Victorian Auditor-General's Office

Annual Plan

2013–14

VAGO

Victorian Auditor-General's Office

Auditing in the Public Interest

VICTORIA

Victorian
Auditor-General

Annual Plan 2013–14

Prepared pursuant to the
requirements of section 7A of the *Audit Act 1994*

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Victorian Auditor-General's Office

Auditing in the Public Interest

The Hon. Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Ken Smith MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

I am pleased to transmit my Annual Plan for 2013–14 in accordance with section 7A of the *Audit Act 1994*.

Yours faithfully

Dr Peter Frost
Acting Auditor-General

26 June 2013

Foreword

The Annual Plan is a key accountability mechanism for the office of the Auditor-General. It gives Parliament, the public sector and the community an opportunity to assess our goals, understand our audit priorities and scrutinise our program.

This is the seventh four-year rolling plan to be prepared and transmitted by this office to the Parliament of Victoria. It describes the selection process for audit topics and provides assurance that our planning is transparent and rigorous. Four years of advance notice of our audits gives public sector agencies the opportunity to critically examine their internal processes and management systems, and to focus on opportunities to improve their performance, well before our audits are conducted. This is the only jurisdiction in Australia giving such lengthy forward notice to the public sector it audits.

In line with our approach in previous years, this Annual Plan has been developed through extensive consultation with a wide range of stakeholders and we have further strengthened our interaction with senior management and the audit committees of public sector agencies. Importantly we have also consulted with the Public Accounts and Estimates Committee (PAEC), as required by our governing legislation.

The Annual Plan has been developed in a period of intense change and rationalisation across the public sector, as many agencies implement new policy priorities, and adapt to the practical outcomes of budget reductions and the drive for greater efficiencies.

It is during these times of change, reorganisation and resource constraint that risks to critical systems and processes can emerge, and service delivery standards can come under pressure. It is in these circumstances especially that independent financial and performance audits are so important in providing objective assurance to Parliament and the community on the probity, performance and compliance of the public sector.

We believe that our audits and the breadth of their coverage across the public sector have an important catalytic effect which influences positive change. We trust that our audit reports serve to continuously improve the efficiency, effectiveness and economy of public sector service delivery, for the benefit of all Victorians.

This year's Annual Plan has been prepared and tabled in the transition between the retirement of the 25th Auditor-General and before Victoria's 26th Auditor-General, Mr John Doyle, commences his appointment on 1 July 2013. Consequently, drawing on the incoming Auditor-General's fresh perspective, the issues and areas of audit priority we have projected in this Annual Plan may well be subject to review and modification. In this regard, PAEC in particular, and public sector agencies more generally, will be kept fully apprised.

Finally, I thank the members of the community, Parliamentarians, public sector staff, and other experts and professionals who have engaged with our planning process to help create a topical and comprehensive program of audits.

Dr Peter Frost
Acting Auditor-General

26 June 2013

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1 Our mandate and outputs

1.1 Our mandate

The Auditor-General provides assurance to Parliament on the accountability and performance of the Victorian public sector. The *Constitution Act 1975* establishes the Auditor-General as an independent officer of the Victorian Parliament.

Under the *Audit Act 1994*, the Auditor-General is responsible for auditing some 550 public sector entities. This includes government departments and agencies, public hospitals and ambulance services, universities and other educational institutions, water authorities, public sector superannuation funds, as well as companies, trusts and joint ventures controlled by public sector agencies.

The Auditor-General is also responsible for auditing the local government sector, which includes municipal councils, the entities they control, and regional library corporations.

Annually, at an aggregate level, these entities collect approximately $71.1 billion in income, spend about $70.8 billion, and hold net assets worth more than $193.7 billion.

The *Audit Act 1994* allows the Auditor-General to access any government information, and to report freely to Parliament on any findings arising from audits. The Auditor-General is not subject to control or direction by either Parliament or the government.

