

Our achievements

98%

Of surveyed parliamentarians, 98 per cent of respondents agreed that our reports and services provide valuable information on public sector performance (page 48).



Our findings and recommendations continue to contribute to improving the work of audited agencies and the public sector more broadly (pages 18–26).



We achieved most of our parliamentary performance targets within budget (page 14).



Despite being affected by staff turnover and delays filling vacancies, our staff continued to demonstrate their resilience while delivering quality outcomes (page 36).



We tabled 39 reports in Parliament (three more than in 2014–15), and prepared 647 audit opinions on the financial statements and non-financial performance indicators of agencies (page 14).



We reviewed and re-engineered our Performance Audit methodology (page 62).



We reviewed and strengthened our audit topic selection framework to increase its rigour (page 61).



We established a specialist data analytics strategy and capability team within our office (page 65).



We broadened our annual planning consultation to include parliamentary committees for the first time (page 11).



We introduced a new internal consultation policy and database to improve the efficiency and effectiveness of the provision of technical auditing and accounting advice to our audit engagement teams (page 47).



We were actively involved in the development of public sector audit through our contributions to the Australasian Council of Auditors-General and the Pacific Association of Supreme Audit Institutions and the hosting of auditors on secondment from Papua New Guinea (pages 37–38).

Our challenge in the year ahead



Some of our output measures do not appropriately assess our performance. We will review and seek to progressively revise relevant measures (page 14).

Next steps



We will continue to improve our internal working culture (page 40).



We will actively support the government review of the *Audit Act 1994* (page 9).



We will act on the findings of the 2016 Public Accounts and Estimates Committee audit of our office (page 58).



We will develop a new information and communications technology (ICT) strategy (page 58).



We will review our organisational performance measures to ensure that they provide adequate assurance to Parliament on our operational performance (page 58).



We will continue to build advanced data analytics capabilities throughout our office (page 66).



We will deliver a cohesive and comprehensive learning and development program for our office (page 40).



Our role in the public sector

What do we do?

The Auditor-General provides independent assurance to Parliament and the Victorian community on the state's financial reporting and performance. To do this, our office carries out financial audits and performance audits of public sector agencies. The agencies are accountable to Parliament for their use of public resources and the powers Parliament confers on them.

How do we fit into Victoria's integrity system?

Victoria's integrity system includes the following bodies:

- **our office**—we examine the performance and accountability of the public sector and report to the Parliament and the citizens of Victoria
- **the Victorian Inspectorate**—has oversight of Victoria's integrity system
- **the Victorian Ombudsman**—which examines the decisions and actions of Victorian government bodies by investigating complaints
- **the Independent Broad-based Anti-corruption Commission**—which investigates, reports and works to prevent corruption in the public sector
- **the Local Government Investigations and Compliance Inspectorate**—which assesses how Victoria's 79 local authorities comply with the *Local Government Act 1989*.

Who do we audit?

The Auditor-General's audit responsibilities cover about 540 agencies which earn about \$88 billion in revenue, hold assets worth more than \$359 billion, and employ more than 340 000 people.

Agencies we audit include government departments, public bodies, educational institutions, public hospitals, local authorities, agencies controlled by the state or a public body, and particular bodies that provide government services under contract.

Guiding legislation and our mandate

Integrity legislation changes and *Audit Act 1994* review

The principal pieces of legislation governing and guiding the Auditor-General and our office are:

- the *Constitution Act 1975*, which establishes the role of the Auditor-General and gives the Auditor-General complete discretion in the performance and exercise of his functions and powers
- the *Audit Act 1994*, which establishes the Auditor General's mandate, provides the legal basis for his powers, and identifies his responsibilities.

The *Audit Act 1994* gives the Auditor-General extensive access and reporting powers to enable him to fulfil this mandate, including getting full access to information from associated entities.

Since 2009, we have advocated for a complete rewrite of the *Audit Act 1994*. As governments have moved to different and innovative ways of delivering services, the *Audit Act 1994* has failed to keep pace. This has steadily eroded our mandate and limited the assurance we can provide to Parliament.

In late 2015–16, Parliament passed the *Integrity and Accountability Legislation Amendment (A Stronger System) Act 2016* (the Act). The Act is an important first step towards closing this accountability gap, and finally provides the Auditor-General with limited ‘follow-the-dollar’ powers. However, comprehensive legislative reform is needed to address the challenges of a contemporary public sector, and to improve its transparency and accountability.

We welcome the government’s extensive review of the integrity and accountability system and its commitment to consider further improvements to our legislation.

Accountability

The Auditor-General is an independent officer of the Victorian Parliament, and cannot be directed by anyone, including Parliament or the government. Although independent, the Auditor-General remains accountable to Parliament, through the Public Accounts and Estimates Committee. Our office has a statutory relationship with the committee and must consult with it about our annual plan and, in certain circumstances, on our performance audit specifications. We are also subject to annual financial audits and independent performance audits every three years, as required under the *Audit Act 1994*. These audits ensure that we are held accountable to the same standards of performance rigour and financial statement accuracy to which we hold the public sector accountable.

