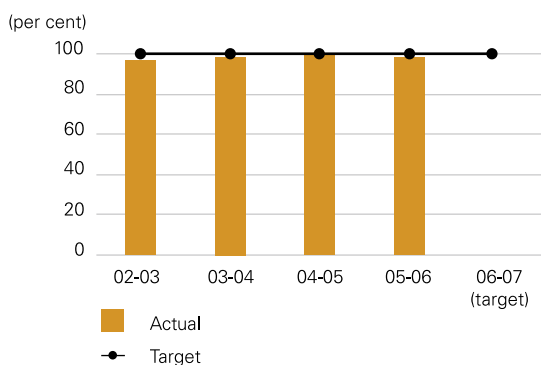
Timeliness targets

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 express an opinion on the financial statements within 4 weeks of their receipt.

PERCENTAGE OF AUDIT OPINIONS ISSUED WITHIN STATUTORY DEADLINES



During 2005-06, we issued 96 per cent (99 per cent in 2004-05) 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.

In particular, this year was the first that entities in the education sector were required to present their 31 December 2005 financial statements in accordance with revised international accounting standards.

We only issued 90 per cent of our audit opinions for this sector within our 4-week target (compared with 99.4 per cent for agencies with 30 June 2005 balance dates). We encountered a number of complex accounting and disclosure issues that required clarification before we could issue our audit opinions.

All other agencies will be required to fully adopt the new international accounting standards for the first time for the year ended 30 June 2006. We are using our experience from the education sector to work with these agencies to avoid or minimise delays in the finalisation of these audits in 2006-07.

Improving timeliness of financial reporting by agencies

The audited financial statements of 70 per cent of public sector agencies were completed within 12 weeks of the balance date (72 per cent in 2004-05). Only 51 per cent of education sector agencies with 31 December 2005 balance dates were able to finalise their statements within their statutory deadlines, compared with 76 per cent of agencies with 30 June 2005 balance dates. As outlined above, this was due primarily to difficulties they encountered in adopting the accounting and disclosure requirements of the new accounting standards regime.

We continue to work with all agencies to assist them to improve the timeliness of preparation of their annual financial statements by:

- early consultation and agreement of reporting schedules
- identifying and solving accounting and auditing problems as early as possible
- encouraging agencies to prepare draft financial reports before balance date to resolve issues about format and disclosure
- encouraging agencies to undertake a “hard close” and prepare a set of financial statements for audit review at an interim reporting date.



Andrew Greaves (left) and Adam Ryan from our Financial Audit Group visiting the major EastLink road construction project.

Management letters to agencies

Where we identify significant audit or accounting issues from our financial audit activity, we send the audited agency a management letter. Before we issue our management letter, it is our practice to obtain formal comments from the management of each agency about our findings and recommendations, and to incorporate these comments into our management letter.

In 2005-06, we sent 70 per cent of management letters in our targeted time frame (76 per cent in 2004-05). Some of the reasons for our failure to achieve our target are attributable to delays in obtaining management comments. However, we need to also continue to work on enhancing our own processes to improve overall timeliness. To this end, we are progressively altering our reporting processes by:

- completing as much of the audit as possible before balance date, and sending interim management letters before financial year-end informing agencies of interim audit results
- preparing a draft of our final management letter at the time of providing verbal audit clearance on the draft financial statements
- improving our internal systems for oversight and monitoring of timeliness.

It is pleasing to note that these internal changes have already had a significant impact on timeliness for our most recent round of audits in the education sector. At 30 June 2006, we had issued 85 per cent of final management letters for this sector within 4 weeks of the date of the audit opinion.

Quality targets

Agency satisfaction with how we conduct financial statement audits

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

In conjunction with the Australasian Council of Auditors-General we are currently implementing a common methodology that will allow us to benchmark the results of our client satisfaction surveys against other Australian audit offices.

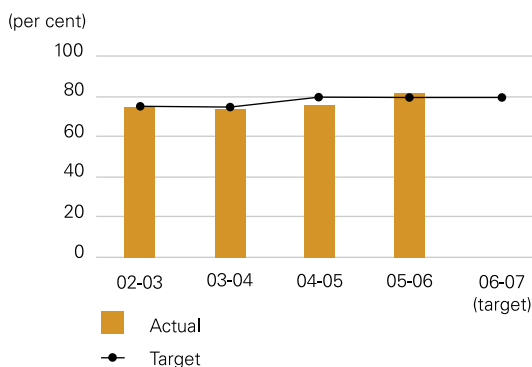
Executive management rates our services against a range of key attributes such as how professional and skilled our staff were, how effective their communication was, and how well they understood the agency's business. We use responses to improve our service.

“Your professional approach to the conduct of the audit, provision of advice and resolution of some particularly difficult issues, has been appreciated by the Board, the committee and management.”

*Chair, Audit and Risk Committee,
Port of Melbourne Corporation.*

The survey also asks for an overall rating of satisfaction with financial statement audit services. Client satisfaction was 81 per cent for 2005-06 which is slightly above our target of 80 per cent, and above our 2004-05 result of 77 per cent. Our target for 2006-07 is 80 per cent.

AGENCY SATISFACTION WITH FINANCIAL STATEMENT AUDIT WORK



Ongoing attention was given during the year to:

- liaising more extensively with an agency's senior management during the audit process
- interacting more with external audit service providers and agencies when planning and undertaking high-risk audits
- improving our responsiveness to agency or service provider requests.

We also 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.

A discussion on our internal quality assurance regimen is set out on page 49.

Resourcing financial statement audits

Policy for resourcing financial statement audits

Financial statement audits are carried out by a mix of internal staff or external audit service providers. External audit service providers are engaged under a 3-year contract, which may be extended for up to 2 further years depending on performance. Decisions about these resources are based on the Auditor-General's financial statement audits resourcing policy established in 2001-02. As part of this policy:

- internal staff are responsible for auditing the Annual Financial Report of the state; reviewing the government's budget estimates; and auditing the administrative functions of parliament, government departments and public sector agencies
- 35 per cent of all other financial statement audits within each sector of government will be audited by our own staff
- the balance of financial statement audits are contracted-out, using competitive tendering arrangements. This pool of audits is rotated over time to facilitate movement between those audits subject to contract audit and those undertaken by staff
- we aim to rotate the Financial Audit Group director or the external audit service provider for each audit every 5 years, in line with international best practice, to help maintain audit independence and ensure a fresh and objective perspective.

During the year, we continued to review this policy to ensure that it remained the most appropriate means for resourcing financial statement audits.

Also, we extended contracts beyond the 5-year period for a small number of audits. Details of specific contracts extended beyond 5 years have been included in Appendix 5.



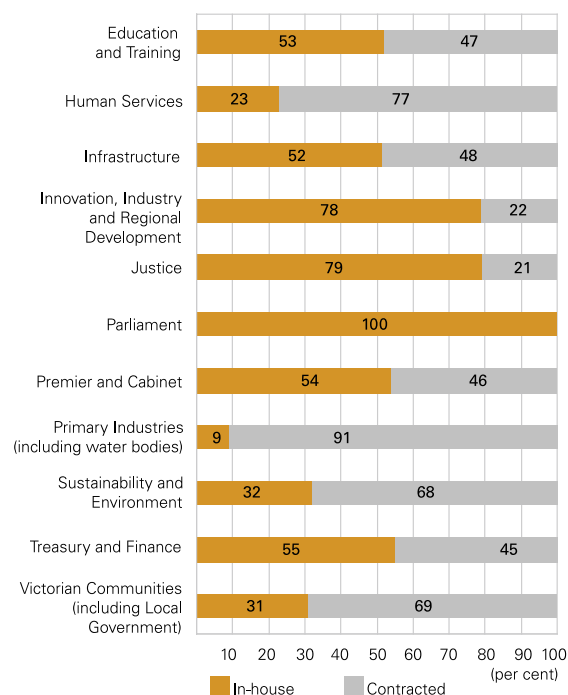
Peter Vetsicas from our Computer Risk Management team regularly assisted financial statement audit staff by analysing and interpreting client data systems.

Resource mix for financial statement audits

At 30 June 2006, the Financial Audit Group internally staffed 253 audits, or 41 per cent (254 or 42 per cent, in 2004-05).

The following chart shows the mix of resources applied to clients across each sector at 30 June 2006.

RESOURCING FINANCIAL STATEMENT AUDITS BY PORTFOLIO



External audit service providers

In 2005-06 we paid \$6.732 million (\$6.064 million in 2004-05) to 32 external audit service providers.

The following table show payments to external audit service providers in 2005-06.

FINANCIAL STATEMENT AUDITS, PAYMENTS TO EXTERNAL AUDIT SERVICE PROVIDERS

External audit service provider	Amount
	(\$'000)
Ernst & Young	1 240
RSM Bird Cameron	1 115
WHK Day Neilson	640
UHY Haines Norton	534
HLB Mann Judd (Vic)	514
Richmond Sinnott & Delahunty	477
Coffey Hunt	406
PricewaterhouseCoopers	297
WHK Armitage Downie	256
DFK Collins	211
Pannell Kerr Forster	176
Johnsons MME	170
KPMG Albury	154
KPMG	130
Davidsons	101
Mulqueen Griffin Rogers	100
Other <i>(a)</i>	211
Total	6 732

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

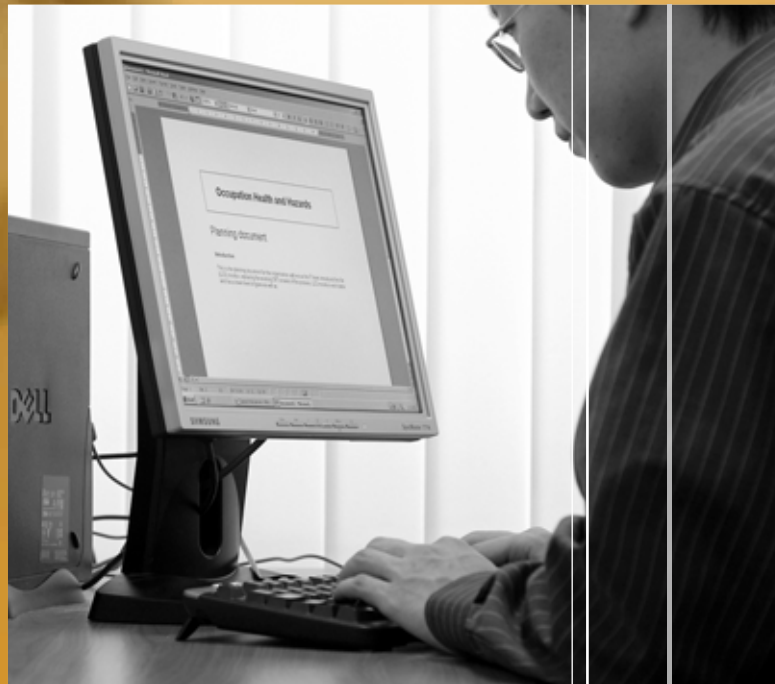
The Audit Act authorises the Auditor-General to delegate the responsibility for signing audit opinions on financial statements to external audit service providers where the annual operating expenditure is under a threshold amount which is indexed annually. The base amount for 2005-06 was \$5.2 million. In 2005-06, the Auditor-General delegated responsibility to external audit service providers to issue audit opinions and audit management letters for 82 audits (82 in 2004-05). Appendix 5 of this annual report lists those audits delegated.

Outlook for 2006-07

In the coming year, we will:

- consolidate the implementation of our new audit toolset IPSAM by establishing a user group to provide feedback on its performance, conducting a post-implementation review, and rolling-out system enhancements and added functionality identified as part of initial user acceptance testing
- work closely with agencies to improve the timeliness of their financial reporting processes
- further improve our timeliness in issuing audit management letters by utilising our new audit toolset IPSAM to streamline the generation of draft management letters, and implementing a "closing report" to brief agencies on audit issues before issuing the audit opinion.

Managing our Office



Key achievements

- We successfully introduced wireless technology for use by audit field staff (see page 56).
- Our knowledge management services and facilities were improved (see page 57).
- We received an award for our communications activities at the 2005 Royal Melbourne Show (see page 58).
- We launched our new financial audit toolset (IPSAM) in November 2005 and commenced a major review of our performance audit and special audits methodology (EMPERA) (see page 59).
- We implemented a new People Strategy to enhance our human resources and organisational capacity (see page 62).
- Our Green Office Group continued to conserve energy, reduce waste and promote recycling (see page 67).

In this section

<i>Governance</i>	48
<i>Strategy and direction</i>	55
<i>Compliance and accountability</i>	59
<i>Structures and relationships</i>	62

Our aim is to manage the Office and its people in such a manner as to ensure that we maintain an effective and sustainable organisation.

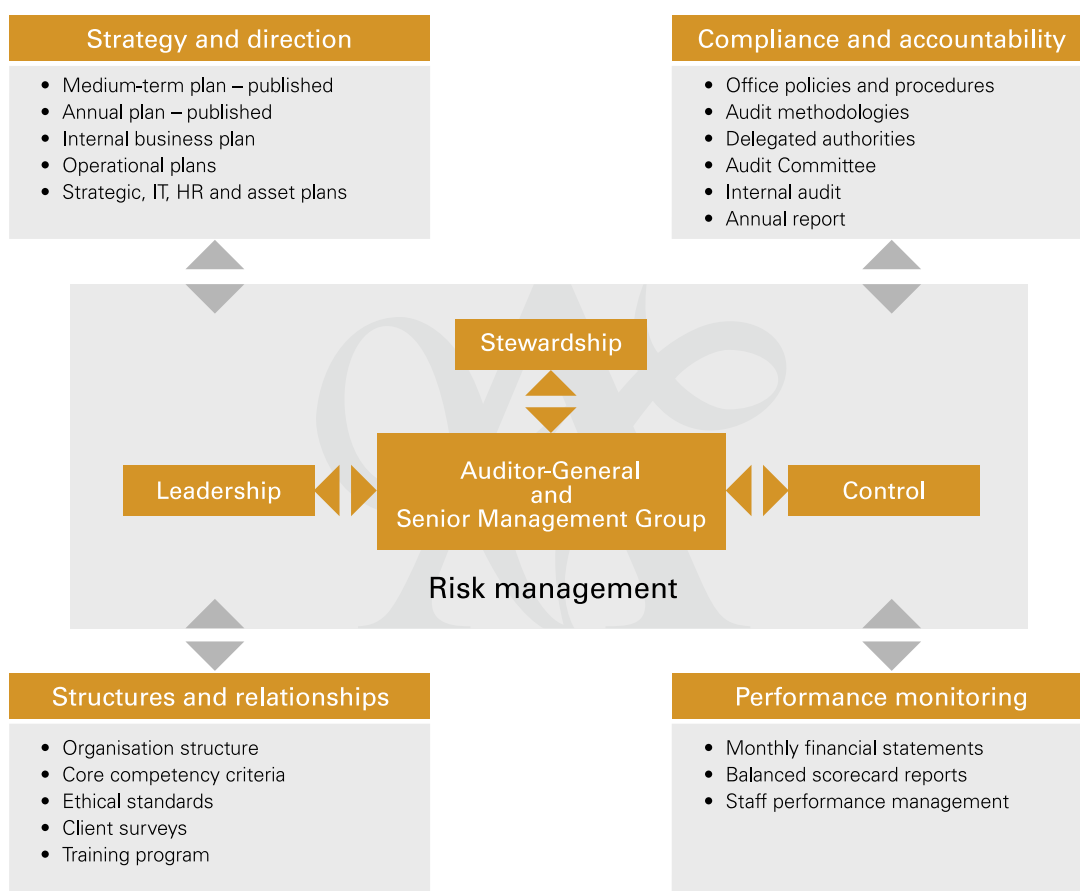
This aim underpins all aspects of our operations: sound strategic corporate and audit planning, the effectiveness of our quality assurance, our success in attracting and keeping skilled people and giving them opportunities for professional growth, and our stewardship in administering the funds parliament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

Governance

We support our main work with a strong 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 GOVERNANCE FRAMEWORK



Our performance against organisational targets

2005-06 target	2005-06 achievement
<ul style="list-style-type: none"> Roll-out new IPSAM financial audit toolset by November 2005. 	<ul style="list-style-type: none"> New toolset implemented in November 2005 in line with target (see page 59).
<ul style="list-style-type: none"> Roll-out new EMPERA performance audit toolset by June 2006. 	<ul style="list-style-type: none"> Major redevelopment of toolset is continuing. A prototype of the new major audit software toolset has been developed and our review of audit policies and guidance material is nearing completion. Progress has been impacted by other priorities and project team absences (see page 59).
<ul style="list-style-type: none"> Continue to implement our plain English initiative through introductory, refresher and advanced training programs. 	<ul style="list-style-type: none"> The plain English initiative has now become part of our ongoing learning and development program and is available to all staff, if needed (see page 31).
<ul style="list-style-type: none"> Broaden the implementation of our information and knowledge management strategic plan through particular emphasis on better linkages of our internet and intranet. 	<ul style="list-style-type: none"> The sharing of information and knowledge has become part of the Office culture and everyday work practice. Further enhancements to be completed in 2006-07 (see page 57).
<ul style="list-style-type: none"> Enhance our learning and development program through ensuring that the program meets the needs of our staff and our Office, with a particular emphasis upon strengthening leadership behaviours, teamwork and communication skills, nurturing staff skills and valuing staff potential. 	<ul style="list-style-type: none"> Significant resources devoted to enhancing our learning and development framework and implementing our annual learning and development program. Further enhancements are included in our 2006-07 annual program (see page 65).
<ul style="list-style-type: none"> Improve business processes and reporting through capturing the business opportunities flowing from our MARS practice management system, which supports our output-based resource planning, management and reporting. 	<ul style="list-style-type: none"> Various enhancements made to the practice management system during 2005-06. A range of further initiatives are to be progressively implemented in 2006-07 as part of our major project to improve management reporting (see page 56).
<ul style="list-style-type: none"> Further improve IT audit skills through development of IT audit lab by installation of servers, portable computers, data communications equipment and software to support skills developed by auditors. 	<ul style="list-style-type: none"> IT audit lab introduced to assist our computer risk management audit staff.
<ul style="list-style-type: none"> Explore the use of wireless technology for use by field audit staff through field trials to assess the viability of the technology. 	<ul style="list-style-type: none"> Field trials of wireless technology successfully completed. Wireless technology has since been introduced for all field audit staff (see page 56).
<ul style="list-style-type: none"> Reduce environmental impacts through working with our staff to reduce our energy consumption, purchasing more green power, reducing our waste and recycling more paper. 	<ul style="list-style-type: none"> The Office's "Green Office" working party initiated a number of actions in 2005-06 aimed at reducing environmental impacts and will continue these actions in 2006-07. A current review of our accommodation needs for 2006-07 and beyond is also giving emphasis to reducing environmental impacts (see page 67).