The *Constitution Act 1975* and the *Audit Act 1994* are complemented by other legislation. The *Financial Management Act 1994* requires responsible ministers to provide Parliament with audited financial statements each year, and where applicable, performance statements of entities within their portfolios. The *Local Government Act 1989* requires each municipal council to prepare an annual report containing audited financial and performance statements.

1.2 Our outputs

The Auditor-General undertakes financial audits and performance audits.

When carrying out these activities, the Auditor-General considers whether there has been waste of public resources, or a lack of probity or financial prudence when managing or applying public resources. This is consistent with section 3A(2) of the *Audit Act 1994*.

Our financial audits of public sector entities establish whether financial statements and, where required, non-financial performance statements fairly represent the financial position and performance of audited entities.

Our opinion on each set of statements is issued to the governing body of the entity. An unqualified or 'clear' audit opinion adds credibility to the statements.

Under the Act, the Auditor-General must table a report in Parliament each year on the results of the financial audit of Victoria's Annual Financial Report as well as provide an opinion on the Estimated Financial Statement which is included in the annual Budget papers. The Auditor-General also tables a series of reports on the results of audits of financial and performance statements conducted during the year.

Performance audits focus on whether public sector entities are using resources efficiently, effectively and economically, and in compliance with all relevant legislation. The Act allows for a report on the results of each performance audit to be tabled in Parliament.

The financial and performance audits use methodologies which must comply with the *Audit Act 1994* and *Australian Auditing and Assurance Standards*.

The resources allocated to the Victorian Auditor-General's Office (VAGO) each year reflect the outputs that it expects to deliver, namely:

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

More detail on our performance targets and outputs can be found in Appendix A.

1.3 Amendments to the *Audit Act 1994* and other new legislative obligations

The *Integrity and Accountability Legislation Amendment Act 2012* (IALA) became operational on 11 February 2013 as part of a suite of reforms to Victoria's integrity arrangements and the creation of the Independent Broad-based Anti-corruption Commission (IBAC).

The IALA amends the *Audit Act 1994*, the *Victorian Inspectorate Act 2011* and *IBAC Act 2011* to create:

- New procedural fairness requirements that apply to both VAGO's coercive and some voluntary interactions with agencies and individuals. This includes advance notice requirements for voluntary (non-coercive) information gathering in performance audits, and constraints on content of reports to protect individuals and to prevent 'prejudice' of other investigations and legal proceedings.
- A new oversight regime of VAGO under the Victorian Inspectorate, including mandatory reporting of the use of our coercive functions, and the capacity to receive complaints and investigate certain VAGO functions.
- Mandatory interactions by VAGO with IBAC, including compulsory notification of some matters and the capacity to receive referrals and share information with IBAC and other integrity bodies.

These oversight reforms have had unintended and adverse impacts on VAGO's effectiveness and independence. VAGO is seeking to have these issues addressed through a review of the *Audit Act 1994,* led by the Department of Treasury and Finance. This review is expected to give effect to a range of proposed legislative amendments arising from the Public Accounts and Estimates Committee (PAEC) Inquiry held in 2010.

This legislative reform process is scheduled to recommence after the 26th Auditor-General takes up office in July 2013.

1.4 Changes to the audit program

Appendix D and E of this Annual Plan set out the financial and performance audit focus areas for 2013–14 to 2016–17.

We have published a multi-year program for performance audits since 2007–08, and since the 2010–11 Annual Plan we have included an equivalent forward program for financial audits.

Forecasting our areas of audit focus up to four years into the future gives agencies an opportunity to improve their internal controls, resource management and service delivery practices prior to the conduct of an audit. Our strategic aim is to encourage improvement in agency performance and to maximise the value that our audits can deliver.

However, changes in policies and external factors can influence changes to our audit program. It is important to maintain some flexibility and to make changes, where warranted, to the priority and sequence of prospective areas of audit focus in our multi-year programs so that our work remains relevant and authoritative.