Organisational changes

In early 2015–16, our performance audit business unit was segregated into two separate areas led by the appointment of two new Assistant Auditors-General. The former Auditor-General, John Doyle, resigned soon after in September 2015, and Dr Peter Frost became our Acting Auditor-General. After a brief trial of the new structure, we decided to revert to having a single Assistant Auditor-General to oversee our performance audit practice, while the other Assistant Auditor-General executive transitioned to lead the Audit Support Group as their Acting Executive Director, while the incumbent executive was on extended leave.

Our planning framework

Our planning framework aligns our Strategic Plan and Annual Plan with our operational business plans, as shown in Figure 2.

[Figure 2] Our planning framework



Our progress against our Strategic Plan

Our Leadership Group prepares and approves our Strategic Plan in consultation with staff. Our Strategic Plan sets out our vision, purpose, objectives and values, and informs our Annual Plan, organisational Business Plan, and divisional business unit plans. Our 2016–17 Strategic Plan was rolled over from 2015–16, with the exception of some updates. We expect to prepare a new four-year plan for 2017–18, with guidance and support from our new Auditor-General.

We detail progress towards our 2015–16 Strategic Plan on page 12.

Our Annual Plan

Our Annual Plan, one of our key accountability mechanisms, sets out our work program for the next two financial years and the resources required to put that program into effect. The plan gives Parliament, the public sector and the community an opportunity to learn about our audit priorities and scrutinise our proposed program. This year, in addition to departments and key integrity and oversight bodies, we broadened our process for consulting stakeholders to include parliamentary committees for the first time.

Our Business Plan

Our Business Plan supports the delivery of our work program and initiatives, as set out in our Annual Plan. It also supports our day-to-day operations and office-wide business improvement projects, as we work towards achieving the objectives in our Strategic Plan.

Our business unit plans

Our business unit plans provide specific blueprints outlining the progress that each business unit makes towards various office objectives in the year ahead.

Individual performance development plans

Every year, each of our staff members prepares a performance development plan. The work priorities identified in each business unit plan are linked directly to specific performance objectives outlined in individual staff performance development plans.

Performance against our 2015–16 Strategic Plan

Here is an overview of progress made during the year against the five objectives in our 2015–16 Strategic Plan.

Objective 1

Being authoritative and relevant

Better targeting of topics, audit effort directed to areas of public value, and promoting broader access to reports.

Achievements during 2015–16

- We tabled 39 reports in Parliament, and produced 647 audit opinions on the financial statements and non-financial performance indicators of agencies (page 14).
- We continued to present at conferences, educational courses and professional groups to promote education of our report findings and to increase awareness of our activities (pages 142–143).
- We continued to produce our ‘Key Audit Themes’ product, a summary of the most frequent and significant audit findings that offer opportunities for agencies to learn from the experience of others (pages 130–141).

Objective 2

Being highly regarded by Parliament

A smooth flow of reports to Parliament, and good engagement with parliamentary committees and individual parliamentarians.

Achievements during 2015–16

- Of surveyed parliamentarians, 98 per cent of respondents agreed that our reports and services provide valuable information on public sector performance (page 48).
- There were 285 Hansard references to our audit reports this year, an increase from 263 in 2014–15 (page 18).
- We made submissions to five parliamentary committee inquiries (page 18).
- We broadened our Annual Plan consultation to include parliamentary committees for the first time (page 11).
- We provided regular briefings to Parliament and ministers, as well as support for, and effective engagement with parliamentary committees and relevant inquiries (pages 18 and 26).

Objective 3

Fostering productive relationships with audit clients

Clients are appropriately informed about audit plans, processes and activities, and our staff foster professional relationships with clients.

Achievements during 2015–16

- We appropriately informed agencies about our audit plans (including our Annual Plan), processes and activities (page 11).
- We established a stakeholder engagement project led by our Performance Audit business unit (page 65).

Objective 4**Fostering a stimulating work environment**

Rigorous performance planning and management, best practice training, and a safe and healthy workplace.

Achievements during 2015–16

- We developed a series of initiatives to improve our office's internal working culture (page 28).
- We improved our performance development plan process so that management and staff clearly understand performance expectations (page 31).
- We were actively involved in the national and international development of public sector audit, through our contributions to the Australasian Council of Auditors-General and the Pacific Association of Supreme Audit Institutions, and the hosting of auditors on secondment from Papua New Guinea (pages 37–38).

Objective 5**Leveraging our systems and processes to improve organisational performance**

Systems and processes are aligned, investment in capability for long-term sustainability, and being a responsible corporate citizen.