Future directions

Our annual plan for 2006-07 identifies a number of activities aimed at continuous improvement in the way we manage our Office.

2006-07 business initiative	How it will be achieved
<ul style="list-style-type: none"> Ongoing enhancement of our new financial audit toolset (IPSAM) to further improve the efficiency and effectiveness of our financial audit processes. 	<ul style="list-style-type: none"> Completion of phase 2 of the toolset development to further improve the efficiency of our financial audit process.
<ul style="list-style-type: none"> Finalisation of our project to substantially upgrade our performance audit processes and methods. 	<ul style="list-style-type: none"> Completion of upgrade of enhanced performance audit policies and guidance. Introduction of new electronic performance audit toolset (EMPERA).
<ul style="list-style-type: none"> Continue evolving our knowledge management plan with particular emphasis on better collaboration and information sharing. 	<ul style="list-style-type: none"> Enhance our intranet capacity and online knowledge acquisition.
<ul style="list-style-type: none"> Implementing the strategies outlined in our human resources plan to further foster and develop our staff, and plan for the future through ongoing succession planning. 	<ul style="list-style-type: none"> Finalise succession planning policy. Continue to enhance our policies and guidance for recruitment, staff retention and staff development.
<ul style="list-style-type: none"> Continuing to upgrade and implement our learning and development program to ensure that it meets the needs of our staff and our Office. 	<ul style="list-style-type: none"> Enhance annual program for learning and development. Implement revised manager development program. Consider greater use of e-learning.
<ul style="list-style-type: none"> Improving management reporting for both our senior management team and line managers within the Office to assist in monitoring of our performance against our plans and targets. 	<ul style="list-style-type: none"> Implementation of revised senior and line manager reporting from August 2007. Ongoing enhancement to supporting systems to improve the efficiency of completing management reports.
<ul style="list-style-type: none"> Continuing to work with our staff to reduce the environmental impact of our activities, with a major focus on reducing our energy consumption, purchasing more green power, reducing our waste and recycling more paper. 	<ul style="list-style-type: none"> Continuation of "Green Office" working party to recommend initiatives aimed at reducing environmental impacts. Emphasis on environmental impacts as part of our project to select future accommodation for the Office.

Leadership and stewardship

Senior management structure

This chart outlines our senior management structure at 30 June 2006.



Senior management

J Wayne Cameron

BCom, FCA (NZ), FCPA, FCA (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 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 is currently managing the Performance Audit Group. 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 Walker

Dip Bus (Acc) Grad Dip (Govt Accounting), FCPA

ASSISTANT AUDITOR-GENERAL, STRATEGIC AUDIT PLANNING, POLICIES AND STANDARDS

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.

Andrew Greaves

BEC, CA

GENERAL MANAGER, FINANCIAL AUDIT GROUP

Andrew began as General Manager in June 2006 after a short period as acting General Manager. Andrew leads the Financial Audit Group and oversees our contractual arrangements with external audit service providers.

David Reid

BCom, FCPA

GENERAL MANAGER, BUSINESS SUPPORT AND SPECIAL INVESTIGATIONS

David was appointed General Manager, Financial Audit Group in May 2000. During the year, he transferred to the General Manager, Business Support position, as well as heading the Special Investigations Unit. In this role, he oversees the delivery of all Office corporate services and special audit investigations conducted by a unit established in 2005.

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 organisational goals and milestones.

The Auditor-General, Deputy Auditor-General and the leaders of each business unit are members of the group, which meets monthly.

During 2005-06, the group monitored our performance against key performance indicators. It also oversaw major initiatives, including:

- development of an IT audit strategic plan
- implementation of a new financial audit toolset
- development of a revised performance audit toolset
- enhancement of IT/information security policies
- implementation of improved management reporting
- implementation of a knowledge management strategy
- business continuity framework
- introduction of wireless technology
- information security classifications and “clean desk” policy.

Information Management and Technology Steering Committee

This committee oversees our information management and technology strategies and initiatives.

The committee members are the: Deputy Auditor-General (Chair); Manager, IT; Chief Finance Officer; General Managers, Financial Audit and Business Support; and the Chief Information Officer.

During 2005-06, the committee:

- completed a review of our IT strategic plan to improve business efficiency, support audit activity and better maintain our IT infrastructure
- sanctioned the commencement of key tasks drawn from the information technology strategic plan and the review of the information technology strategic plan.

The IT strategic plan is reviewed annually to ensure that it is aligned with, and supports, the corporate plan by improving business efficiency, supporting audit activities and maintaining an efficient IT infrastructure.

Operations Committee

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

The committee members are the Deputy Auditor-General (Chair); General Manager, Financial Audit; and Assistant Auditor-General, Strategic Audit Planning, Policies and Standards.

The committee met as needed during 2005-06.

Learning and Development Steering Committee

This committee manages and oversees our learning and development strategies and activities.

The committee members are the Deputy Auditor-General (Chair); General Managers, Financial Audit and Business Support; Assistant Auditor-General, Strategic Audit Planning, Policies and Standards; and Manager, Human Resources.

During 2005-06, the committee oversaw enhancement of the “Whole of Career” Learning and Development Framework that incorporates professional development requirements for all positions and improvements to the 3-year training program.

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 (Chair); Deputy Auditor-General; General Managers, Financial Audit and Business Support; Assistant Auditor-General, Strategic Planning, Policies and Standards; and an independent member, Mr Patrick O’Grady.

The committee monitored the executive and non-executive officer annual performance appraisals processes and salary review during 2005-06.

Audit Committee

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

June 2006 saw the retirement of the chairman, David Greenall. David has for over 20 years provided advice and guidance to the Office and Auditors-General as a member of the Auditor-General’s advisory group, and in his final role as chairman of the Audit Committee.

During his involvement with the Office, David has seen many changes. His counsel, advice and support of the Office during his time has been greatly appreciated. He brought a substantial understanding of the public sector and great experience from the private sector to our discussions. The Office greatly appreciates his commitment to the role of the public sector auditor.

David has been succeeded by Mr Mark Anderson.



David Greenall retired as chairman of the Audit Committee in June 2006, after providing over 20 years of advice and guidance (in a number of roles) to the Office.

Audit Committee Chairman's report (year ended 30 June 2006)

The Audit Committee is formally appointed by the Auditor-General to assist the Auditor-General in assuring that there are appropriate and effective accounting, auditing, internal control, business risk management, compliance and reporting systems operating within the Office.

The members of the Audit Committee, their qualifications and attendance at meetings, are set out below:

Committee member	Meetings	
	Held	Attended
David Greenall (Chairman, resigned 19 June 2006) Chartered Accountant in Public Practice Former member Australian Auditing Standards Board and Urgent Issues Group	5	5
Keith James Partner, Hall & Wilcox Lawyers FCPA	5	5
Edward M Hay Deputy Auditor-General BA (Accounting), CA	5	5
Mark Anderson (Chairman, appointed 19 June 2006) Chief Executive Officer, Doutta Galla Aged Services FCPA, MACS, GMAICD	1	1

During the year, Mr David Greenall resigned from the committee. The Auditor-General, Wayne Cameron, expressed his appreciation of Mr Greenall's contribution, noting that prior to his appointment as chair of the Audit Committee, Mr Greenall commenced his relationship with the Office in 1982, as a member of the panel of advisors assisting the then Auditor-General in matters of audit and accounting significance to the public sector.

The Audit Committee operates in accordance with a charter which outlines the responsibilities of the committee. The main responsibilities of the committee are to:

- review, assess and recommend to the Auditor-General the adoption of the annual financial report
- determine the scope of the internal audit function and review its effectiveness
- oversee the effectiveness of the risk management plan
- review the scope and quality of the external audit
- review and monitor related-party transactions
- review the committee's role and responsibilities.

In fulfilling its responsibilities, the Audit Committee has:

- reviewed the annual financial report and recommended its adoption by the Auditor-General
- reviewed the management response to the external audit management letter
- approved the 3-year internal audit plan for 2005-06 to 2007-08
- received reports from the internal auditor who advised no significant weaknesses in the internal financial controls and risk management practices
- reviewed the quarterly risk management report and noted that risks were being appropriately monitored and addressed by the Office
- met with the external auditor and discussed the audit strategy and scope
- undertaken a self-assessment against the duties set out in the Audit Committee charter and noted that all duties for 2005-06 have been completed.



Mark Anderson (Chairman)

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 fourth year we have applied our risk management policies and practices. We again revised the policy and processes during the year to improve their effectiveness. Our risk management plan identifies all our major 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 and business unit managers have completed statements declaring whether their interests, shares in and other benefits from business enterprises could give rise to a conflict of interest, and there were no such conflicts.

Strategy and direction

Corporate plan



We continued to implement the Auditor-General's *Corporate Plan for the period 2004-05 to 2006-07*. The plan sets out our organisational objectives and strategies to achieve these. Every quarter, the Senior Management Group monitors progress against the plan.

Our current corporate plan builds on the foundation established under the previous plan, and has extended our range of products and services. The corporate plan guides us 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.

We will commence development of a new corporate plan in 2007 to guide our activities for the subsequent 3 years.

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.

Our strategic audit planning activities are designed to maintain oversight of public sector activities throughout the year, with particular attention to emerging trends and directions, challenges and areas of potential risk.

Our environmental scanning processes require us to assess the:

- strategic influences or risks to the performance and accountability of the public sector now or in the future
- action being taken by the public sector to mitigate those risks
- emerging issues for the public sector, including any anticipated changes in service delivery methods into the future
- international and national trends in public sector practice
- results of current or previous audit work
- concerns raised by parliament, agencies and the community regarding the performance of the public sector.

We maintain a 3-year strategic audit plan for each government sector, from which we develop an annual audit program, which is then reflected in our annual plan.

This information also informs our budgetary needs. After consulting with the Public Accounts and Estimates Committee, we transmitted our annual plan to parliament in June 2006.

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 operational group support the business plan. The Senior Management Group monitors progress against the business and operational group plans.

Information technology

Our information technology (IT) strategies focus on:

- improving business efficiency
- improving support for audit activities
- maintaining the IT infrastructure.

Improvement initiatives in 2005-06

During 2005-06, we completed the following key tasks in accordance with the 2004-2007 IT strategic plan.

2005-06 business initiative	Achievement
Complete the first stage of the development of the IPSAM financial audit toolset.	Software development completed and system implemented as planned.
Improve the data communication facilities for audits at clients' sites.	Wireless data communication network implemented to allow auditors to connect to the Office network from client premises.
Complete the redevelopment of the EMPERA performance audit toolset.	Contributed to the development of the prototype.
Upgrade the operating system software on all desktop and portable computers.	Operating system on all desktop and portable computers upgraded.

Key tasks for 2006-07

Key tasks to be completed in 2006-07 include:

- implementation of a strategic information system
- continuing to assist in the development of the EMPERA performance audit toolset.



Dijana Cetinic from our Information Technology section upgrading the operating system software on notebook computers.

Information management

Information and Knowledge Management Strategic Framework

The Information and Knowledge Management Strategic Framework is a follow-on from the 2003-04 Knowledge Management Strategy and is the direction-setting component of the Office's Information and Knowledge Management Initiative.

Our vision is that the Office will manage its information and knowledge in a disciplined and coordinated manner which will improve and support effective and efficient operations through consistency, understanding and communication, and by empowering staff to achieve our objectives through the provision of immediate and user-friendly access to information.

Our goal is to have an active information and knowledge sharing culture, which facilitates innovation, and captures and capitalises on both our internal knowledge and external sources of knowledge.

Our approach to accomplish this adopts a 3-pronged method emphasising business, human and infrastructure (technology):

- Business – Adopting information and knowledge management as a strategic direction through internal governance mechanisms, and integrating these initiatives within current and future Office plans.
- Human – Developing a culture of sharing information and knowledge, and fostering a spirit of innovation and the ability to adapt to change.
- Infrastructure (technology) – Implementing technology enablers that support Office processes and facilitate information and knowledge sharing activities and collaboration.

A key focus in the next 3-year plan will be to deploy and enhance electronic information and document management (EDMS) technologies to the desktops and to implement better practices and training to enable staff to effectively manage and use information and knowledge in an electronic environment.

Improvement initiatives for 2005-06

In 2005-06, we continued improving the following information and knowledge management services and facilities.

2005-06 business initiative	Achievement
Continue development of an institutionalised information security and classification framework.	We have successfully introduced, in conjunction with an information classification scheme, an Office-wide "clean desk" information security program.
Upgrade our internal intranet and external internet systems to maximise the business opportunities from these business support systems.	Improvements implemented in 2005-06. Further enhancements to be implemented in 2006-07.
Develop and deliver an integrated performance reporting system of key performance indicators based on the balanced scorecard principles.	This project is currently underway. New management reporting is to be introduced from August 2006.
Re-launch the Office's Information and Knowledge Management Strategic Framework.	We successfully re-introduced the fundamentals of knowledge management and information sharing as a value-added capability within the Office.
In conjunction with the Office's Organisational Development and Human Resources section, develop and implement an on-line learning and development intranet site.	We developed and implemented a learning and development intranet site, aligned with the Office's Learning and Development Capability Framework, providing staff with a self-service tool to meet their learning and training needs.
Continue development of the monthly <i>Insight</i> Office newsletter as part of our Office internal communications strategy.	<i>Insight</i> is now considered an integral communications product within the Office.
Develop a whole-of-Office business continuity framework and plan.	Development of a business continuity plan is in progress.
Upgrade the Australasian Council of Auditors-General (ACAG) internet presence and capability.	Based on feedback from ACAG users, we redeveloped and upgraded the "look and feel", as well as the functionality and usability, of the ACAG website.
Improve and upgrade the records management computer system.	This project is currently underway, with an expected completion in the third quarter of 2006.

Key tasks for 2006-07

Key tasks to be completed in 2006-07 include:

- broaden the reach of our Office business continuity plan
- further implement our knowledge management plan with particular emphasis on information sharing across the Office
- develop an Office-wide continuous improvement framework to improve business process, practices and efficiencies.

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 staff – more aware and confident of our role and work.

During 2005-06, we sought to improve our communications practices through:

- better communication 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
- creating opportunities to communicate with respect and balance
- adding value to audit findings
- collaborating to enhance decision-making, reach common goals and be consistent in the views we communicate
- promoting our reports in external forums and through professional associations
- further developing our *Insight* electronic internal newsletter
- communicating proactively, strategically and clearly.

We also undertook a number of promotional activities aimed at developing community awareness of our role and services. These included:

- staging an exhibit at the 2005 Royal Melbourne Show
- participating in the 2006 Open Day at Parliament House
- involvement in graduate recruitment activities at various tertiary educational institutions
- presentations to members of parliament and in other forums on the role, work and products of the Office.

In 2006-07, we will review our current communications strategy. This will ensure that we continue to deliver relevant, effective and valued communications to our stakeholders through a range of innovative practices and technologies.

Office exhibit at the 2005 Royal Melbourne Show

Each September, the Office stages an exhibit at the Government Expo at the Royal Melbourne Show. The Expo enables government and semi-government organisations to showcase their initiatives, products, services and achievements to the community. Around 350 000 people visit the Government Expo over the 11 days of the show.

The exhibit is a key component of our communications strategy – particularly our interaction with the community. Our participation is aimed at broadening the community's understanding of our important financial management and accountability role.

The quality of our exhibit was acknowledged by being awarded second place in the "Best display by a government or semi-government authority" category.