In line with the legislated independence of the role, the Auditor-General retains the discretion to replace and reschedule topics at any time to accommodate high-priority issues that may emerge.

In 2013–14, we are committed to tabling 28 performance audits (28 in 2012–13) as outlined in Section 2.3 of this plan. The Annual Plan lists 29 topics to provide flexibility to our work program if a proposed audit is delayed or deleted. Identifying topics in excess of the number we are able to audit provides a degree of flexibility to respond to changes, while still proceeding with a full program.

1.4.1 External factors influencing our plan

This Annual Plan has been influenced by a range of events and issues which have affected the Victorian community, such as:

- the lingering impact of various global financial issues on Commonwealth and state revenue raising capacity, and the flow-on effect this has on Victoria's underlying financial position
- the impact of a high Australian dollar on some segments of the state's economy, and consequential job losses from corporate restructuring

- recovery and reconstruction efforts to address personal, property and infrastructure impacts of recent bushfires and floods
- challenges to preserve our natural environment and regulate natural resources
- demographic challenges such as declining populations in some areas of the state and intense population growth in others
- a growing number of ageing Victorians with complex and intense needs for various public services
- an increasing demand for services for the most vulnerable in our community, particularly children, people with disabilities, and Indigenous Victorians
- a growing gap between demand for a wide range of essential infrastructure and capacity to fund and deliver projects.

Environmental scanning conducted when developing this Annual Plan has also identified a range of specific challenges for the public sector over coming years, such as:

- the impact of downsizing and rationalisation on capacity, capability and corporate knowledge in departments and agencies due to implementation of the *Sustainable Government Initiative*
- a need for better assurance and oversight of the quality and adequacy of public sector services, particularly when there are expectations for agencies to do more with less
- continued demands by citizens and other stakeholders for greater transparency, responsiveness and accountability within public sector agencies.

In addition to the results of our environmental scanning, the Auditor-General responds to concerns raised by Parliamentarians, public servants or members of the public about the performance of public sector agencies, and exercises discretion as to whether these concerns will be reviewed as part of a financial or performance audit.

1.4.2 Concurrent and cross-jurisdictional audits

As a member of the Australasian Council of Auditors-General (ACAG), VAGO actively collaborates with Auditors-General in other jurisdictions to identify and deliver concurrent performance audits.

We tabled an audit in February 2013 called *Addressing Homelessness: Partnerships and Plans*. This audit is part of an ACAG initiative to conduct a concurrent audit across Australian jurisdictions in an area of national importance. All jurisdictions, except for South Australia and New South Wales, are participating in the concurrent process, with each tabling its own performance audit report on homelessness.

VAGO is currently working with ACAG partners to define the next possible concurrent audit focusing on an area of state and national significance. This audit is expected to be delivered in the 2014–15 financial year.

1.5 Consultations to inform the Annual Plan

The Annual Plan is a public document after it has been tabled in the Victorian Parliament. It is also made available on VAGO's website for any interested person to read.

The previous year's published Annual Plan is the starting point for our comprehensive consultation process which involves PAEC, key public sector agencies and community stakeholders.

1.5.1 Consultation with PAEC

We met with PAEC in early December 2012 to outline our proposed areas of focus for financial and performance audits from 2013–14 to 2016–17. This consultation has enabled us to understand the committee's views about our proposed areas of audit focus.

During the consultation to date, PAEC has sought clarification on the rationale for certain audits, and specifically queried timing of the performance audit 'Access to services for culturally and linguistically diverse communities'. In light of PAEC's feedback about the significance of this audit, we now propose to table it in 2013–14.

Section 7A(1)(b) of the Act requires us to submit the draft Annual Plan to PAEC for comment. Our Act also requires us to indicate in the Annual Plan the nature of any changes suggested by PAEC that have not been adopted.