Achievements during 2015–16

- We reviewed and re-engineered our Performance Audit methodology (page 62).
- We reviewed and strengthened our audit topic selection framework to increase its rigour (page 61).
- We rolled out an updated audit sampling methodology to enhance our audit approach to tests of controls (page 47).
- We established a new internal consultation policy and database to improve the efficiency and effectiveness of the provision of auditing and accounting advice to our audit engagement teams (page 47).
- We developed a new post-audit quality assurance framework to drive continuous improvement for our audit engagements (page 47).
- We established a specialist data analytics strategy and capability team within the office (page 65).
- We established a strategic audit planning project led by our Performance Audit business unit (page 65).

Continued excellence in delivering our outputs

Our annual performance measures and outputs

The State Budget Papers contain our objectives, the two outputs Parliament holds us accountable for producing, and our supporting performance measures. Commentary is provided below Figures 3 and 4 about how we performed meeting our Output Group 1 and Output Group 2 targets.

[Figure 3] Performance against Output Group 1 targets

Performance measures	Unit of measure	2015–16			Result
		Actual	Target	Performance variation (%)	
Quantity					
Auditor-General's reports	(number)	39	36	8.3	✓
Quality					
Average score of audit reports by external/peer assessors	(per cent)	86	80	7.5	✓
Overall level of external satisfaction with audit reports and services—parliamentarians	(per cent)	86	85	1.2	✓
Timeliness					
Inquiries from Members of Parliament and the public responded to within 28 days	(per cent)	99	95	4.2	✓
Reports completed on time	(per cent)	95	90	5.6	✓
Cost					
Total output cost^(a)	(\$ million)	15	16.7	-10.2	✓

(a) Total output cost excludes revenue recovered mainly from staff secondments.

Note: ✓ Target achieved or exceeded.

[Figure 4] Performance against Output Group 2 targets

Performance measures	Unit of measure	2015–16			Result
		Actual	Target	Performance variation (%)	
Quantity					
Audit opinions issued on the financial statements of agencies	(number)	539	547	-1.5	○
Audit opinions issued on non financial performance indicators	(number)	108	110	-1.8	○
Quality					
External/peer reviews finding no material departures from professional and regulatory standards	(per cent)	80	100	-20	■
Timeliness					
Audit opinions issued within statutory deadlines	(per cent)	98	98	0	✓
Management letters issued to agencies within established time frames	(per cent)	88	90	-2.2	○
Cost					
Total output cost^(a)	(\$ million)	26.0	24.1	7.9	■

(a) Total output cost excludes revenue recovered mainly from staff secondments.

Note: ✓ Target achieved or exceeded. ○ Target not achieved—within 5 per cent variance. ■ Target not achieved—exceeds 5 per cent variance.

Output Group 1: Parliamentary reports and services

Our Output Group 1 targets primarily relate to the reports we table in Parliament on the results of our financial and performance audits. The Auditor-General's parliamentary reports include:

- all performance audit reports
- sector reports on the results of financial audits
- a report on the Annual Financial Report of the State of Victoria
- our Annual Plan
- our Annual Report.



Output Group 1 – Quantity

We tabled 39 reports, exceeding our target of 36. This result consists of 29 performance audit reports, eight Financial Audit reports, and two accountability products (our Annual Plan and Annual Report).



Output Group 1 – Quality

Average score of audit reports

Our reports are independently assessed against criteria set by the Australasian Council of Auditors-General. In 2015–16, eight reports—six performance reports and two financial audit reports—received an average score of 86 per cent, which exceeded our target of 80 per cent.

Overall level of satisfaction

Every year, we survey parliamentarians to find out how satisfied they are with our reports and services. In 2015–16, 37 per cent of parliamentarians responded to our survey (47 out of 127). Of those responding, 86 per cent indicated that overall, they were satisfied or very satisfied with our reports and services. This exceeds our target of 85 per cent.



Output Group 1 – Timeliness

Reports completed on time

In 2015–16, we tabled 95 per cent of our reports within one month of the planned date. These results show that we continue to exceed our target in this area.

Responses to inquiries

In 2015–16, we responded to 99 per cent of inquiries within 28 days, exceeding our target of 95 per cent. This is especially notable because of the 10 per cent increase in inquiries during the year. The inquiries consisted of letters, email messages, telephone calls and online correspondence from various groups, including the general public. Key issues of concern were:

- transport infrastructure projects
- private residential building issues
- bullying in the health sector
- local government matters.



Output Group 1 – Cost

In 2015–16, our budget for the delivery of Output Group 1 Parliamentary reports and services was \$16.7 million. We delivered all parliamentary reports within this budget, at a cost of \$15 million. Delays filling vacancies arising throughout the year meant we spent \$1.7 million less than budgeted.