Enhancements to our website

To cater to the numerous requests we receive seeking information about actual or possible topics contained in our parliamentary reports and publications, we added a new feature to our website "Reports and Publications" section called "Index of issues contained in reports and publications". The list contains topics commented on in our reports over the past 20 years. The list can be searched by key words.

During the year, we also increased the number of earlier Auditor-General's reports available on our website. Performance audit reports dating back to 1982, and other reports back to 1991 were added to our website.

Compliance and accountability

Quality assurance practices

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

Financial Audit Policy Manual

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

The manual is updated annually and was released this year at a forum for all auditors in May 2006. The forum focused on current developments in auditing and financial reporting, and highlighted emerging developments in individual sectors and across the public sector.

Our 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 access the manual and the alerts through controlled internet access.

Financial audit methodology

It is important that our audit methods achieve high-quality results. In December 2004, we entered into a joint arrangement with the Queensland Audit Office to revamp our existing financial audit methodology.

The revised audit methodology was successfully completed and released in November 2005. Our approach to financial audit is integrated into our new electronic audit toolset, known as IPSAM. Our financial audit approach is designed to enable us to form an audit opinion on agencies’ financial statements and performance statements in an efficient and effective manner. We also have regard to the appropriateness of the use of public resources, and compliance with laws and regulations when undertaking our financial audits.

It was pleasing that the 2 Offices worked effectively together to produce this leading edge methodology. It is hoped that this joint initiative will serve to facilitate other cross-jurisdictional projects in the future. Since the launch of IPSAM, a number of other jurisdictions, both interstate and overseas, have expressed an interest in obtaining the IPSAM product.

Performance audit and special reviews methodology

During 2005-06, the Office commenced a major project to implement an enhanced performance audit methodology and to upgrade our associated electronic database system, EMPERA, to reflect changes in our processes and broader trends in performance auditing.

A prototype of the electronic toolset has been developed and the review of policy and guidance material is nearing completion. The prototype database is being trialled with staff. The prototype adopts a new way of thinking about our audit work, and has opened up many possibilities for improving the efficiency and effectiveness of our audit documentation and management.

All operational areas within the Office, particularly the Performance Audit Group, and those undertaking other major audits, will continue to be involved in the project. The project is well advanced and is expected to be available by the end of 2006.



Vishal Suchdev (left) and Peter te Moni are part of the team responsible for enhancing our performance audit methodology and EMPERA database system.

Adhering to the auditing standards

Under the *Audit Act 1994*, we must follow Australian auditing standards issued by the professional accounting bodies. The Act also enables the Auditor-General to apply additional auditing standards to the conduct of audits under the Act.

The auditing standards are no longer issued by the professional auditing bodies. The Auditing and Assurance Standards Board now issues auditing and assurance standards under section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*. A number of auditing standards, which are legally enforceable for Corporations Act audits, have been issued by the board and are effective for reporting periods commencing 1 July 2006. While we await the new arrangements to be reflected in the *Audit Act 1994*, in accordance with section 13(3) of the *Audit Act 1994*, the Auditor-General has also applied these new standards.

To complement the standards, the Auditor-General periodically issues audit policy statements which we use to update our 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 assigned auditor on all high-risk audits
- having senior staff review audit results to ensure that the audit meets professional standards.

These measures also identify key issues and, where necessary, draw the attention of parliament and agencies to important financial management and accountability issues, and any inconsistencies in financial reporting.

External quality assurance reviews of our audit work occur through:

- parliament appointing an independent auditor to do a 3-yearly performance audit of the Office
- applying a post-audit quality review program, conducted by well recognised audit professionals, of 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 independent experts
- client satisfaction surveys on the quality of our audits.



Kevin Lee (left) and Russell Walker from our Strategic Audit Planning, Policies and Standards Group. The group, among other things, provides technical and auditing advice to Office staff and client agencies.

Independent review of audits

Each year, the Auditor-General engages external parties to review a sample of the financial statement audits and performance audits, and other audits and investigations, done by both our external audit service providers and in-house auditors. This quality assurance check provides an objective evaluation of the quality audits undertaken both by staff and external audit service providers.

The objective of the post-audit quality review of a selection of financial statement audits undertaken in 2005-06 was to determine 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
- external audit service providers met the terms of their contract
- agencies and auditors addressed all issues that arose during the audit and reported in a timely manner.

We had pleasing results overall from the post-audit quality review of financial statement audits. The results were released at our annual audit forum in May 2006. We also circulated the results to staff and external audit service providers, and reflected any areas requiring re-emphasis in our learning and development program.

At 30 June 2006, a post-audit quality review of a selection of performance audits, and other audits and investigations, was in progress. The results of this review will be used to enhance our practices and inform our staff development activities.

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 *Whistleblowers Protection Act 2001* expressly excludes the Auditor-General from application of the whistleblowers legislation.

Section 41 of the *Whistleblowers Protection Act 2001* 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 2005-06, the Ombudsman referred a number of matters to us, which we are investigating under the authority of the Audit Act.

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 2005-06.

Privacy legislation

We work closely with the Office of the Victorian Privacy Commissioner, as required, to ensure 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 1994*, third parties may not access any information and documents we hold.

Our administrative processes, however, come under the state's Freedom of Information legislation. During the year, we received 2 applications under this legislation. In respect of one, we responded within the appropriate timelines and guidelines; in respect of the other, as it concerned our audit activities we advised the applicant that we were unable to meet the request.

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 this report:

- a statement that declarations of pecuniary interests have been duly completed by all relevant staff of the Office
- details of publications produced by the Office about its activities, 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
- 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
- details of assessments and measures undertaken to improve the occupational health and safety of employees
- a general statement on industrial relations within the Office and details of time lost through industrial accidents and disputes
- 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

During 2005-06, we implemented a new People Strategy based around meeting strategy 5 “Strengthening our business processes and organisational capability” of the Office’s *2004-05 to 2006-07 Corporate Plan*. To successfully achieve this strategy, we must have clear and well-implemented strategies and plans to attract, recruit, develop and retain the right numbers and quality of staff. The 3 strategic drivers of the People Strategy are:

- Work force capacity – staff have the capacity and capability to support the advancement of current and future business goals
- Value driven leadership – leadership at all levels promote and sustains the Office’s values
- Motivating work environment – a work environment that fosters self-esteem and performance.

PEOPLE MANAGEMENT FRAMEWORK

Drivers	Objectives	PEOPLE MANAGEMENT
Work force capacity	Staff have the knowledge, skills and abilities to achieve their assigned goals and expectations.	
	Recruitment, retention and succession planning enables staff to achieve the purpose of the Office.	
	Work force planning principles apply to resource planning and staff scheduling.	
Value driven leadership	Learning opportunities assist in the development of organisational capabilities.	
	Performance management systems align business planning with individual performance, behaviours and capabilities.	
	Our individual behaviours are always consistent with our Office values.	
Motivating work environment	Decisions affecting staff are based on merit, equity and diversity.	
	Staff are motivated to excel because their achievements and contributions are recognised.	
	Healthy work environment and practises have a positive effect on performance.	

Progress against organisational strategies

Improvement initiatives in 2005-06

The following key initiatives were developed to meet the 3 strategic drivers of the People Strategy for 2005-06.

PEOPLE STRATEGY INITIATIVES

2005-06 business initiative	Achievement
Develop a work force analysis reporting tool.	The Office's Senior Management Group is provided with up-to-date information on a range of HR-related indicators, including leave, turnover, training, work force numbers, and occupational health and safety.
Develop a formal management development program.	It has been our endeavour to develop learning programs to improve our management and leadership capabilities at all levels within the Office. At the same time, we developed a framework to proactively identify individuals with high potential so that they can receive leadership coaching, mentoring and accelerated learning opportunities. This framework will introduce some new programs, which include: <ul style="list-style-type: none"> • Frontline Management (approved level IV) course for VPSG 4 Senior Auditors • New Manager Program for VPSG 5 and VPSG 6 Managers who are managing for the first time.
Develop a consistent range of health and wellbeing services across the Office.	We set up a Health and Wellbeing Interest Group with 11 staff who have developed a range of ideas and initiatives that have, or will be, introduced. For example, we now have an exclusive Wellbeing intranet page that links to various interesting articles, recipes and activities that are organised by the group.
Develop a recruitment and retention strategy to address the implications of an ageing and diminishing work force.	A discreet group of professional recruiting firms has been listed as our preferred providers for all future external advertising. With their experience in specified employment markets, we are aiming to exploit opportunities to not only seek out job hunters but to "tap into" networks of professionals that may be encouraged to move to an organisation like our Office that offers professional development, work-life balance and a high standing in the community.
Develop succession planning processes which links both work force planning and individual career aspirations.	A template outlining all grades within the Office is being designed that shows all staff the various opportunities that are available to assist them with promotions. Staff who exhibit high potential will have access to accelerated learning programs. This template and programs will be implemented early in September 2006.

Key tasks for 2006-07

Key tasks to be completed in 2006-07 include:

- an Organisational Effectiveness and Wellbeing Project to identify, assess and manage the factors that impact on employees' health, wellbeing and their ability to successfully perform their role within the Office
- establish succession planning processes which link both work force planning and individual career aspirations
- development of a recruitment strategy to address the implications of an ageing and diminishing work force.

Work force capacity

Our staffing profile

CLASSIFICATION BY GENDER, AT 30 JUNE

	Full-time						Part-time					
	Male		Female		Total		Male		Female		Total	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
Executive officers –												
E02	4	5	-	-	4	5	-	-	-	-	-	-
E03	12	9	3	5	15	14	-	-	4	1	4	1
Sub-total	16	14	3	5	19	19	-	-	4	1	4	1
VPSG 6.2	5	5	4	1	9	6	-	-	-	1	-	1
VPSG 6.1	12	14	2	2	14	16	-	1	2	3	2	4
VPSG 5.2	11	9	2	4	13	13	-	1	1	-	1	1
VPSG 5.1	5	5	2	3	7	8	-	-	1	2	1	2
VPSG 4	7	5	11	9	18	14	-	2	2	2	2	4
VPSG 3.2	4	4	5	9	9	13	-	-	-	-	-	-
VPSG 3.1	11	5	7	8	18	13	-	-	-	1	-	1
VPSG 2.2	3	8	8	8	11	16	-	-	-	-	-	-
VPSG 2.1	7	7	11	11	18	18	-	-	-	-	-	-
VPSG 1.1	1	-	1	-	2	-	-	-	-	-	-	-
Sub-total	66	62	53	5	119	117	-	4	6	1	6	13
Total	82	76	56	60	138	136	-	4	10	10	10	14

Recruitment and retention

During the year, the Office reviewed its recruitment and selection processes resulting in the release of an internal manual *Finding the Right Person: A Step by Step Guide to Recruitment and Selection*. The document provides information and guidance to all staff involved in the recruitment process from identifying a job vacancy through to selection, appointment and successful feedback to unsuccessful candidates.

In addition to providing a manual, training was provided for all staff serving on selection panels. As well as covering the various topics included in the manual, staff were trained in behavioural interviewing techniques and the skills associated with giving constructive feedback.

All commencing staff undertook a formal induction program using a mix of presentations and web-based technology which gives easy access to relevant Office information, such as policies, forms and overviews of activities.

In February 2006, 12 graduates commenced with the Office. The graduates undertook a comprehensive 12-month program to help them learn about the Office, accounting and auditing standards, the work environment, our personnel policies and information about the wider public service. Their 12-month program is complemented with the Office's mentor scheme which enables graduates to partner with experienced staff.



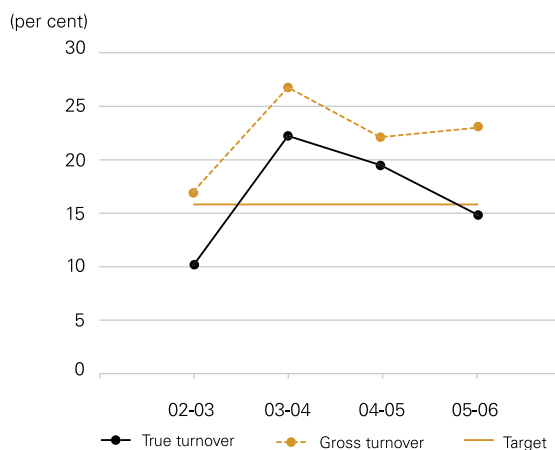
Roberta Cole (left) and Peter Gallagher (mentor) worked closely together during Roberta's first 12 months with the Office.

We also encouraged our graduates to work towards Certified Practising Accountant or Chartered Accountant membership by providing them with financial and coaching opportunities.

Staff turnover

The following chart shows our performance against our net turnover target since 2002-03.

STAFF TURNOVER



Introduced this year to monitor our turnover of staff were the 2 categories of:

- True turnover – permanent staff and long-term fixed-term (12 months or longer)
- Gross turnover – all staff categories, including temporary/fixed-term and casual staff.

These categories assist us to monitor permanent staff who are electing to leave the Office, as opposed to staff who are on fixed-term contracts that leave at the expiration of their contract period.

In previous years, we measured and monitored gross turnover only. However, this measure distorted the position because the purpose of monitoring turnover was to establish whether there were trends/reasons for unexpected departures. Gross turnover included expected departures.

Over the last 4 years, our target for net turnover has been around 16 per cent.

Since 2003-04, we have used exit interviews more exhaustively to gauge why staff leave, so that we could address the unexpected high turnover of 22 per cent in 2003-04. Since then, we have reduced our turnover to just under our target (16 per cent) to 15 per cent.

Industrial relations

The Office continues to maintain excellent industrial relations outcomes with no disputes lodged either internally or with the Australian Industrial Relations Commission. During the year, there was no lost time due to industrial disputes.

Certified Agreement

All non-executive employees are employed under the Victorian Public Service Agreement 2006 which came into operation on 1 March 2006.

Staff survey

Our staff survey instrument was revised and integrated into an overall organisational effectiveness and wellbeing project as part of the Office's People Strategy. As well as enabling the Office to measure its performance against the indicators from previous surveys, the survey tool was sophisticated to ensure that the Office identified factors that actually impact on the health and wellbeing of our staff and, as a consequence, the Office's organisational effectiveness. The project, including the survey component, is in progress.

In the first half of 2006-07, the Office will consult with staff through focus groups to develop management plans in order to achieve measurable improvements in organisational effectiveness and wellbeing.

Value driven leadership

Learning and development

Learning and development is a central part of the Office's organisational function.

The development and release of the Office's annual training program is underpinned by its Learning and Development Capability Framework. The framework was originally designed to provide a stepping-stone approach to learning and career development, as well as ensuring that staff acquire the necessary knowledge and skills to perform their role. Now in its second year, the framework has been enhanced to comprise both a core curriculum and a program curriculum.

The *program curriculum* illustrates training programs for all staff by subject matter. The *core curriculum* outlines training programs that will be offered over a 3-year period. The framework's 3-year core training program is then converted into the calendar of training for the next year.

These enhancements are designed to assist staff to make clearer choices about their professional development in the Office.



Our Learning and Development Capability program ensures that all staff have the required knowledge and skills to perform their roles.

Staff have embraced the framework which has become an important tool in assisting staff and their managers to determine learning requirements.

The improved framework has enabled the Office to roll-out a more comprehensive training program for staff. For example, the technical training component has been bolstered with a wider range of targeted courses which show a clearer career pathway, particularly within the Financial Audit Group. This has also been supported with an expansion in training on accounting and auditing standards.

To increase options, the training calendar also features training that is offered by some selected external providers. This feature is included to expand the options that staff have, particularly where in-house programs are unable to satisfy the needs of staff.

Secondments

We encourage secondments to or from other government departments and agencies. Secondments to and from the Office in 2005-06 were:

- Jenny Atta, from the Department of Human Services
- Kathryn O'Loughlin, to the Department of Sustainability and Environment
- Kim Lazenby, to the Western Australia Audit Office
- Christian Anderson, to the Department of Treasury and Finance
- Christian Anderson, to the Office of the Victorian Privacy Commissioner
- Peter Stoppa, to the Public Accounts and Estimates Committee
- Chris Sheard, to the Public Accounts and Estimates Committee
- Joy Patton, to the Department of Justice
- Lotta Lilja, to the Office of the Commissioner for Environmental Sustainability.

Code of conduct

All staff abide by our code of conduct which incorporates the Victorian public service's code of conduct for employees in the Victorian public sector.

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 work colleagues. It builds on the employment and conduct principles contained in the *Public Administration Act 2004* and the Office values of respect, excellence and integrity.

Upon commencement with the Office, all staff must sign-off on the code and attend an induction session which provides information on the code's requirements.

IT security policy

The policy aims to minimise the risk of disruption, damage or degradation of our information technology infrastructure, and to manage risks if they arise.

All staff acknowledge that they will abide to the policy when they connect to the Office network.

Motivating work environment

Occupational health and safety

Our annual occupational health and safety (OH&S) management plan emphasises individual health, including a specifically designed strategy to identify and manage hazards associated with psychological health.