The draft Annual Plan was provided to PAEC on 14 May 2013, PAEC's response is at Appendix G, together with our consideration of PAEC's comments.

1.5.2 Consultation with key public sector agencies

Each year we formally consult with key agencies and departments on the development of the Annual Plan to:

- obtain information on any policy, program or machinery-of-government changes we should consider
- seek their comments on drafts of our proposed topics.

In parallel, we also meet with senior management teams to discuss our rationale for certain topics and to receive feedback on the agency's context and future direction.

This year, we also formally consulted with a range of Victoria's oversight and integrity bodies to inform them of our proposed forward program, and to seek to avoid overlap of activity, where possible or desirable.

1.5.3 Consultation with community stakeholders

We consult broadly with the wider community when we are reviewing our previous plan and confirming areas of audit interest for the next four years.

We use a number of community engagement techniques, including:

- online surveys
- targeted discussions with key stakeholder groups
- facilitated focus groups with service users and other stakeholders
- roundtable discussions involving academics and relevant industry experts.

2 Proposed audit activity 2013–14

2.1 Introduction

This section of the Annual Plan provides detail on our financial audit areas of focus and performance audit topics for 2013–14.

2.2 Financial audit

2.2.1 The financial audit framework

The *Financial Management Act 1994*, the *Corporations Act 2001*, the *Associations Incorporation Reform Act 2012* and the *Local Government Act 1989*, require public sector entities to report annually on their financial results and year-end balances in a financial report. The reports are prepared in accordance with prescribed reporting frameworks. Further information about the legislative framework for financial reporting is set out in Appendix B.

Section 9 of the *Audit Act 1994* requires the Auditor-General to provide an opinion on these financial reports. In 2013–14 we expect to provide audit opinions on 559 financial statements (553 in 2012–13), and 115 performance statements (115 in 2012–13). The increase in audit opinions is the net result of the creation, abolition or amalgamation of financial reporting entities as well as the removal of entities from our audit mandate.

A financial audit is more than just verification of 'the numbers'. Australian auditing standards impose a responsibility on auditors to comprehend the operational context, assess the reliability and integrity of related systems, processes and the control environment, and to consider compliance with laws and regulations.

When conducting our financial audit work, we also give regard to whether there has been waste of public resources, or a lack of probity or financial prudence in managing or applying public resources, as required by section 3A(2) of the Act. Further information on how an opinion is formed on the financial results of an entity is set out in Appendix B.

2.2.2 Selecting areas of financial audit focus

The internal systems and controls which operate over the most significant and high-risk balances and transactions in an entity are examined and tested each year by auditors. Other systems and controls are assessed annually, but tested less frequently. By coordinating our audit coverage of these systems across entities, we are able to draw out and report on systemic issues.

Examples include:

- Our focus areas of 'audit committees', 'declarations of interest' and 'internal audit' relate to assessments of an entity's governance, as required by ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment.*
- Our focus area of 'asset management' is concerned with the controls over asset valuations and depreciation in the financial report, an assessment required under ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates*, and *Related Disclosures*.
- Our focus areas of 'student fee revenue' in tertiary education and 'rate revenue' in local government are part of assessing whether the entity is a going concern and the use of that assumption when the entity prepares its financial report, as required by AASB 101 *Presentation of Financial Statements and* ASA 570 *Going Concern*.

The areas of financial audit focus are aligned with the various components of the financial report:

- **comprehensive operating statement**—disclosing income, expenditure, the net result from transactions, the net result and the comprehensive result
- **balance sheet**—disclosing the asset, liability and capital and equity balances
- **explanatory note disclosures**—supporting detailed disclosures, and explaining the balances and amounts in the statements.

2.2.3 Areas of financial audit focus for 2013–14

This section sets out the areas of financial audit focus we propose to report on in 2013–14, and the sectors affected. They will form part of our cyclical assessment of internal controls conducted during our 2012–13 audits and 2013 non-June audits.

