

# Public Sector Financial Reporting: Key audit themes

Matthew Zappulla  
Assistant Auditor-General  
Standards and Quality



# Identifying the key audit themes



**Persistent and common risks and problems**



**Publication**  
Annual Report – Vol 2



**Presentations**  
Public sector stakeholders

# Reports to Parliament – financial audit findings

**Audit Snapshots  
+  
Review of the  
State of Victoria's  
Annual Financial  
Report  
+  
Digital  
Dashboards**



# Key audit themes



# Key audit themes – financial audit findings



# Key audit themes

01

Oversight,  
monitoring and  
accountability

- Oversight by departments
- Guidance and support from departments
- Oversight and monitoring by agency management



# Key audit theme 1 – financial audit findings

## Oversight of travel expenditure *Universities*

- \$137 million in travel expenses (2014)
- Frameworks didn't cover areas of public interest
- Poor monitoring to check adherence to policies
- Potential for inappropriate use of public money



# Key audit theme 1 – things to consider

## Does this affect you?

1. Does your entity have **oversight mechanisms** in place to monitor expenditure and compliance with relevant legislation?
2. Do you check up on compliance with **internal policies and frameworks**?
3. Are you ready for the **new standing directions**?





# Key audit themes

03

Managing risks to  
financial  
sustainability

- Challenges to income
- Ability to meet financial obligations
- Managing cash
- Servicing debt
- Maintaining and renewing assets



## Key audit theme 3 – financial audit findings

### Financial sustainability risks *Audit Snapshots*

- All sectors in VPS facing long- and short-term risks
- Short-term: immediate cash flow and liquidity issues
- Long-term: poor asset renewal / replacement
- Sector specific items: Level of debt in water entities

### *Standing Directions 2016* Department of Treasury and Finance

- Apply to all entities reporting under the FMA
- Applicable from 1 July 2016
- Increased focus on need for Boards & management to operate financially sustainable entities

## Key audit theme 3 – things to consider

### Does this affect you?

1. Does your entity have an appropriate **risk management regime** in place to assess and monitor financial sustainability risks?
2. Is your entity's **debt at sustainable levels**?
3. Does your entity efficiently manage its **cash flows**?
4. Is your entity **maintaining, replacing / renewing its assets** as required?



# Key audit themes

06

Measuring and reporting performance

- Reliable and transparent financial reports
- Meaningful and transparent performance reports
- Reliable and accurate performance reports
- Performance measurement: measuring the right things



## Key audit theme 6 – financial audit findings

13

### Poor performance statements *Technical and Further Education institutes*

- Report annually on range of self-selected indicators
- Poor indicator selection and lack of targets
- DET is working with TAFEs on new framework

### New performance framework for councils *Local Government*

- First year councils have reported on new performance framework
- Councils need to improve data collection and verification
- New model does not include targets for comparison

Changes being considered by AASB — ED 270 *Reporting Service Performance Information*

## Key audit theme 6 – things to consider

### Does this affect you?

1. Does the **performance information** you use cover all the key activities?
2. How do you **collect and verify** the accuracy of the information in your performance reports?
3. Do your indicators align with our **goals and strategy**?
4. Do your **performance reports** explain performance clearly?
5. Have you set **realistic and relevant targets**?



## Key audit themes

07

Timely action on  
recommendations  
and reviews

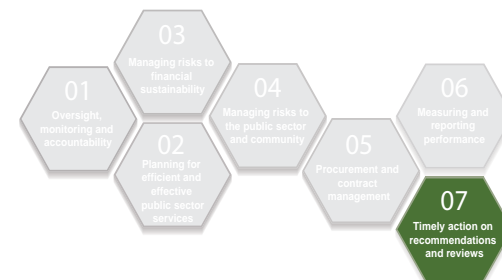
- Addressing issues from internal and external reviews
- Acting on financial audit findings
- Acting on performance audit recommendations



## Key audit theme 7 – financial audit findings

### Unresolved prior year audit issues *Audit Snapshots*

- 48.7 per cent of weaknesses were unresolved by 2014–15
- Occurs across all sectors within the VPS —pervasive
- Control frameworks are not as effective as they could be





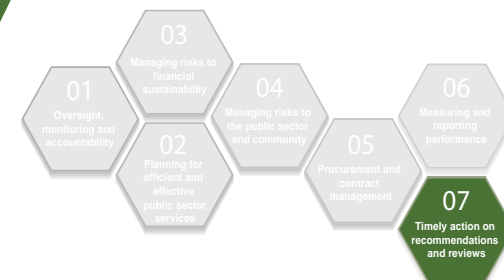
## Key audit theme 7 – financial audit findings

Sector	Prior year audit issues		
	Number raised	Resolved in 2014–15	Unresolved in 2014–15
Local Government	121	62	59
Portfolio departments	50	17	33
Public hospitals	131	84	47
TAFEs	20	7	13
Universities	67	27	40
Water entities	54	18	36

## Key audit theme 7 – things to consider

### Does this affect you?

1. Has enough been done to **address known issues**?
2. Do your actions really address the **recommendations** made by the auditors?
3. Do you **track your actions** against internal and external reviews and audits?
4. Are your audit committee and management appropriately involved in **monitoring progress** against recommendations?



# Contacts and questions

Matthew Zappulla

Assistant Auditor-General, Standards and Quality

+61 3 8601 7118

[matthew.zappulla@audit.vic.gov.au](mailto:matthew.zappulla@audit.vic.gov.au)

## Contacting VAGO:

[www.audit.vic.gov.au](http://www.audit.vic.gov.au)

+61 3 8601 7000

Level 24, 35 Collins Street Melbourne

Victoria 3000