Activities in 2005-06 included:

- continuing 6-monthly OH&S workplace inspections of all areas of the workplace in addition to off-site agency work sites as necessary, to identify hazards and agree on solutions to remove or minimise them
- biennial check of electrical items as part of the new policy *Inspection of Electrical Equipment*
- free flu vaccination program with a 40 per cent take-up by staff
- establishment of a Health and Wellbeing Interest Group as a means of invigorating the corporate culture through greater staff participation in developing new health and wellbeing initiatives
- an organisational effectiveness and wellbeing project to identify, assess and manage the factors that impact on employees' health, wellbeing and their ability to successfully perform their role with the Office
- an investigation into the manual handling issues associated with audit staff transporting work equipment and files to audit locations
- continuing the regular Health and Wellbeing column in the Office newsletter *Insight* and to the Health and Wellbeing section on the Office's intranet.

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



Fleur O'Donnell with an Office-issued, pull-along bag which allows audit field staff to safely transport work files.

Merit and equity

We maintain the following programs and policies to ensure that 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 throughout the Office
- 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, expected behaviours and the complaints process
- half-day training sessions annually for all new staff and every 3 years for existing staff, provided by the Equal Opportunity Commission Victoria.

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.

Green Office Action Plan

During 2005-06, the Green Office Group achieved the following:

- continued to purchase 10 per cent green energy
- held a workshop for senior managers on greenhouse and climate change
- trialled an alternative recycled paper and have settled on Triotec Mondi business paper from Austria. Although not made in Australia, this paper has 100 per cent recycled content sandwiched between chlorine-free white paper. When Australian manufacturers produce a product of similar ecological value and quality we shall purchase locally
- started to use a light meter and energy meter received from Sustainability Victoria to better fine tune our energy use
- had input into developing “green” criteria for new office accommodation that must be found when our current lease expires early in 2007.

The Green Office Group is currently participating in the planning for the future accommodation needs of the Office. Consideration of environmental factors is a major element of this planning process.



Recognising achievement

We recognise special staff contributions formally at our annual staff conference. There are a number of categories in which staff recognition is awarded. They are:

- Achievement award for enhancing new ways of doing business
- Achievement award for outstanding service delivery
- Achievement award for demonstrating corporate values and enhancing corporate culture.

The following awards were presented at our 2005 staff conference held in November:

- Dean Anagnos – Enhancing new ways of doing business, for implementation of the new VOIP (voice over internet protocol) telephone system
- Steve Vlahos and Michelle Kaye – Enhancing new ways of doing business, for development of performance indicators audit methodology and associated training manuals
- Martin Thompson, Michelle Kaye, Craig Angove and Earnest Kim – Enhancing new ways of doing business, for contributing to the successful completion of a most significant project – IPSAM, in conjunction with the Queensland Audit Office
- Travis Derricott and Virginia Razga – Achievement award for demonstrating corporate values and enhancing corporate culture, for contributing as office bearers for the Office Social Club and its continued success in bringing staff together
- Kris Waring – Achievement award for demonstrating corporate values and enhancing of corporate culture, for encouraging staff to form a netball team which competed weekly during a lunchtime competition.

In June 2006, John Misiano retired from the Office after around 34 years of service. John's career with the Office included working on a number of high-profile performance audits and, recently, as a member of the Special Investigations unit he continued to apply his extensive auditing knowledge and skills to a broad range of audits. We thank John most sincerely for his valuable contribution to the work of the Office.



Russell Walker (left) presented John Misiano with a Certificate of Service to acknowledge John's long and valuable contribution to the Office.

Community volunteers

In March 2006, 3 members of staff (Virginia Razga, Travis Derricott and Christopher Cavanagh) assisted as volunteers during the 2006 Commonwealth Games in Melbourne. Their activities ranged from supervising athletes and media officials, participating in the opening and closing ceremonies and, for Christopher Cavanagh, a special honour of carrying the Queen's Baton during the lead-up to the opening ceremony.



Travis Derricott and Virginia Razga volunteered their services during the 2006 Commonwealth Games.

Office social club

Our social club promotes a spirit of friendship and teamwork among staff, encourages Office morale, and coordinates cultural and recreational activities for staff.

The club's activities in 2005-06 included monthly social get-togethers, a dinner dance, a Christmas party and several sports days. The money we raise from these events sponsors a child in Uganda through World Vision.

Outlook for 2006-07

In the coming year, we will:

- develop and launch a new corporate plan
- develop an Office business continuity plan
- further enhance our executive information and reporting systems
- implement our knowledge management plan with particular emphasis on better linkages of our internet and intranet
- implement the strategies outlined in our human resources plan to further foster and develop our staff, and plan for the future through ongoing succession planning
- continue to upgrade and implement our learning and development program to ensure that it meets the needs of our staff and our Office
- continue to work with our staff to reduce the environmental impact of our activities, with a major focus on reducing our energy consumption, purchasing more green power, reducing our waste and recycling more paper.

Financial management



Key achievements

- Our net financial result for the year was a surplus of \$909 074 (\$966 607, 2004-05) (see page 75).
- Audit fee income for the year was \$14.996 million (\$14.268 million, 2004-05) (see page 85).

In this section

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Financial performance

We are predominantly funded by parliamentary appropriations. Total appropriation for the Office was \$26.549 million in 2005-06.

Our 2005-06 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, processes and procedures, and particularly of business plan targets.

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.

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

Item	Actual 2001-02	Actual 2002-03	Actual 2003-04	Actual 2004-05	Actual 2005-06
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenues –					
Appropriation	22 613	23 380	12 259	10 083	10 472
Section 32 carry forward	-	-	-	296	760
Section 29	-	-	11 762	14 268	14 996
Special Appropriation	211	231	256	276	321
Other	146	151	130	320	190
Total revenues	22 970	23 762	24 407	25 243	26 739
Total expenses	22 053	23 464	23 366	24 277	25 830
Surplus	917	298	1 041	966	909

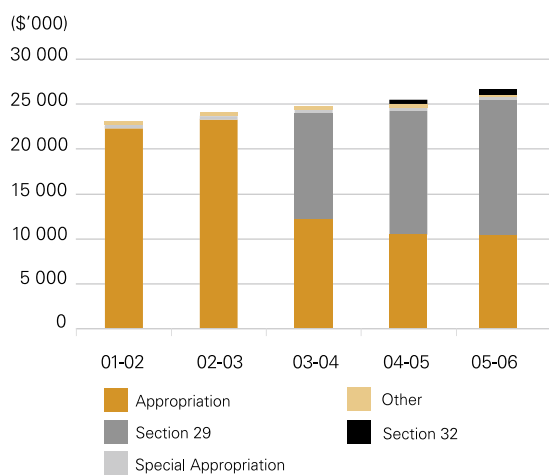
Note: The Office is permitted, under specific sections of the Financial Management Act 1994, to either annotate certain receipts or carry them forward to the following financial year.

Section 29: Under section 29, certain receipts can be 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.

Section 32: The Office is permitted, under section 32, to obtain approval from the Treasurer to carry forward a nominated amount from its annual appropriation to the following financial year where the amount is not applied or is unlikely to be applied in the current financial year.

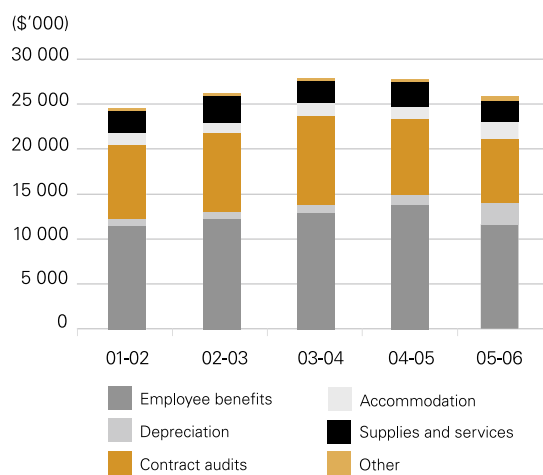
The following chart shows the source of our funding over the last 5 years.

Revenues



The following chart shows our expenditure trends over the last 5 years.

Expenses



Expenses from ordinary activities comprised:

Item	Actual 2001-02	Actual 2002-03	Actual 2003-04	Actual 2004-05	Actual 2005-06
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Expenses –					
Depreciation	664	794	909	972	685
Employee benefits	10 400	10 924	11 727	12 236	13 325
Contract audits	7 383	8 360	7 119	7 208	7 925
Accommodation	929	1 138	1 136	1 135	1 168
Supplies and services	2 549	2 103	2 338	2 532	2 485
Other	128	145	137	134	242
Total expenses	22 053	23 464	22 366	24 277	25 830

Output results

Total revenues and expenses for 2005-06 were attributed to outputs as follows:

Output Group	Revenues	Expenses	Net result
	(\$'000)	(\$'000)	(\$'000)
1. Parliamentary reports and services	11 153	10 450	703
2. Audit reports on financial statements	15 586	15 380	206
Total	26 739	25 830	909

Financial position

Our financial position at 30 June 2006 remains strong with total assets of \$12.177 million, total liabilities of \$4.633 million and net assets of \$7.544 million.

The table below shows asset and liability movement over 5 years, and indicates a slow but steady growth in the net assets of the Office:

Item	Actual 2001-02	Actual 2002-03	Actual 2003-04	Actual 2004-05	Actual 2005-06
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Current assets	3 180	2 898	2 987	4 773	4 433
Non-current assets	6 208	6 543	7 394	6 647	7 744
Total assets	9 388	9 441	10 381	11 420	12 177
Current liabilities	3 026	2 830	2 875	4 410	4 208
Non-current liabilities	1 999	1 983	1 837	374	425
Total liabilities	5 025	4 813	4 712	4 784	4 633
Net assets	4 363	4 628	5 669	6 636	7 544

Impacts of adopting Australian equivalents to IFRS

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 (A-IFRS).

The Office has taken appropriate steps in managing the transition to A-IFRS. The transition from superseded policies to A-IFRS has not had any effect on the Office's operating statement, balance sheet and cash flow statement.

Further information is contained in note 20 of the financial report (see page 99).

Consultancies

The Office engaged consultants on 16 projects during the year, costing \$247 990. Two consultancy projects exceeded \$50 000. A further \$84 715 was spent on audit and legal fees, resulting in a total Supplies and Services expense of \$322 705.

Outlook for 2006-07

In the coming year, we will:

- seek to live within the incomes appropriated to us
- ensure, where possible, that each output activity lives within budget
- maintain our overall financial position while maintaining operating capability over the long-term. This is largely to be achieved by ensuring that our asset base is maintained at optimal long-term efficiency
- upgrade MARS software to Version 6.5.



Kit Ching, Finance Officer, closely monitors financial transactions with external suppliers.

Financial report

for the year ended 30 June 2006

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A glossary of terms used in this financial report can be found on page 119.

Independent audit report

to the Victorian Auditor-General's Office

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report of the Victorian Auditor-General's Office for the financial year ended 30 June 2006, comprising the Operating Statement, Balance Sheet, Statement of Recognised Income and Expense and Cash Flow Statement (as set out on pages 75 to 100) included on the Victorian Auditor-General's Office's website. The Auditor-General is responsible for the integrity of the Auditor-General's Office's website. The audit report only refers to the report named below. An opinion is not provided on any other information which may have been hyperlinked to or from this report. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this website.

Scope

We have audited the financial report of the Victorian Auditor-General's Office for the financial year ended 30 June 2006 comprising the Operating Statement, Balance Sheet, Statement of Recognised Income and Expenses, Cash Flow Statement, notes to the financial report and the Accountable Officer and Chief Finance and Accounting Officer certification.

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

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented 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 report of the Victorian Auditor-General's Office is 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 2006 and of its performance for the financial year ended on that date
 - (ii) complying with Accounting Standards in Australia
- (b) other mandatory professional requirements in Australia.

Auditor's Independence Declaration

In relation to the independent audit for the year ended 30 June 2006, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001* or the *Financial Management Act 1994*
- (ii) no contraventions of any applicable code of professional conduct.



PITCHER PARTNERS



T J BENFOLD
Partner
Melbourne, 22 August 2006

Operating statement

For the financial year ended 30 June 2006

	Notes	2005-06 (\$)	2004-05 (\$)
Revenue from ordinary activities –			
Output appropriations	2 (b), 3	26 227 578	24 647 084
Special appropriations	2 (b)	320 972	276 000
Revenue from other parties	4	164 434	79 085
Resources received free of charge	4 (b)	26 400	241 075
	2 (b), 4	26 739 384	25 243 244
Expenses from ordinary activities –			
Employee entitlements	1 (j)	13 325 444	12 236 078
Contract audit services		7 925 212	7 207 930
Supplies and services		2 484 696	2 532 518
Rental expenses – Accommodation		1 168 056	1 194 693
Depreciation and amortisation	1 (e), 8 (b)	685 018	971 851
Capital assets charge	1 (n)	212 000	102 220
Net losses on disposal of plant and equipment		9 575	18 074
Borrowing costs	1 (m)	20 309	13 273
	2 (b), 5	25 830 310	24 276 637
Net result from continuing operations	12 (b)	909 074	966 607
Net result for the period		909 074	966 607

This operating statement should be read in conjunction with the accompanying notes.

Balance sheet

As at 30 June 2006

	Notes	2005-06 (\$)	2004-05 (\$)
Current assets –			
Cash		900	900
Receivables	6	4 260 518	4 650 922
Prepayments	7	171 884	121 320
Total current assets		4 433 302	4 773 142
Non-current assets –			
Receivables	6	5 889 563	5 082 874
Property, plant and equipment	8	1 854 573	1 563 645
Total non-current assets		7 744 136	6 646 519
Total assets		12 177 438	11 419 661
Current liabilities –			
Payables	9	917 034	1 456 072
Interest-bearing liabilities	10	144 083	31 100
Provisions	11	3 146 823	2 922 714
Total current liabilities		4 207 940	4 409 886
Non-current liabilities –			
Interest-bearing liabilities	10	221 244	212 098
Provisions	11	203 686	162 183
Total non-current liabilities		424 930	374 281
Total liabilities		4 632 870	4 784 167
Net assets		7 544 568	6 635 494
Equity –			
Contributed capital	12 (a)	350 127	350 127
Accumulated surplus	12 (b)	7 194 441	6 285 367
Total equity		7 544 568	6 635 494

This balance sheet should be read in conjunction with the accompanying notes.

Statement of recognised income and expense

For the financial year ended 30 June 2006

	Notes	2005-06	2004-05
		(\$)	(\$)
Net result for the period	12 (b)	909 074	966 607
Total recognised income and expense for the period		909 074	966 607

This statement of recognised income and expense should be read in conjunction with the accompanying notes.

Cash flow statement

For the financial year ended 30 June 2006

	Notes	2005-06 (\$)	2004-05 (\$)
Cash flows from operating activities –			
Receipts from government		27 838 206	24 921 722
Receipts from other parties		164 434	112 325
Payments to suppliers and employees		(26 464 061)	(23 991 414)
Capital asset charge		(212 000)	(102 220)
Borrowing costs expense		(20 309)	(13 273)
Goods and services tax recovered from the ATO		1 263 063	1 175 980
Goods and services tax paid to the ATO		(1 705 941)	(1 357 620)
Net cash inflow from operating activities	17	863 392	745 500
Cash flows from investing activities –			
Payments for property, plant and equipment	8 (b)	(1 097 302)	(903 112)
Proceeds from sale of property, plant and equipment		111 781	–
Net cash (outflow) from investing activities		(985 521)	(903 112)
Cash flows from financing activities –			
Proceeds from lease finance		293 477	211 416
Repayment of finance leases		(171 348)	(53 804)
Net cash inflow from financing activities		122 129	157 612
Net increase (decrease) in cash held		–	–
Cash at beginning of the financial year		900	900
Cash at end of the financial year		900	900

The cash flow statement is inclusive of the goods and services tax, where applicable.

This cash flow statement should be read in conjunction with the accompanying notes.

Notes to the financial report

For the financial year ended 30 June 2006

1. Summary of accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared on an accrual basis in accordance with the *Financial Management Act 1994*, Australian Accounting Standards and Urgent Issues Group Interpretations. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS).

The financial report was authorised by for issue by JW Cameron (Auditor-General) on 18 August 2006.

Basis of preparation

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS, the Victorian Auditor-General's Office (Office) management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by the Office management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed throughout the notes in the financial report.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The Office changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the Office's financial position, financial performance and cash flows is discussed in note 20.

The Office has also elected to apply Accounting Standard AASB 2005-4 and 2005-6 *Amendments to Accounting Standards* (June 2005), even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2006.

The accounting policies set out below have been applied in preparing the financial report for the year ended 30 June 2006, the comparative information presented in this financial report for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004, the Office's date of transition, except for the accounting policies in respect of financial instruments. The Office has not restated comparative information for financial instruments, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information and the impact of the changes in these accounting policies are discussed further in note 1(t).

(a) **Reporting entity**

The financial report includes all the controlled activities of the Office.

Administered resources

The 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 19.

Non-current assets

All non-current assets controlled by the Office are reported in the balance sheet. 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 revenue.

(c) **Outputs of the Office**

The Office has 2 major output groups:

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

Information about Office output groups is set out in note 2.

(d) **Property, plant and equipment**

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.

Non-current assets are measured at cost, less accumulated depreciation and impairment.