Areas of financial audit focus related to the *comprehensive operating statement*
• Private patient fees—public hospitals
• Procurement—tertiary education and water entities
• Rate revenue—local government
• Use of contractors and temporary staff—portfolio departments

Private patient fees—public hospitals

Private patient fees paid to public hospitals provide a stream of income over and above funds provided by government for public patient services under the 'casemix' funding model. The additional income enables hospitals to maintain and deliver quality services and improve hospital facilities.

Private patient fee income was worth more than $311 million in 2011–12. This represented up to 8 per cent of total revenue at some larger metropolitan and rural hospitals and more than 20 per cent at other rural hospitals. It is important that these fees are accurately calculated, and appropriately receipted. Debt collection procedures also need to be effective.

We will assess private patient fee collection in all 87 public hospitals, examining governance and oversight, policies and procedures, management practices, and also assessing against better practice.

Procurement—tertiary education and water entities

In 2011 the tertiary education sector procured goods and services worth $2.13 billion and purchased fixed assets worth $1.08 billion. The water sector spent around $1.06 billion on goods and services and another $1.8 billion on fixed assets in 2011–12. In light of such large expenditures, it is important that procurement is efficient and that that potential cost savings are realised.

Purchases made by tertiary education and water entities are subject to Victorian Government Purchasing Board policies. Each entity is required to implement and maintain an effective internal control framework over procurement. The framework should operate to give assurance that procurement satisfies business needs, is suitably authorised, provides open and fair competition, is transparent, and has met probity requirements.

We will assess procurement within the eight universities, 14 TAFE institutes and 19 water entities. We will review governance and oversight, policies and procedures, management practice, and also assess them against better practice.

Rate revenue—local government

Councils are highly dependent on self-generated revenue. In 2012, councils collected almost $4 billion (49 per cent) of their revenue from rates, user fees and other charges. Rate revenue is a critical part of our assessment of whether a council is a going concern.

Rate revenue continues to rise, and in many instances is increasing faster than the Consumer Price Index. Rates have not increased uniformly across different types of rateable properties. Revenue has increased significantly for certain property types.

We will assess rate revenue practices in all 79 Victorian councils by reviewing rate trends over five years, and council rating strategies against better practice. There will be additional analysis of council financial sustainability, including their ability to maintain existing infrastructure and undertake capital works.

Use of contractors and temporary staff—portfolio departments

The Victorian public service had 32 867 employees across 11 portfolio departments at 30 June 2012. Recent staff cuts may have relieved the state's cost burden from employee wages, but demand for public services is continuing to increase. Given their reduced staffing profile, departments may choose to engage contractors and temporary staff, instead of employees, in order to meet that demand.

Portfolio departments are not required to separately disclose the cost of contractors and temporary staff in their financial or annual reports. Consequently the total amount spent on staff across departments is unknown. Hiring of temporary rather than ongoing staff may result in an underestimation of payroll costs, and potentially, an underestimation of executive officer remuneration.

We will assess the level of use of contractors and temporary staff in all portfolio departments and related matters by reviewing contract management, performance management, contract extensions, disclosures relating to contractors, and the cost of labour hire over time.

Areas of financial audit focus related to the *balance sheet*

- Treasury management—water entities

Treasury management—water entities

Borrowings by water sector entities have grown significantly in recent years to fund an extensive capital expenditure program. The 19 water entities had borrowings of $9.1 billion with Treasury Corporation of Victoria at 30 June 2012.

All borrowings are sourced from Treasury Corporation of Victoria in accordance with the *Borrowings and Investment Powers Act 1987*. The government has a number of debt management objectives including maintaining net state debt at a prudent level, access to financial markets, minimising borrowing costs and effectively managing the state's financial risks.

We will assess treasury management in the 19 water sector entities by reviewing policies, management practices, and governance and oversight and compare these against better practice.