The cost of individual parliamentary reports—performance audit, financial audit, and accountability products—ranged from \$102 553 to \$618 390. The average cost of a performance audit parliamentary report was \$364 870, a decrease of around \$40 000 from the average cost of performance audit reports in the previous year. This significant decrease is because we published relatively more follow-up audit reports, which cost less than other reports.

In 2015–16, the average cost of a financial audit parliamentary report was \$168 490, a decrease of around \$12 500 from the average cost of financial audit reports produced in 2014–15.

Output Group 2: Audit reports on financial statements

Our Output Group 2 targets primarily relate to our audits of agency financial reports. In addition to audit opinions, we also issue interim and final management letters to advise agencies of issues raised in our audits. The Auditor-General's reports on financial statements include:

- an audit opinion on the Annual Financial Report of the State of Victoria
- a review of the estimated financial statements of the State of Victoria
- audit opinions issued on agencies' financial statements
- audit opinions issued on agencies' non-financial performance statements.



Output Group 2—Quantity

In 2015–16, we issued 539 audited opinions on the financial statements of agencies, and 108 audit opinions on non-financial performance indicators. These results are satisfactory, because they fall within the acceptable variation range (5 per cent of target), and are affected by factors beyond our control—such as machinery-of-government changes, which in turn affect the number of agency financial statements and performance statements we receive each year.



Output Group 2—Quality

In 2015–16, 10 financial audit engagements were subject to a post-audit quality review. Two instances of material departures from Australian Auditing Standards were identified, meaning that we did not meet our target of 100 per cent. The variance is a result of our peer/external review processes, which identified material departures from Australian Auditing Standards for two out of 10 audit engagements. Although all audit engagements reviewed in 2015–16 had sufficient appropriate evidence to support the audit opinion, we will perform a root cause analysis of the review outcomes that resulted in these material departures to identify and implement appropriate remediation.



Output Group 2—Timeliness

Audit opinions issued within statutory deadlines

In 2015–16, we issued 98 per cent of our audit opinions within the statutory deadline of four weeks of receipt of agency financial statements. This meets our target (98 per cent) and continues our record of achieving excellence in this area.

Management letters issued within established time frames

We issued 88 per cent of our final management letters in 2015–16 within the established time frames, just short of meeting our target of 90 per cent. This is a marginal reduction in performance compared with 2014–15 (91 per cent), but well within our acceptable variation range (within 5 per cent), and resulted from delays in clients preparing financial reports, several contentious and complex matters encountered during the financial reporting cycle, and audit opinion qualifications.



Output Group 2—Cost

In 2015–16, our budget for delivering Output Group 2 was \$24.1 million. We delivered all products in Output Group 2 for \$26.0 million (7.9 per cent more than our budget). The additional expenditure was largely a result of increased salary and audit service provider (ASP) costs.

The cost of individual financial audits ranged from \$1 250 to \$850 000, and the average cost of financial audits was \$43 785, a marginal increase (2 per cent) on the average cost of financial audits in 2014–15. The *Audit Act 1994* requires the Auditor-General to charge agencies an amount which is sufficient to defray the reasonable costs and expenses of a financial audit. The estimated cost is determined based on the expected level and range of resources to be used, commensurate with the audit risks and complexity of the audit. We carried out fewer audits in 2015–16 than in 2014–15, which contributed to the increase in the average cost of audits. The change in the number of audits arises from factors beyond our control.

Chief Financial Officer highlights

In 2015–16, we:

- received \$41.4 million in funding from external sources (\$39.7 million in 2014–15)
- increased revenue by 4 per cent from inflation-indexed general appropriation and increases in internally generated Section 29 revenue resulting from increases in the recovery of ASP costs
- increased expenditure by 5 per cent mainly as a result of increased ASP fees and staff salaries
- improved our net assets by \$83 000 from the resultant operating surplus—our financial position remained strong, through increases in financial assets offset by reductions in non-financial assets
- engaged 27 ASPs (24 in 2014–15)
- employed 199 in-house staff at 30 June 2016 (184 at 30 June 2015).

[Figure 5] Financial summary 2015–16 and previous four years

Item	2015–16 (\$'000)	2014–15 (\$'000)	2013–14 (\$'000)	2012–13 (\$'000)	2011–12 (\$'000)	Percentage change 2014–15 to 2015–16
Total revenue	41 383	39 698	38 954	38 654	37 120	4
Total expenses	41 300	39 161	38 994	37 197	36 542	5
Surplus/deficit	83	537	(40)	1 457	578	–85
Financial assets	16 962	15 019	13 965	12 930	10 755	13
Non-financial assets	1 386	1 803	2 326	2 518	2 690	–23
Total assets	18 348	16 822	16 291	15 448	13 445	9
Total liabilities	9 654	8 211	8 217	7 333	6 787	18
Net assets	8 694	8 611	8 074	8 115	6 658	1