(e) **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:

	2005-06	2004-05
	(Years)	(Years)
Furniture and fittings	10	10
Computer hardware	4	3
Computer software	3	2.5
Office equipment	5	4
Motor vehicles – Leased	3	3

From 1 July 2005, the Office amended its depreciation basis for computer hardware, computer software and office equipment to the rates disclosed.

(f) 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 2001-02, 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, which expires in March 2007.

(g) 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 operating statement 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 Commonwealth Bank of Australia, 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, and reflects the leases in its financial report accordingly.

(h) Receivables

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

(i) 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.

(j) Employee entitlements

Provision is made for entitlements accruing to employees for wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made for employee entitlements expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement, and are recognised in the balance sheet as current liabilities. This includes annual leave, and provision for long service leave for employees whose terms of service is in excess of 7 years.

Provisions made for employee entitlements which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Office for services provided by employees up to reporting date. This element of the provision for annual leave is recognised in the Balance Sheet as a current liability, because the Office does not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The provision for long service leave for employees, whose terms of service is greater than 7 years, is recognised in the Balance Sheet as a current liability, because the Office does not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

Provision for long service leave for employees, whose terms of service is between 0 and 7 years, is recognised in the Balance Sheet as a non-current liability.

(i) Performance incentive payments

The executive officers' performance incentive benefits for the performance review period to 30 June 2006, payable within the next financial year, are classified as a current liability in the balance sheet.

(ii) Superannuation

The amount charged to the operating statement for defined benefit plan superannuation represents the contributions made by the Office to the superannuation plan for the services of current Office staff. Superannuation contributions are made to the plans based on the relevant rules of each plan.

The Office does not recognise any defined benefit liability for any superannuation plan because the Office has no legal or constructive obligation to pay future benefits for its employees; its only obligation is to pay superannuation contributions as they fall due. The Department of Treasury and Finance (DTF) administers and discloses the state's defined benefit liabilities for all state employees who are members of that plan in its financial report.

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

(k) Goods and services tax

Revenues, expenses and assets are recognised in the financial statements net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, in which circumstance it is recognised as part of the cost of acquisition of an asset or as part of an item of expense, or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are reported in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(l) Interest-bearing liabilities

Interest-bearing liabilities are recorded in the balance sheet initially at fair value, net of transaction costs.

Subsequent to initial recognition, interest-bearing liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the operating statement over the period of the interest-bearing liability using the effective interest rate method.

(m) Borrowing costs

Borrowing costs are recognised in the financial statements as expenses in the period in which they are incurred.

Borrowing costs include interest on short-term and long-term borrowings, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowing and finance lease charges.

(n) Capital asset charge

The capital asset charge represents the opportunity cost of capital invested in the non-current physical assets used in the provision of outputs. The charge for 2005-06 is calculated on the budgeted carrying amount of non-current physical assets. The charge for 2004-05 was calculated on the actual 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 UIG Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*, appropriations for additions to net assets have been designated as contributed capital.

Based on Department of Treasury and Finance *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. The contributed capital balance is disclosed in note 12.

(q) Revenue recognition

Revenue becomes controlled by the Office when it has been appropriated by parliament and the appropriation is applied by the Treasurer. 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. As a result of a legislative change effective from 7 June 2006, additional revenue was recognised as available for appropriation but was not applied.

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

Revenue from the outputs the Office provides to parliament is recognised when those outputs have been delivered and the Minister for Finance and the Treasurer have certified delivery of those outputs in accordance with specified performance criteria.

(r) Functional and presentation currency

The functional currency of the Office is the Australian dollar, which has also been identified as the presentation currency of this Office.

(s) Rounding

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

(t) Comparative information - Financial instruments

Comparative information for financial instruments within the scope of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, as permitted on the first-time adoption of A-IFRS has not been restated. The adoption of these standards will not result in a change in the Office's accounting policies relating to its financial instruments which includes payables and receivables.

2. Office outputs

(a) Output groups

(1) Parliamentary reports and services:

The following contribute to the output group:

- an examination of the state's finances
- the results of annual financial statement audits
- major programmed audits
- other audits on specific issues
- any investigations following inquiries by members of parliament and the general public
- other matters that merit investigation by this Office
- broader contributions to enhancing public accountability.

(2) Audit reports on financial statements:

The following contribute to the output group:

- the conduct of audits on the financial statements of the state, its agencies and local government
- in the case of certain public bodies conduct of audits on the non-financial performance indicators
- the review of the estimated financial statements incorporated within the state's annual budget
- matters arising out of the annual financial statement audit process that are reported to the responsible minister and senior agency management.

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.

All resources controlled by the Office in order to carry out its functions have been included in the financial report.

External contractors are appointed by the Auditor-General, following a process of contestability, to assist in the conduct of performance and financial statement 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.

The Office is predominantly funded by parliamentary appropriations.

2(b). Controlled revenue and expenses

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue –						
Output appropriations	10 471 932	10 083 000	14 995 646	14 268 084	25 467 578	24 351 084
S. 32 carry forward	320 000	296 000	440 000	-	760 000	296 000
Special appropriations	246 614	245 514	74 358	30 486	320 972	276 000
Revenue from other parties	100 779	55 154	63 655	23 931	164 434	79 085
Resources received free of charge	13 570	79 555	12 830	161 520	26 400	241 075
Total revenue	11 152 895	10 759 223	15 586 489	14 484 021	26 739 384	25 243 244
Expenses –						
Employee entitlements	6 778 638	6 682 379	6 546 806	5 553 699	13 325 444	12 236 078
Contract audit services	1 192 922	1 143 630	6 732 290	6 064 300	7 925 212	7 207 930
Supplies and services	1 145 637	1 037 614	1 083 229	1 286 198	2 228 866	2 323 812
Printing	255 830	205 032	-	3 674	255 830	208 706
Rental expenses - Accommodation	600 381	394 249	567 675	800 444	1 168 056	1 194 693
Depreciation and amortisation	352 099	320 711	332 919	651 140	685 018	971 851
Capital assets charge	108 968	33 733	103 032	68 487	212 000	102 220
Net losses on disposal of plant and equipment	4 922	5 964	4 653	12 110	9 575	18 074
Borrowing costs	10 439	4 380	9 870	8 893	20 309	13 273
Total expenses	10 449 836	9 827 692	15 380 474	14 448 945	25 830 310	24 276 637
Net result for the period	703 059	931 531	206 015	35 076	909 074	966 607

Controlled assets and liabilities

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Assets –						
Current assets	2 278 717	2 195 645	2 154 585	2 577 497	4 433 302	4 773 142
Non-current assets	3 980 486	3 057 399	3 763 650	3 589 120	7 744 136	6 646 519
Total assets	6 259 203	5 253 044	5 918 235	6 166 617	12 177 438	11 419 661
Liabilities –						
Current liabilities	2 162 881	2 028 548	2 045 059	2 381 338	4 207 940	4 409 886
Non-current liabilities	218 414	172 169	206 516	202 112	424 930	374 281
Total liabilities	2 381 295	2 200 717	2 251 575	2 583 450	4 632 870	4 784 167
Net assets	3 877 908	3 052 327	3 666 660	3 583 167	7 544 568	6 635 494

3. Summary of compliance with annual parliamentary appropriations

(a) 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					
	Section 3(2)		Section 32			2004-05			2004-05				
	2004-05	2005-06	2004-05	2005-06		2005-06	2005-06						
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)					
Provision for outputs	10 795 932	10 403 000	-	16 854 939	14 820 000	760 000	296 000	28 410 871	25 519 000	26 227 578	24 647 084	2 183 293	871 916
Additions to net assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	10 795 932	10 403 000	-	16 854 939	14 820 000	760 000	296 000	28 410 871	25 519 000	26 227 578	24 647 084	2 183 293	871 916

Controlled -

Provision for outputs
Additions to net assets

Total

See note 2 for the break-up of Annual appropriation by output group.

Parliamentary appropriations

	2005-06	2004-05
Appropriation Act	(\$)	(\$)
Annual appropriation - Budget Paper No. 3	10 801 000	10 403 000
Less, Workcare adjustment	5 068	-
	10 795 932	10 403 000
<i>Financial Management Act 1994</i>		
Section 29 - Estimate in Budget Paper No. 3	15 065 000	14 820 000
Plus, variance from budget which includes the impact of the 7 June legislative change	1 789 939	-
	16 854 939	14 820 000
Section 32		
Brought forward	760 000	296 000
	760 000	296 000
Total Parliamentary Authority	28 410 871	25 519 000
Appropriations applied	26 227 578	24 647 084
Variance	2 183 293	871 916

The variance in provision for outputs \$2 183 293 (2004-05, \$871 916) primarily comprises a section 29 revenue of \$1 407 293 (2004-05, \$111 916) not applied and a section 32 carry-forward of \$76 000 (2004-05, \$760 000).

3. Summary of compliance with annual parliamentary appropriations – continued

		2005-06	2004-05
		(\$)	(\$)
(b) Special appropriation			
Authority	Purpose		Appropriation applied
Section 94A(6) of the <i>Constitution Act 1975</i>	Costs associated with Auditor-General	320 972	276 000

4. Revenue

		2005-06	2004-05
		(\$)	(\$)
Revenue by source			
Revenue from government –			
Output appropriations		26 227 578	24 647 084
Special appropriations		320 972	276 000
		26 548 550	24 923 084
Revenue from other parties –			
Other -			
Secondment of staff (a)		130 791	-
Sale of parliamentary reports		33 406	17 827
Recoupment of expenses		237	21 107
Multimedia Victoria		-	40 000
Miscellaneous revenue		-	151
		164 434	79 085
Resources received free of charge –			
Revenue from government (b)		26 400	238 575
Revenue from other parties		-	2 500
		26 400	241 075
Total revenue		26 739 384	25 243 244

(a) From time to time, staff are seconded to other Victorian government departments and agencies and other state government Auditor-General's Offices on the basis of full cost recovery.

(b) This represents the cost of the external audits of the Victorian Auditor-General's Office. The financial and performance auditors are appointed by parliament and paid by the Public Accounts and Estimates Committee in accordance with the Audit Act 1994. In 2004-05, both the financial statement and performance audits were performed, whereas in 2005-06 only a financial statement audit was performed. Refer note 13.

5. Expenses

	2005-06	2004-05
(a) Expenses from ordinary activities	(\$)	(\$)
Expenses –		
Depreciation –		
Furniture and fittings	3 355	2 690
Computer hardware and software	389 843	723 676
Office equipment	15 338	13 955
Total depreciation	408 536	740 321
Amortisation of –		
Leasehold improvements	225 908	205 737
Motor vehicles	50 574	25 793
Total amortisation	276 482	231 530
Total depreciation and amortisation	685 018	971 851
Capital charge on assets	212 000	102 220
Net losses on disposal of plant and equipment	9 575	18 074
Employee entitlements	13 325 444	12 236 078
Contract audit services	7 925 212	7 207 930
Rental expense – Accommodation	1 168 056	1 194 693
Supplies and services –		
Recruitment and training	570 645	647 681
Information technology	411 222	335 997
Information management	489 234	449 442
Consultants	332 705	417 818
Other office expenses	680 890	681 580
Borrowing costs –		
Interest and finance charges paid/payable on motor vehicles under finance leases	20 309	13 273
Total expenses	25 830 310	24 276 637

(b) Revisions of accounting estimates

During the year, the estimated total useful lives to the computer software, computer hardware and office equipment were revised and extended.

	Revised lives
Computer software	From 2.5 to 3 years
Computer hardware	From 3 to 4 years
Office equipment	From 4 to 5 years

The net effect of the changes in the current financial year was a decrease in depreciation expense of the Office of \$99 000.

Assuming the assets are held until the end of their estimated useful lives, depreciation in future years in relation to these assets will be decreased by the following amounts:

Year ending 30 June	\$
2007	17 000
2008	135 000
2009	13 000

6. Receivables

	2005-06	2004-05
	(\$)	(\$)
Current –		
Amounts owing from Victorian Government	4 207 940	4 409 886
GST receivable	42 785	224 551
Other debtors	9 793	16 485
	4 260 518	4 650 922
Non-current –		
Amounts owing from Victorian Government	5 889 563	5 082 874
	5 889 563	5 082 874

The amount owing from Victorian Government \$10 097 503 (2004-05, \$9 492 760) 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 \$10 097 503 (2004-05, \$9 492 760) of which \$4 207 940 (2004-05, \$4 409 886) is likely to be drawn in the next financial year and is reported accordingly as a current receivable.

7. Prepayments

	2005-06	2004-05
	(\$)	(\$)
Current –		
Contracted support staff	–	18 451
Information management	9 212	5 500
Software and hardware maintenance contracts	136 025	93 575
Other	26 647	3 794
	171 884	121 320

8. Property, plant and equipment

	2005-06	2004-05
	(\$)	(\$)
(a) Cost accumulated amortisation and depreciation		
Leasehold improvements –		
At cost	1 840 054	1 833 864
Less: Accumulated amortisation	(1 668 882)	(1 442 974)
Total leasehold improvements	171 172	390 890
Furniture and fittings –		
At cost	457 150	454 905
Less: Accumulated depreciation	(430 336)	(426 981)
Total furniture and fittings	26 814	27 924
Computer software –		
At cost	1 788 056	1 118 754
Less: Accumulated depreciation	(904 024)	(669 245)
Total computer software	884 032	449 509
Computer hardware –		
At cost	1 821 643	1 697 056
Less: Accumulated depreciation	(1 438 436)	(1 283 373)
Total computer hardware	383 207	413 683
Office equipment –		
At cost	181 622	180 122
Less: Accumulated depreciation	(155 599)	(140 261)
Total office equipment	26 023	39 861
Motor vehicles – Leased –		
At cost	410 158	268 857
Less: Accumulated amortisation	(46 833)	(27 079)
Total motor vehicles - Leased	363 325	241 778
Total property, plant and equipment	1 854 573	1 563 645

8. Property, plant and equipment – continued

	Leasehold improvements	Furniture and fittings	Computer software	Computer hardware	Office equipment	Motor vehicles - Leased	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
(b) Movements in property, plant and equipment							
Carrying amount –							
Balance at 1 July 2004	547 975	7 170	379 455	618 141	39 911	85 310	1 677 962
Additions	48 652	27 628	350 311	251 456	13 649	211 416	903 112
Disposals	-	(4 700)	(12 399)	(358 798)	(28 241)	(31 183)	(435 321)
Disposals – Accumulated depreciation	-	604	12 399	345 515	27 546	2 028	388 092
Adjustments to opening balances (a)	-	(88)	-	788	951	-	1 651
Depreciation/amortisation expense	(205 737)	(2 690)	(280 257)	(443 419)	(13 955)	(25 793)	(971 851)
Balance at 1 July 2005	390 890	27 924	449 509	413 683	39 861	241 778	1 563 645
Additions	6 190	2 245	669 302	124 588	1 500	293 477	1 097 302
Disposals	-	-	-	-	-	(152 177)	(152 177)
Disposals – Accumulated depreciation	-	-	-	-	-	30 821	30 821
Depreciation/amortisation expense	(225 908)	(3 355)	(234 779)	(155 064)	(15 338)	(50 574)	(685 018)
Balance at 30 June 2006	171 172	26 814	884 032	383 207	26 023	363 325	1 854 573

(a) As a result of an exercise undertaken to ensure the physical existence of all fixed assets as at 30 June 2004 and their matching to the detailed fixed asset register, a number of adjustments were recognised and had to be made in the 30 June 2005 financial year to figures previously included in the general ledger. These adjustments in total were immaterial to the assets of the Office.

9. Payables

	2005-06	2004-05
	(\$)	(\$)
Creditors	574 051	918 852
Other payables	342 983	537 220
	917 034	1 456 072

10. Interest-bearing liabilities

	2005-06	2004-05
	(\$)	(\$)
Current –		
Unsecured liabilities		
Lease liability (a)	144 083	31 100
	144 083	31 100
Non-current –		
Unsecured liabilities		
Lease liability (a)	221 244	212 098
	221 244	212 098
Aggregate carrying amount of interest-bearing liabilities –		
Current	144 083	31 100
Non-current	221 244	212 098
	365 327	243 198

(a) Refer notes 1(l) and 14.

11. Provisions

	2005-06	2004-05
	(\$)	(\$)
Current –		
Employee entitlements –		
Annual leave (a) (b)	986 625	902 656
Long service leave (a) (c)	1 968 046	1 830 533
Performance Incentive Scheme	192 152	189 525
	3 146 823	2 922 714
Non-current –		
Employee entitlements –		
Long service leave (a)	203 686	162 183
	203 686	162 183
Aggregate carrying amount of provisions –		
Current	3 146 823	2 922 714
Non-current	203 686	162 183
	3 350 509	3 084 897

11. Provisions – continued

	2005-06	2004-05
	(\$)	(\$)
(a) Refer note 1(j)		
(b) Annual Leave		
Short term annual leave that falls due within 12 months after the end of the period measured at nominal value	702 189	902 656
Other long-term annual leave that does not fall due within 12 months after the end of the period measured at present value	284 436	-
	986 625	902 656
(c) Long Service Leave		
Long service leave (relating to service greater than 7 years) that is estimated will be taken in the next 12 months measured at nominal value	1 363 404	1 101 621
The balance of long service leave (relating to service greater than 7 years) measured at present value	604 642	728 912
	1 968 046	1 830 533

Note: Number of employees at 30 June 2006 was 148 (30 June 2005, 148).

12. Equity and movements in equity

	2005-06	2004-05
	(\$)	(\$)
(a) Contributed capital		
Balance at beginning of the year	350 127	350 127
Balance at end of the year	350 127	350 127
(b) Accumulated surplus		
Balance at beginning of the year	6 285 367	5 318 760
Net result for the period	909 074	966 607
Balance at end of the year	7 194 441	6 285 367
Total equity at the end of the financial year	7 544 568	6 635 494

13. Auditors' remuneration

	2005-06	2004-05
	(\$)	(\$)
Financial statement audit	26 400	26 400

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.

13. Auditors' remuneration – continued

	2005-06	2004-05
	(\$)	(\$)
Performance audit	-	212 175

A performance audit of the Office is undertaken every 3 years and the cost of these audits is paid for by parliament. In the year ended 30 June 2005, the Public Accounts and Estimates Committee, as required by section 19 of the *Audit Act 1994*, recommended to parliament that a performance audit of the Victorian Auditor-General's Office be undertaken. Mr John Phillips of Acumen Alliance was appointed in accordance with the Act and undertook the audit.

14. Commitments

	Minimum future lease payments		Present value of minimum future lease payments	
	2005-06	2004-05	2005-06	2004-05
	(\$)	(\$)	(\$)	(\$)
(a) Finance leases				
Not later than 1 year	164 234	69 615	158 123	67 766
Later than 1 year but less than 5 years	235 216	198 525	208 411	176 125
Later than 5 years	-	-	-	-
Minimum lease payments	399 450	268 140	366 534	243 891
Less future finance charges	34 123	24 942	-	-
Present value of minimum lease payments	365 327	243 198	366 534	243 891

Included in the financial statements as:

Current interest-bearing liabilities (<i>note 10</i>)	144 083	31 100
Non-current interest-bearing liabilities (<i>note 10</i>)	221 244	212 098
Total interest-bearing liabilities	365 327	243 198

Refer note 1(l) for further information.

(b) Operating leases

Not later than 1 year	978 738	1 428 887
Later than 1 year but less than 5 years	-	1 052 904
Later than 5 years	-	-
Total	978 738	2 481 791

The above operating leases relate primarily to leasing costs associated with the Office's accommodation valued at current rental rates. The accommodation lease expires within the next financial year. A new lease will be entered into before the current lease expires in the current premises or in a new location.

(c) Contract audits

Commitments for the payment of future auditing services under contracts in existence at the reporting date, payable as follows:

Not later than 1 year	2 560 249	3 011 183
Later than 1 year but less than 5 years	376 657	1 827 195
Total	2 936 906	4 838 378

15. 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 in total 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 benefits, long service and retirement benefits paid.

A number of executive officer vacancies had an impact on executive numbers and total remuneration figures.

Income band	Total remuneration		Base remuneration	
	2005-06 (no.)	2004-05 (no.)	2005-06 (no.)	2004-05 (no.)
\$80 000 to \$89 999	-	-	-	1
\$90 000 to \$99 999	-	-	-	1
\$100 000 to \$109 999	-	-	1	2
\$110 000 to \$119 999	2	3	2	7
\$120 000 to \$129 999	-	8	4	5
\$130 000 to \$139 999	5	3	6	2
\$140 000 to \$149 999	5	3	2	-
\$150 000 to \$159 999	3	-	1	2
\$160 000 to \$169 999	2	3	1	2
\$170 000 to \$179 999	-	-	1	-
\$180 000 to \$189 999	1	2	1	-
\$190 000 to \$199 999	1	-	-	1
\$210 000 to \$219 999	-	-	1	-
\$220 000 to \$229 999	-	1	-	-
\$230 000 to \$239 999	1	-	-	-
Total numbers	20	23	20	23
Total amount	\$3 026 469	\$3 393 942	\$2 811 816	\$3 048 935

16. Financial instruments

(a) Financial risk management objectives

The Office's activities do not expose it to significant financial risks of changes in foreign currency exchange rates and interest rates. The Office does not enter into derivative financial instruments to manage any exposure to interest rate risk.

The Office does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The policies for managing these risks are discussed in more detail below.

(b) 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
(i) Financial assets		
Amounts owing from Victorian Government	Receivables from the Public Account are carried at nominal amounts.	The Victorian Government has established terms and conditions that allow amounts held in Receivables from the Public Account to be drawn down by the Office to meet its normal trading obligations as and when they fall due.
Controlled debtors	Controlled 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.	Controlled debtors are to be settled within 30 days from the date of issue of invoice.
(ii) Financial liabilities		
Controlled creditors and other payables	Controlled liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Office.	Controlled trade liabilities are normally settled on government terms of 30 days or as agreed with the supplier on specific contractual terms.

(c) 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.

(d) 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.

(e) Interest rate risk exposures

The Office's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table. The Office intends to hold fixed rate assets and liabilities to maturity.

16. Financial instruments – continued

(e) Interest rate risk exposures – continued

2005-06	Notes	Weighted average interest rate	Fixed interest maturing in –				Non-interest-bearing	Total
			Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years		
			(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Financial assets –								
Cash and deposits		-	-	-	-	-	900	900
Receivables	6	-	-	-	-	-	10 150 081	10 150 081
		-	-	-	-	-	10 150 981	10 150 981
Financial liabilities –								
Payables	9	-	-	-	-	-	917 034	917 034
Lease liabilities	10	6.50%	-	144 083	221 244	-	-	365 327
		-	-	144 083	221 244	-	917 034	1 282 361
Net financial assets (liabilities)			-	(144 083)	(221 244)	-	9 233 947	8 868 620

2004-05	Notes	Weighted average interest rate	Fixed interest maturing in –				Non-interest-bearing	Total
			Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years		
			(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Financial assets –								
Cash and deposits		-	-	-	-	-	900	900
Receivables	6	-	-	-	-	-	9 733 796	9 733 796
		-	-	-	-	-	9 734 696	9 734 696
Financial liabilities –								
Payables	9	-	-	-	-	-	1 456 072	1 456 072
Lease liabilities	10	6.61%	-	31 100	212 098	-	-	243 198
		-	-	31 100	212 098	-	1 456 072	1 699 270
Net financial assets (liabilities)			-	(31 100)	(212 098)	-	8 278 624	8 035 426

17. Reconciliation of net result for the period to net cash inflow from operating activities

	2005-06	2004-05
	(\$)	(\$)
Result from ordinary activities	909 074	966 607
Depreciation and amortisation	685 018	971 851
Loss on disposal of non-current assets	9 575	18 074
Value of finance leases disposed of	-	29 155
Other adjustments to fixed asset balances	-	(1 651)
Changes in operating assets and liabilities –		
(Increase) in receivables	(416 285)	(1 101 191)
(Increase) in prepayments	(50 564)	(51 776)
Increase (decrease) in payables	(539 038)	171 872
Increase (decrease) in provisions	265 612	(257 441)
Net cash inflow from operating activities	863 392	745 500

18. Disclosures relating to ministers and Accountable Officers

Given the independent relationship of the Auditor-General with the parliament, no government minister has any direct responsibility for the operations of the Victorian Auditor-General's Office. The following disclosures are made relating to the Accountable Officer in accordance with the Directions of the Minister for Finance under the *Financial Management Act 1994*:

(i) Names

Persons who held the Accountable Officer position in relation to the Office at any time during the reporting period are:

JW Cameron, Auditor-General
EM Hay, Deputy Auditor-General (Acting, for 40 days during the period 1 July 2005 to 30 June 2006)
RA Walker, Assistant Auditor-General (Acting, for 2 days during the period 1 July 2005 to 30 June 2006)

(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:

\$290 000 - \$299 999 (2004-05, \$250 000 - \$259 999)

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

(iii) Other transactions

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

19. Administered items

	2005-06	2004-05
	(\$)	(\$)
Administered revenue –		
Audit fees - S.29	16 854 939	14 233 170
Special review	220 000	-
Sale of fixed assets	-	4 520
Royal Melbourne Show	8 250	3 750
Miscellaneous income	5 573	19 358
Total revenue	17 088 762	14 260 798
Administered expenses –		
Payments into the Consolidated Fund	17 080 512	14 257 048
Royal Melbourne Show (grant funded)	8 250	3 750
Total expenses	17 088 762	14 260 798
Revenue less expenses	-	-
Administered assets –		
Debtors (a)	1 936 933	356 730
Work-in-progress	1 858 416	1 667 598
Total assets	3 795 349	2 024 328
Administered liabilities –		
Amounts owing to the state	3 795 349	2 024 328
Total liabilities	3 795 349	2 024 328
Net assets	-	-
<i>(a) Aged debtors:</i>		
Current	1 819 398	-
Overdue between 30 to 60 days	112 739	356 730
Overdue beyond 60 days	4 796	-
	1 936 933	356 730

The 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.

20. Impact of the adoption of Australian equivalents to International Financial Reporting Standards

The Office changed its accounting policies, other than its accounting policies for financial instruments, on 1 July 2004 to comply with Australian equivalents to International Financial Reporting Standards (A-IFRS). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, with 1 July 2004 as the date of transition. The Office changed its accounting policies for financial instruments effective from 1 July 2005 (refer note 1(m)).

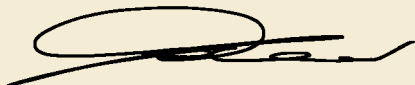
The transition from superseded policies to A-IFRS has not had any effect on the Office's operating statement, balance sheet and cash flow statement.

Accountable Officer and Chief Finance and Accounting Officer certification

We certify that the attached financial report for the Victorian Auditor-General's Office has 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 operating statement, balance sheet, cash flow statement and notes to and forming part of the financial report, presents fairly the financial transactions during the year ended 30 June 2006 and financial position of the Office as at 30 June 2006.

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



JW Cameron
Auditor-General

Melbourne
18 August 2006



SG Odachowski
Chief Finance and Accounting Officer

Melbourne
18 August 2006

Appendixes

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Appendix 1

Report of independent performance auditor – Recommendations and actions

The following table summarises the recommendations of the independent performance auditor which were tabled in a report to parliament in December 2004. Our comments on the recommendations and the status of action taken to implement the recommendations at 30 June 2006 are also summarised.

Governance	
Recommendation	Comment and status at 30 June 2006
1. Purpose and objectives of the Office.	No recommendation made.
2. Use of a consistent template for all group business plans.	Accepted. Action completed.
3. Continue to analyse processes for compiling and ensuring the accuracy of internal business scorecard.	Accepted. Action completed.
4. Cost and timeline measures to be regularly monitored and reinforced by appropriate training.	Accepted. Action completed.
5. In respect of the Office's internal audit functions: <ul style="list-style-type: none"> • the audit committee should amend its charter, formally adopt an internal audit charter and improve its annual self-assessment process • the scope of the annual internal audit program should be reviewed to possibly include controls over areas of high-risk to the operational groups • the audit committee should monitor implementation of internal audit recommendations • a process should be implemented whereby the audit committee monitors and ensures recommendations from all assurance activities commissioned by the committee are being implemented • review the composition of the audit committee. 	Accepted. Action completed. Accepted. Action completed. Accepted. Action completed. Accepted. Action completed. Accepted. Action completed.
6. Continue consideration of the streamlining of contracting processes.	Under review.
7. Follow-up on previous performance audit.	No recommendation made.
8. Appointment of performance auditor.	Not applicable to the Office.
Strategic audit planning	
Recommendation	Comment and status at 30 June 2006
9. The annual planning cycle should be amended.	Subject to resolution by the Public Accounts and Estimates Committee (PAEC).
10a. Additional training and guidance should be provided to sector directors.	Accepted. Action is ongoing.
10b. A documented, whole-of-government scan of major risks/themes should precede the development of final portfolio sector plans.	Accepted. Action completed.
10c. There should be a more formal assessment of whole-of-government and/or departmental risk management plans.	Accepted. Action is ongoing.
10d. Sector audit plans should explain the prioritisation of "areas of audit interest" by reference to the selection criteria.	Accepted. Action completed.
10e. Consideration should be given to developing a specific information technology plan.	Accepted. Action completed.

Stakeholder relationships

Recommendation	Comment and status at 30 June 2006
11. The annual consultative process between the Auditor-General and the PAEC should be amended.	Changes proposed to the PAEC. Currently under consideration by the PAEC.
12. Survey of users.	No recommendation made.
13. Surveys should incorporate an opportunity for agencies to comment on good practice guides issued to date.	Under review.
14. Ensure sufficient stakeholder interest in future “occasional papers”.	Noted.

Financial audit

Recommendation	Comment and status at 30 June 2006
15. Continue investment in developing methods, guidance and training.	Accepted. Action completed.
16. Review the audit methodology review project (EFINA).	Accepted. Action completed.
17. Improved assessment of internal audit of agencies.	Accepted. Action completed.
18. More timely independent reviews of financial audits.	Accepted. Action completed.
19. Particular emphasis on work paper consistency and clarity be incorporated into independent quality reviews.	Accepted. Action in progress.
20. Implement a formal computer risk management human resource strategy and expand the use of computer interrogation packages.	Accepted. Action is ongoing.

Performance audit

Recommendation	Comment and status at 30 June 2006
21. Accelerate existing efforts to develop methods and guidance.	Accepted. Development in progress.
22. Consider conducting audits in stages to ensure timeliness.	Accepted in principle. To be considered on an audit-by-audit basis.
23. Introduce “change schedule” for any modifications to original scope of performance audits.	Accepted. Action in progress.
24a to d. Continued attention to: <ul style="list-style-type: none"> • development of audit method and guidance material • establishing clear and relevant audit criteria • management of audit costs, progress against plan and achievement of time lines • communication with clients. 	Accepted. Action in progress.
25. Complete review and reintroduction of post-audit debrief form.	Accepted. Action in progress.
26. Update EMPERA and enforce use of EMPERA on all performance audits.	Accepted. Action in progress.

Special reviews

Recommendation	Comment and status at 30 June 2006
27. Independent quality reviews.	No recommendation made.
28. Appropriate mix of resources.	No recommendation made.
29. Include conclusions of independent reviews in KPIs.	Under review.
30. Inclusion of special reviews in performance audit business improvement project.	Accepted. Action in progress.
31. Refer to recommendation 26 on EMPERA.	Accepted in principle. Action in progress.
32. Greater emphasis should be placed on the importance of allocating appropriately skilled staff from all operational groups to special reviews.	Accepted in principle. To be considered on an audit-by-audit basis.

Business management

Recommendation	Comment and status at 30 June 2006
33. Define standard suite of MARS management reports and conduct ongoing MARS training.	Accepted. Action in progress.
34. Consider acquisition of centralised scheduling system for financial audit.	Accepted. Action completed.
35. Review practice of “write-ons and offs” for financial audit fees.	Under review.
36. Develop formal business continuity plan.	Accepted. Action in progress.
37. Develop a human resource strategic plan.	Accepted. Action completed.
38. Continue current recruiting practices with ongoing emphasis on certain areas.	Accepted. No action required.
39. Improve the analysis of staff turnover.	Accepted. Action in progress.
40. Develop formal succession planning strategies.	Accepted. Action in progress.
41. Increased attention on the results of staff surveys, staff assessments and reinforcing the Office’s vision, values and plans to staff.	Accepted. Action is ongoing.
42. Consider external consultants to conduct surveys of agencies and parliamentarians.	Accepted. Action in progress.
43. Consider additional KPIs and reporting these to the PAEC.	Under review.
44. Disclose cost of performance audits in performance audit reports.	Accepted. Action completed.

Audit Act

Recommendation	Comment and status at 30 June 2006
45. Section 7A of the Act adequately provides for the development of the annual plan. Accordingly, the need for section 15(3) of the Act should be reviewed.	Under review.

Appendix 2

Report on the 2004-05 Budget Outcomes – Recommendations and actions

The following recommendations relating to our Office were contained in the Public Accounts and Estimates Committee's April 2006 *Report on the 2004-05 Budget Outcomes*. Our comments on the recommendations and the status of action taken to implement the recommendations at 30 June 2006 are set out below.

Enhancing transparency of government advertising and promotional programs

Recommendation	Comment and status at 30 June 2006
23. To enhance the transparency of government advertising and promotional programs, all departments be required to review their accounts relating to advertising and promotion to ensure that communication activities are appropriately reported on an annual basis.	Accepted. We have completed a review of any accounts relating to promotion and will continue to ensure that any expenditure of this nature, where material, is appropriately reported in the Office's annual report.

Quantifying savings generated from implementing audit recommendations

Recommendation	Comment and status at 30 June 2006
27. To demonstrate the impact that audits have had in terms of generating cost savings from the adoption of audit recommendations, the Victorian Auditor-General's Office give consideration to: (a) evaluating the benefits of topics for inclusion in the annual plan in terms of the ability to generate potential cost savings;	Rejected. We have reviewed the adequacy of our criteria for determining topics for inclusion in our annual plan, and believe that they already allow for effective consideration of all potential audit objectives and outcomes, including potential cost savings.
(b) framing lines of inquiry in audit specifications specifically directed at exploring areas that may contribute to potential savings; and	Rejected. We consider that the extent to which lines of inquiry are directed specifically at areas that may contribute to potential savings will continue to depend on the objectives and intended outcomes of each audit.
(c) quantifying the scale and source of savings generated from the implementation of audit recommendations in the annual report of the Victorian Auditor-General's Office.	Rejected. We have held discussions with the small number of audit offices in other jurisdictions, both Australian and international, that currently attempt to quantify cost savings arising from their audit activities. Given the limitations with this measure identified during these discussions, we do not plan any further action relating to quantifying cost savings. However, we will continue to look at ways of improving measurement of the outcomes of all our audit activities.
28. The Victorian Auditor-General's Office seek to establish a suitable target for the extent of validated financial savings to be generated each year from the implementation of audit recommendations by public sector agencies.	Rejected. Similar to the reasons outlined in our response to recommendation 27(c), we do not plan any further action at this stage relating to setting targets for cost savings to be generated from audit recommendations.

Cost of performance audits

Recommendation

Comment and status at 30 June 2006

- | | |
|---|--|
| 29. The Victorian Auditor-General's Office ensure comparisons are made against the original budgets for each audit when reporting the final costs of completing performance audits. To ensure that full accountability is preserved, explanations for budget variations should, in part, be linked to any changed circumstances that occurred during the course of the audit. | Accepted. Under current procedures, approval of budgets and comparison with actual performance are already documented for each audit. We will consider potential improvements to these procedures, including documentation of any linkages between budget variations and changed circumstances, as part of our current project to enhance our financial audit methodology. |
| 30. Where a performance audit budget is increased to reflect changing circumstances, the annual report of the Victorian Auditor-General's Office include an explanation about the affect of this adjustment on the remainder of the performance audit program for the year. | Accepted. No further action is proposed as explanations of any variation to overall output targets, including the number of major reports, are already provided, where applicable, in the Office's annual report. |
| 31. To finalise financial statement audits in a timely manner, the Auditor-General consider advising audit committees of the importance of reviewing and responding to draft management letters as soon as possible. | Accepted. Audit committees are being progressively advised of the importance of reviewing and responding to draft management letters as soon as possible. |

Financial statement audits – Timeliness of finalising management letters

Recommendation

Comment and status at 30 June 2006

- | | |
|--|---|
| 32. To conclude the annual financial audit process, the Victorian Auditor-General's Office consider surveying client agencies to determine their expectations regarding an appropriate time frame for receiving the finalised management letter. | Rejected. No action required as the target for management letters was established as a result of extensive feedback from client agencies. |
|--|---|

Review of contract arrangements covering the upgrade of the Docklands Film and Television Studios

Recommendation

Comment and status at 30 June 2006

- | | |
|---|--|
| 60. The Auditor-General conduct a review of the new contract arrangements covering the upgrade of the Docklands Film and Television Studios to determine if they represent good value to the state and whether any additional risks have been adequately addressed. | Accepted. A review of new contract arrangements for the upgrade of the Docklands Film and Television Studios has been completed. |
|---|--|

Appendix 3

Office publications

How to obtain our publications

Copies of publications of the Auditor-General are available through either the Information Victoria bookshop, or through our Office, at the following addresses:

- 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>

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 and a comprehensive "index of issues contained in reports and publications" which enables users to quickly locate issues of interest.

Reports issued during 2005-06

July 2005

- Managing stormwater flooding risks in Melbourne (2005:8)
- Managing intellectual property in government agencies (2005:9)
- East Gippsland Shire Council: Proposed sale of Lakes Entrance property (2005:10)

September 2005

- Franchising Melbourne's train and tram system (2005:11)

October 2005

- Results of special reviews and other investigations (2005:12)
- Health procurement in Victoria (2005:13)
- Community planning services in Glenelg Shire Council: 1998-2005 (2005:14)
- Follow-up of selected performance audits tabled in 2002 and 2003 (2005:15)

November 2005

- Report of the Auditor-General on the Finances of the State of Victoria, 2004-05 (2005:16)

December 2005

- Results of 30 June 2005 financial statement and other audits (2005:17)

May 2006

- Planning for a capable Victoria Police work force (2006:1)

June 2006

- Access to specialist medical outpatient care (2006:2)
- Results of financial statement audits for agencies with other than 30 June 2005 balance dates, and other audits (2006:3)
- Protecting our environment and community from failing septic tanks (2006:4)

Other publications

- Annual Report, 2004-05
- Annual Plan, 2005-06

"Auditing in the Public Interest" newsletter

- Are your internal controls operating effectively?, *Spring 2005*
- Remembering 2005 ... looking forward to 2006, *Summer 2005*
- Timely reporting and successful outcomes, *Autumn 2006*

Appendix 4

Audit responsibilities at 30 June 2006

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 Services Super Board

Environment Protection Authority

Equal Opportunity Commission

Essential Services Commission

Housing Guarantee Claims Fund

Human Services, Department of

Infrastructure, Department of

Innovation, Industry and Regional
Development, Department of

Justice, Department of

Ombudsman, Office of the

Police Integrity, Office of

Police, Office of the Chief
Commissioner of

Premier and Cabinet, Department of

Primary Industries, Department of

Public Advocate, Office of the

Public Prosecutions, Office of

State Services Authority

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

2007 World Swimming
Championships Corporation

Accident Compensation 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

Australian Centre for the Moving
Image

Australian Grand Prix Corporation

Building Commission

Cancer Council of Victoria, The

Chinese Medicine Registration
Board of Victoria

Chiropractors Registration Board
of Victoria

Commissioner for Environmental
Sustainability

Country Fire Authority

Dairy Food Safety Victoria

Dental Practice Board of Victoria

Domestic Building (HIH) Indemnity
Fund

Emerald Tourist Railway Board

Emergency Services
Telecommunications Authority

Energy Safe Victoria

Falls Creek Alpine Resort
Management Board

Film Victoria

Greyhound Racing Victoria

Harness Racing Victoria

Health Purchasing Victoria

Heritage Council

Industry Supervision Fund

Infertility Treatment Authority

Judicial College of Victoria

La Trobe University Union

Lake Mountain Alpine Resort
Management Board

Legal Ombudsman, Office of the
Legal Practice Board

Legal Practitioners Liability
Committee

Legal Services Board

Legal Services Commissioner

Library Board of Victoria

Lorne Community Hospital Ladies
Auxiliary Inc.

Medical Practitioners Board
of Victoria

Melbourne 2006 Commonwealth
Games Corporation

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 and Mt Stirling Alpine
Resort Management Board

Mount Hotham 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

Peter MacCallum Cancer Foundation

Pharmacy Board of Victoria

Phillip Island Nature Park Board
of Management

Physiotherapists Registration Board
of Victoria

Plumbing Industry Commission

Podiatrists Registration Board of Victoria	Victorian Competition and Efficiency Commission	Deakin University
Port of Hastings Corporation	Victorian Curriculum and Assessment Authority	East Gippsland Institute of Technical and Further Education
Port of Melbourne Corporation	Victorian Energy Networks Corporation	Gordon Institute of Technical and Further Education
PrimeSafe	Victorian Funds Management Corporation	Goulburn Ovens Institute of Technical and Further Education
Prince Henry's Institute of Medical Research	Victorian Health Promotion Foundation	Holmesglen Institute of Technical and Further Education
Psychologists Registration Board of Victoria	Victorian Institute of Forensic Medicine	Kangan Batman Institute of Technical and Further Education
Psychosurgery Review Board	Victorian Institute of Forensic Mental Health	La Trobe University
Public Transport Ticketing Body	Victorian Law Reform Commission	Monash University
Residential Tenancies Bond Authority	Victorian Learning and Employment Skills Commission	Northern Melbourne Institute of Technical and Further Education
Roads Corporation	Victorian Managed Insurance Authority	RMIT International University Vietnam
Royal Botanic Gardens Board	Victorian Plantations Corporation	Royal Melbourne Institute of Technology
Rural Finance Corporation of Victoria	Victorian Qualifications Authority	South West Institute of Technical and Further Education
Sentencing Advisory Council	Victorian Rail Track	Sunraysia Institute of Technical and Further Education
Shrine of Remembrance Trustees	Victorian Regional Channels Authority	Swinburne University of Technology
Southern and Eastern Integrated Transport Authority	Victorian Relief Committee	The University of Melbourne
Southern Cross Station Authority (formerly Spencer Street Station Authority)	Victorian State Emergency Service Authority	University of Ballarat
State Electricity Commission of Victoria	Victorian Strawberry Industry Development Committee	Victoria University
State Library of Victoria Foundation	Victorian Tertiary Admissions Centre	Victorian College of the Arts
Stawell District Hospital Foundation	Victorian Urban Development Authority	Victorian Institute of Teaching
Surveyor's Registration Board of Victoria	Victorian Veterans Council	William Angliss Institute of Technical and Further Education
Sustainability Victoria (previously Sustainable Energy Authority and EcoRecycle Victoria)	Victorian WorkCover Authority	Wodonga Institute of Technical and Further Education
Tourism Victoria	VITS LanguageLink	
Transport Accident Commission	Zoological Parks and Gardens Board	Public hospitals and ambulance services
Treasury Corporation of Victoria		Alexandra and District Ambulance Service
V/Line Passenger Corporation	Universities and other educational institutions	Alexandra District Hospital
Veterinary Practitioners Registration Board of Victoria	Bendigo Regional Institute of Technical and Further Education	Alpine Health
VicForests	Box Hill Institute of Technical and Further Education	Ambulance Service Victoria – Metropolitan Region
Victoria Legal Aid	Central Gippsland Institute of Technical and Further Education	Austin Health
Victorian Centre for Advance Materials Manufacturing Consortium	Chisholm Institute of Technical and Further Education	Bairnsdale Regional Health Service
Victorian Commission for Gambling Regulation		Ballarat Health Services
		Barwon Health

Bass Coast Regional Health	Mercy Public Hospitals Incorporated	Yarrawonga District Health Service
Bayside Health	Moyne Health Services	Yea and District Memorial Hospital
Beaufort and Skipton Health Service	Mt Alexander Hospital	Superannuation funds
Beechworth Health Service	Nathalia District Hospital	Emergency Services Superannuation Scheme
Benalla and District Memorial Hospital	Northeast Health Wangaratta	Parliamentary Contributory Superannuation Fund
Bendigo Health Care Group	Northern Health	
Boort District Hospital	Numurkah District Health Service	Companies, trusts and joint ventures
Calvary Health Care Bethlehem Limited	O'Connell Family Centre (Grey Sisters) Inc.	Agriculture Victoria Services Pty Ltd
Caritas Christi Hospice Limited	Omeo District Health	Angliss Consulting Pty Ltd
Casterton Memorial Hospital	Orbost Regional Health	Angliss Multimedia Pty Ltd
Central Gippsland Health Service	Otway Health and Community Services	Angliss Solutions Pty Ltd
Cobram District Hospital	Peninsula Health	Australian Human Resources Institute Pty Ltd
Cohuna District Hospital	Peter MacCallum Cancer Centre	Australian International Health Institute (The University of Melbourne) Ltd
Colac Area Health	Portland District Health	Australian Music Examinations Board (Vic.) Ltd
Dental Health Services Victoria	Queen Elizabeth Centre, The	Australian National Academy of Music Foundation Ltd
Djerriwarrh Health Services	Robinvale District Health Services	Australian National Academy of Music Ltd
Dunmunkle Health Services	Rochester and Elmore District Health Service	Ballarat Health Services Foundation Limited
East Grampians Health Service	Royal Children's Hospital, The	Bass Coast Regional Health Benefit Fund Trust
East Wimmera Health Service	Royal Victorian Eye and Ear Hospital, The	Beaufort and Skipton Health Service Foundation
Eastern Health	Royal Women's Hospital, The	Box Hill Enterprises Ltd
Echuca Regional Health	Rural Ambulance Victoria	BR (Vic.) Pty Ltd
Edenhope and District Memorial Hospital	Rural Northwest Health	Callista Software Services Pty Ltd
Gippsland Southern Health Service	Seymour District Memorial Hospital	Canopi Network Pty Ltd
Goulburn Valley Health	South Gippsland Hospital	Cash Common Fund 1
Hepburn Health Service	South West Healthcare	Cash Common Fund 2
Hesse Rural Health Service	Southern Health	Cell Therapies Pty Ltd
Heywood Rural Health	St George's Health Service Limited	Charitable Common Fund
Inglewood and Districts Health Service	St Vincent's Hospital (Melbourne) Limited	City Library Joint Venture
Kerang District Health	Stawell Regional Health	City West Water Limited
Kilmore and District Hospital, The	Swan Hill District Hospital	CityWide Service Solutions Pty Ltd
Kooweerup Regional Health Service	Tallangatta Health Service	Communities That Care Limited
Kyabram and District Health Services	Terang and Mortlake Health Service	Deakinprime USA
Kyneton District Health Service	Timboon and District Healthcare Service	Driver Education Centre of Australia Ltd
Latrobe Regional Hospital	Tweddle Child and Family Health Service	Dunmunkle Health Services Foundation
Lorne Community Hospital	Upper Murray Health and Community Services	Echuca Regional Health Foundation Ltd
Maldon Hospital	West Gippsland Healthcare Group	Equity Common Fund
Mallee Track Health and Community Service	West Wimmera Health Service	Fed Square Pty Ltd
Manangatang and District Hospital	Western District Health Service	
Mansfield District Hospital	Western Health	
Maryborough District Health Service	Wimmera Health Care Group	
McIvor Health and Community Services	Wodonga Regional Health Service	
Melbourne Health	Yarram and District Health Service	

Fixed Interest Common Fund	Melbourne Cricket Ground Trust	National Institute of Circus Arts Limited
Gascor (T No. 1) Pty Ltd	Melbourne Enterprises International Limited	NMIT International Limited
Gascor (TH) Pty Ltd	Melbourne Health Research and Development Limited	Peter MacCallum Cancer Foundation Ltd
Gascor EPL Pty Ltd	Melbourne Information Management Pty Ltd	Phytogene Pty Ltd
Gascor Holdings No. 1 Pty Ltd	Melbourne Recital Centre Ltd	Prahran Market Pty Ltd
Gascor Holdings No. 2 Pty Ltd	Melbourne University Private (NZ) Ltd	Premium Cash Fund
Gascor Holdings No. 3 Pty Ltd	Melbourne University Publishing Ltd	Premium Cash Plus Fund
Gascor IEPL Pty Ltd	Melbourne Ventures Pty Ltd	Premium Diversified Fund
Gascor KEPL Pty Ltd	Melbourne Wholesale Fish Market Pty Ltd	Premium Equity Fund
Gascor MAPL Pty Ltd	Meltech Services Limited	Premium Fixed Interest Fund
Gascor MGPL Pty Ltd	Monash College Group Pty Ltd	Premium International Fund
Gascor SAPL Pty Ltd	Monash Commercial Pty Ltd	Premium Property Fund
Gascor SNPL Pty Ltd	Monash Digital Media Pty Ltd	Property Common Fund
Gascor WAPL Pty Ltd	Monash ED Pty Ltd	Queen Victoria Market Pty Ltd
Gascor WPL Pty Ltd	Monash Educational Enterprises	Queen Victoria Women's Centre Trust
Geelong Performing Arts Centre Trust	Monash Health Research Precinct Pty Ltd	Regent Management Company Pty Ltd
Gippsland Health Alliance	Monash International SRL	RMIT Foundation
GOTEC Limited	Monash Investment Holdings Pty Ltd	RMIT Innovation Ltd
Hawthorn Edinburgh Limited	Monash Investment Trust	RMIT International Pty Ltd
Hawthorn English Language Centres (Canada) Ltd	Monash IT Pty Ltd	RMIT Training Pty Ltd
Holmesglen International Training Services Pty Ltd	Monash IVF Pty Ltd	RMIT Union
HumeNET Limited	Monash Learningfast Pty Ltd	RMIT Vietnam Holdings Pty Ltd
Inskill Limited	Monash Property Management Pty Ltd	Rolling Stock (VL-1) Pty Ltd
International Fibre Centre Limited	Monash Property South Africa Pty Ltd	Rolling Stock (VL-2) Pty Ltd
International Training Australia Pty Ltd	Monash Reproductive Health Enterprises Pty Ltd	Rolling Stock (VL-3) Pty Ltd
John Batman Consultancy and Training Pty Ltd	Monash Reproductive Pathology and Genetics Pty Ltd	Rolling Stock Holdings (Victoria) Pty Ltd
Kitaya Holdings Pty Ltd	Monash South Africa Limited	Rolling Stock Holdings (Victoria-VL) Pty Ltd
La Trobe International Proprietary Limited	Monash Ultrasound Pty Ltd	Royal Children's Hospital Education Institute Limited
La Trobe Marketing Pty Ltd	Monash University Foundation	Royal Melbourne Hospital Foundation Ltd
La Trobe University Housing Limited	Monash University Foundation Pty Ltd	Securities Finance Corporation Ltd
LMHA Network Limited	Montech Pty Ltd	South East Water Limited
MAPS Group Limited	Monyx Education Services Pty Ltd	South West Alliance of Rural Health (Vic.)
Meanjin Company Limited	Monyx Pty Ltd	Spatial Vision Innovations Pty Ltd
Medical Centre Development Pty Ltd	Monyx Services Pty Ltd	Special Power Payments Trust Fund
Melbourne and Olympic Parks Trust	Moortec Limited	St Arnoud District Hospital Foundation
Melbourne Business School Building Fund	Moyne Health Services Inc	State Sport Centres Trust
Melbourne Business School Foundation	Mt Eliza Graduate School of Business and Government Limited	State Trustees Limited
Melbourne Business School Foundation Limited	MU Student Union Ltd	STL Financial Services Limited
Melbourne Business School Ltd	MUP Services Pty Ltd	Streetsahead Cleaning Service
Melbourne Convention and Exhibition Trust		Sunraysia Institute of Technical and Further Education Community Child Care Centre Incorporated

Sustainable Melbourne Trust Fund	Victorian Arts Centre Trust	North East Water
Swinburne Graduate School of Integrative Medicine Pty Ltd	Victorian Institute for Chemical Sciences Limited	Port Phillip and Westernport Catchment Management Authority
Swinburne Intellectual Property Trust	Victorian Institute of Sport Limited	Smart Water Fund
Swinburne Ltd	Victorian Institute of Sport Trust	South Gippsland Region Water Authority
Swinburne Student Amenities Ltd	Victorian Rail Heritage Operations Pty Ltd	Wannon Water
Swinburne Ventures Limited	Victorian Rail Services Pty Ltd	West Gippsland Catchment Management Authority
TAC Law Pty Ltd	Victorian Trauma Foundation	Western Region Water Authority
TAFE Development Centre Ltd	Victorian Trauma Foundation Pty Ltd	Westernport Region Water Authority
Telematics Course Development Fund	Virtual Virology Pty Limited	Wimmera Catchment Management Authority
The Donald District Hospital Foundation	Wesley Monash IVF Joint Venture	
The Gordon Foundation Ltd	Wesley Monash IVF Pty Ltd	Regional waste management groups
The Royal Children's Hospital Foundation Limited	Wimmera Base Hospital Foundation	Barwon Regional Waste Management Group
The Royal Children's Hospital Foundation Trust Funds	Wimmera Development Association	Calder Regional Waste Management Group
The Royal Women's Hospital Foundation Limited	Yarra Bend Park Trust	Central Murray Regional Waste Management Group
The Royal Women's Hospital Foundation Trust Funds	Yarra Valley Water Limited	Desert Fringe Regional Waste Management Group
The School of Mines and Industries Ballarat Limited	Water authorities	Eastern Regional Waste Management Group
The Winchelsea and District Nursing Home Society	Barwon Region Water Authority	Gippsland Regional Waste Management Group
Transport Education and Training Australia Ltd	Central Gippsland Region Water Authority	Goulburn Valley Regional Waste Management Group
Tricontinental Corporation Ltd	Central Highlands Region Water Authority	Grampians Regional Waste Management Group
Tricontinental Holdings Ltd	Coliban Region Water Authority	Highlands Regional Waste Management Group
Trust for Nature (Victoria)	Corangamite Catchment Management Authority	Mildura Regional Waste Management Group
UMEE Ltd (previously Melbourne University Private Limited)	East Gippsland Catchment Management Authority	Mornington Peninsula Regional Waste Management Group
Unilink Ltd	East Gippsland Region Water Authority	North East Victorian Regional Waste Management Group
Utemis Pty Ltd	First Mildura Irrigation Trust	Northern Regional Waste Management Group
V/Line Passenger Pty Ltd	Gippsland and Southern Rural Water Authority	South Eastern Regional Waste Management Group
VCAMM Limited	Glenelg Hopkins Catchment Management Authority	South Western Regional Waste Management Group
VCPO Limited	Goulburn Broken Catchment Management Authority	Western Regional Waste Management Group
VERNet Pty Limited	Goulburn Valley Region Water Authority	
VFM Emerging Markets Trust	Goulburn-Murray Rural Water Authority	Municipal councils
VFM Global Small Companies Trust	Grampians Wimmera Mallee Water Authority	Alpine Shire Council
VFM Infrastructure Trust	Lower Murray Urban and Rural Water Authority	Ararat Rural City Council
Vicfleet Pty Ltd	Mallee Catchment Management Authority	Banyule City Council
Victoria Trade and Investment Office Pty Ltd	North Central Catchment Management Authority	Bass Coast Shire Council
Victoria University Enterprises Pty Ltd	North East Catchment Management Authority	
Victoria University Foundation		
Victoria University Foundation Ltd		
Victoria University International Pty Ltd		
Victoria University of Technology (Singapore) Pty Ltd		

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 Ballarat
 City of Port Phillip
 City of Whittlesea
 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
 Latrobe 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
 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 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
 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/Melbourne 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
 Lilydale Cemeteries Trust
 Mildura Cemetery Trust
 Preston Cemetery Trust
 Templestowe Cemetery Trust
 Trustees of Altona Memorial Park
 Trustees of the Fawkner Crematorium and Memorial Park
 Trustees of The Necropolis Springvale
 Wyndham Cemeteries Trust

Appendix 5

Delegation for signing audit opinions

Extension to external audit service providers' contracts where contracts have exceeded 5 years

Agency	Audit service provider	Firm
Monash University and its subsidiaries	M Strickland	RSM Bird Cameron
Treasury Corporation of Victoria	D Thorn	Ernst & Young
Victorian Funds Management Corporation	D Thorn	Ernst & Young

Delegation provided to external audit service providers for signing audit opinions, 2005-06

(expenditure less than \$5.2 million)

Agency	Audit service provider	Firm
Alexandra and District Ambulance Service	B Potgeiter	WHK Day Neilson
Andersons Creek Cemetery Trust	M Peters	HLB Mann Judd
Architects' Registration Board of Victoria	A Roberts	UHY Haines Norton
Ballarat General Cemeteries Trust	K Richmond	Richmond Sinnott & Delahunty
Barwon Regional Waste Management Group	C Kol	Coffey Hunt & Co
Bass Coast Regional Health Benefit Fund Trust	J Howson	WHK Armitage Downie
Bendigo Cemeteries Trust	K Richmond	Richmond Sinnott & Delahunty
Boort District Hospital	K Richmond	Richmond Sinnott & Delahunty
Calder Regional Waste Management Group	R Fraser	WHK Day Neilson
Cell Therapies Pty Ltd	J Parias	Pannell Kerr Forster
Central Murray Regional Waste Management Group	H McKenzie-McHarg	Johnsons MME
Chinese Medicine Registration Board of Victoria	S O'Kane	DFK Collins
Chiropractors Registration Board of Victoria	S O'Kane	DFK Collins
Coleraine District Health Services	C Kol	Coffey Hunt & Co
Corangamite Regional Library Corporation	B Potgeiter	WHK Day Neilson
Dairy Food Safety Victoria	D Nairn	HLB Mann Judd
Desert Fringe Regional Waste Management Group	M Gunn	Coffey Hunt & Co
Eastern Regional Waste Management Group	M Crossley	WHK Day Neilson
Echuca Regional Health Foundation Ltd	P Delahunty	Richmond Sinnott & Delahunty
Geelong Cemeteries Trust	K Richmond	Richmond Sinnott & Delahunty
Geelong Performing Arts Centre Trust	J Parias	Pannell Kerr Forster
Geelong Regional Library Corporation	P Delahunty	Richmond Sinnott & Delahunty
Gippsland Health Alliance	J Howson	WHK Armitage Downie

**Delegation provided to external audit service providers for signing audit opinions,
2005-06 – continued**

(expenditure less than \$5.2 million)

Agency	Audit service provider	Firm
Gippsland Regional Waste Management Group	K Wood	RSM Bird Cameron
Glenelg Regional Library Corporation	J Gavens	WHK Day Neilson
Goulburn Valley Regional Waste Management Group	M Crossley	WHK Day Neilson
Grampians Regional Waste Management Group	M Gunn	Coffey Hunt & Co
Hesse Rural Health Service	R Hutton	UHY Haines Norton
Heywood Rural Health	C Kol	Coffey Hunt & Co
High Country Library Corporation	P Delahunty	Richmond Sinnott & Delahunty
Highlands Regional Waste Management Group	R Fraser	WHK Day Neilson
Inglewood and Districts Health Service	K Richmond	Richmond Sinnott & Delahunty
Lilydale Memorial Park	M Peters	HLB Mann Judd
Lorne Community Hospital	R Hutton	UHY Haines Norton
Maldon Hospital	K Richmond	Richmond Sinnott & Delahunty
Manangatang and District Hospital	R Fraser	WHK Day Neilson
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 Ed 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 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 University Foundation Pty Ltd	M Strickland	RSM Bird Cameron
Monyx Pty Ltd	M Strickland	RSM Bird Cameron
Monyx Services Food and Beverage Pty Ltd	M Strickland	RSM Bird Cameron
Monyx Services Retail Pty Ltd	M Strickland	RSM Bird Cameron

**Delegation provided to external audit service providers for signing audit opinions,
2005-06 – continued**

(expenditure less than \$5.2 million)

Agency	Audit service provider	Firm
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
National Institute of Circus Arts Limited	S Naylor	RSM Bird Cameron
North Central Goldfields Regional Library Corporation	J Gavens	WHK Day Neilson
North East Victorian Regional Waste Management Group	R Lindner	UHY Haines Norton
Northern Regional Waste Management Group	R Lindner	UHY Haines Norton
Northern Victorian Fresh Tomato Industry Development Committee	S Naylor	RSM Bird Cameron
Omeo District Health	E Jewell	WHK Armitage Downie
Osteopaths Registration Board of Victoria	S O'Kane	DFK Collins
Otway Health and Community Services	R Hutton	UHY Haines Norton
Phytogene Pty Ltd	C Mortell	KPMG
Podiatrists Registration Board of Victoria	S O'Kane	DFK Collins
Prahran Market Pty Ltd	S Naylor	RSM Bird Cameron
Preston Cemetery Trust	R Lindner	UHY Haines Norton
PrimeSafe	D Nairn	HLB Mann Judd
Psychologists Registration Board of Victoria	S O'Kane	DFK Collins
Shrine of Remembrance Trustees	S Naylor	RSM Bird Cameron
South Gippsland Hospital	J Howson	WHK Armitage Downie
South West Alliance of Rural Health (Vic.)	C Kol	Coffey Hunt & Co
South Western Regional Waste Management Group	M Gunn	Coffey Hunt & Co
Swinburne Graduate School of Integrative Medicine Pty Ltd	S Naylor	RSM Bird Cameron
Swinburne Intellectual Property Trust	S Naylor	RSM Bird Cameron
Swinburne Limited	S Naylor	RSM Bird Cameron
Swinburne Ventures Ltd	S Naylor	RSM Bird Cameron
Templestowe Cemetery Trust	M Peters	HLB Mann Judd
The Winchelsea Hostel and Nursing Home Society	R Hutton	UHY Haines Norton
Timboon and District Healthcare Service	C Kol	Coffey Hunt & Co
Tweddle Child and Family Health Service	K Wood	RSM Bird Cameron
Veterinary Practitioners Registration Board of Victoria	C Mortell	KPMG
Victorian Strawberry Industry Development Committee	S Naylor	RSM Bird Cameron
West Gippsland Regional Library Corporation	J Howson	WHK Armitage Downie
Western Regional Waste Management Group	M Crossley	WHK Day Neilson
Wyndham Cemeteries Trust	S O'Kane	DFK Collins
Yea and District Memorial Hospital	P Delahunty	Richmond Sinnott & Delahunty

Appendix 6

Additional staff statistics

Number of executives and executive vacancies			
At 30 June 2006	Ongoing executive officers	Special projects executive officers	Total
Executives employed	20	-	20
Vacancies being filled	5	-	5

Reconciliation with executive numbers					
At 30 June	2001-02	2002-03	2003-04	2004-05	2005-06
Executives with base remuneration over \$100 000 (a)	19	20	23	21	20
<i>Add</i>					
Recruiting for vacant positions	1	1	1	1	5
Executives employed with total remuneration below \$100 000	6	3	3	2	-
Accountable Officers (b)	-	-	-	-	-
Total executive numbers at 30 June	26	24	27	24	25

(a) Refer to executive officers' remuneration, note 15 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, 2005-06		
Number of exemptions	Classification	Circumstances as defined in Office policy
1	VPSG 5.2	Identical vacancy

Appendix 7

Glossary of terms

Terms used throughout the annual report

EMPERA

EMPERA (Electronic Management of Performance Audits) is the Office's electronic database system used to document and manage performance audits, special reviews and investigations.

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.

IPSAM

IPSAM (Integrated Public Sector Audit Methodology) is an integrated financial audit toolset that embeds the Office's methodology in an electronic medium and provides easy access to our policy, guidance procedures and work papers.

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 performance measures and targets relating to the key strategic activities contained in the annual budget.

Practice management system

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

Qualified opinion

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

Special review (audit)

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

A-IFRS

Australian equivalents to International Financial Reporting Standards.

Accrual accounting

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

Administered items

The Office administers but does not control certain resources on behalf of the state. These resources are primarily audit fees raised from performing financial statement audits and relate to the activities of Output Group 2.

Transactions relating to these administered resources are not recognised as the Office's revenue or expenses in the operating statement.

Australian Accounting Standard

Accounting standards issued by the Australian Accounting Standards Board (AASB).

Balance sheet

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.

Budget

The originally published budget of the Office.

Cash flow statement

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

Controlled items

Transactions and balances relating to controlled resources are recognised as the revenues, expenses, assets and liabilities 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.

Finance leases

A lease which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets.

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 report as well as additional information and detail about specific items within the report.

Operating leases

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

Operating statement

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

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 is reassessed.

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

Term used in relation to amounts receivable, recognising that an amount so receivable is uncollectible.

Written-down value

The fair value of the asset less the accumulated depreciation.

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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.

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Report of operations		
Charter and purpose		
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FRD 22 A	Subsequent events	n.a.
FRD 22 A	Application and operation of <i>Freedom of Information Act 1982</i>	61
FRD 22 A	Compliance with building and maintenance provisions of <i>Building Act 1993</i>	n.a.
FRD 22 A	Statement on National Competition Policy	61
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FRD 24 A	Reporting of office-based environmental impacts	67
FRD 25	Victorian Industry Participation Policy disclosures	n.a.
FRD 8 A	Budget portfolio outcomes	n.a.

Legislation	Requirement	Page reference
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Premier's Circular

2003/3	Whole-of-government reporting on responsiveness to cultural diversity, women, youth and indigenous affairs	n.a.
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Five-year statistics

		2001-02	2002-03	2003-04	2004-05	2005-06
Parliamentary reports and services						
Reports tabled in parliament -						
Report of the Auditor-General on the finances of the state	(number)	1	1	1	1	1
Reports on public sector agencies	(number)	2	3	4	3	3
Major (including performance) audit reports	(number)	9	12	11	12	12
Client satisfaction with parliamentary reports	(per cent)	80	77	84	82	81
Non-parliamentary products	(number)	-	-	4	1	-
Audit reports on financial statements						
Audit responsibilities (entities at 30 June)	(number)	566	587	600	619	615
Audit reports on financial statements -						
Unqualified opinions issued during reporting year	(number)	510	558	588	596	613
Qualified opinions issued during reporting year	(number)	38	29	23	8	18
Total opinions issued during reporting year	(number)	548	587	611	604	631
Audit reports on local government performance statements -						
Unqualified opinions issued during reporting year	(number)	65	69	74	77	77
Qualified opinions issued during reporting year	(number)	13	9	5	2	2
Total opinions issued during reporting year	(number)	78	78	79	79	79
Audit reports on regional water authority performance statements -						
Unqualified opinions issued during reporting year	(number)	-	-	-	-	15
Qualified opinions issued during reporting year	(number)	-	-	-	15	-
Total opinions issued during reporting year	(number)	-	-	-	15	15
Audit opinions issued within time frame	(per cent)	90	94	98	99	96
Client satisfaction with audit services	(per cent)	70	75	74	77	81
Resources						
In-house staff	(number)	127	129	127	148	150
External audit service providers	(number)	48	47	46	26	32
Average days sick leave per employee	(number)	16.2	5.0	5.5	6.0	7.0
Workers compensation claims	(number)	2	-	-	1	-
Injuries reported	(number)	6	7	7	1	4
Grievances lodged	(number)	-	-	-	-	-
Staff training and professional development per employee	(days)	9.4	9.5	8.8	8.9	7.0
Financial management						
Expenditure on external audit service providers	(\$million)	6.52	6.84	6.69	6.06	6.73
Revenue from audit fees	(\$million)	13.12	14.03	14.23	14.23	14.99
Operating surplus/(deficit)	(\$million)	0.92	0.30	1.04	0.97	0.91
Assets	(\$million)	9.39	9.44	10.38	11.42	12.18
Liabilities	(\$million)	5.02	4.81	4.71	4.78	4.63
Financial audit costs recovered from clients	(per cent)	97	102	100	100	100

*Informing parliament
and the community*



AUDITOR GENERAL
VICTORIA

Auditing in the Public Interest