Areas of financial audit focus related to *explanatory note disclosures and general internal controls*

- Audit committees—local government
- Business continuity and information technology disaster recovery planning—portfolio departments
- Financial policies and delegations—tertiary education
- Information technology change management—water entities
- Information technology security—water entities
- Risk management—public hospitals

Audit committees—local government

The *Local Government Act 1989* requires each local council to establish an audit committee. The committee is a key element of a council's governance structure.

In January 2011, Local Government Victoria published better practice guidelines for councils on the establishment and operation of audit committees. The guidelines have been circulated to all councils.

We will assess the establishment of audit committees at all 79 councils by reviewing their charter, governance and oversight, internal and external audit oversight, and assessing the arrangements in place against Local Government Victoria's better practice guidance.

Business continuity and information technology disaster recovery planning—portfolio departments

Business continuity planning counteracts interruptions to critical business processes from natural disasters, equipment failures, deliberate actions and accidents and thus facilitates the timely resumption of operations.

The business continuity plan (BCP) is an umbrella plan containing a major component known as the disaster recovery plan (DRP). The focus of a DRP is to restore operations and critical business processes after a disaster has occurred.

An inadequate BCP could result in costly disruptions to critical business processes and the delivery of essential community services. It could also lead to a loss of information assets, a risk of material misstatement of financial statements, and loss of reputation. The Whole of Victorian Government *Information Security Management Framework* outlines the need for both a BCP and a DRP.

We will review the management controls within the portfolio departments over BCPs and DRPs, associated risk assessments and the testing and maintenance of established plans.

Financial policies and delegations—tertiary education

Financial policies set out the principles and rules within entities to guide decisions, while also achieving desired outcomes. Financial delegations allow the delegation of authority and responsibility from the responsible person in an entity to another party. Taken together, financial policies and delegations set an important control framework within entities for the management of day-to-day operations.

Deficiencies in financial policies and delegations and delays in reviewing their relevance and effectiveness could leave an entity open to misappropriation or inefficient use of public resources, as well as noncompliance with legislation and accounting standards.

We will assess policy, management practices, and governance and oversight relating to financial policies and delegations within the eight universities and 14 TAFE institutes.

Information technology change management—water entities

In recent years, spending on software and hardware in the water sector has been significant. More attention has been given to the need to comply with legislated emergency responses, and a number of entities have introduced new financial reporting systems.

Public sector agencies are encouraged by the Department of Treasury and Finance to implement the Whole of Victorian Government *Information Security Management Framework*. The framework outlines change management requirements based on ISO standards.

We will assess IT change management controls at the 19 water entities. We will review related policy, management practices, and governance and oversight against elements of better practice.

Information technology security—water entities

Information security is designed to protect applications and IT infrastructure and information assets from threats, enable business continuity, minimise business risk, eliminate fraud and error, meet business objectives and protect personal and sensitive information from theft or unauthorised access.

The Whole of Victorian Government *Information Security Management Framework* outlines standards for information security management which public sector agencies are encouraged to implement.

We will assess IT security at the 19 water entities by reviewing related policy, management practices, and governance and oversight.

Risk management—public hospitals

Communities depend on public hospitals for their health and wellbeing. Hospitals need to meet demand, and provide adequate services to those in need by effectively managing significant risks—including adverse patient outcomes, pandemics, staffing issues, failure of information systems, and financial loss.

The *Financial Management Act 1994* requires hospitals to develop, implement and review a risk management strategy. The strategy should be closely monitored by the governing board to support effective discharge of governance and oversight responsibilities. Hospitals should also comply with the Department of Treasury and Finance's 2011 *Victorian Government Risk Management Framework* which is the minimum risk management standard for public sector entities.

We will assess the risk management frameworks in place at the 87 public hospitals by reviewing policies, management practices and governance and oversight, and also compare them with better practice.

2.2.4 Reporting the results of the 2013–14 financial audits

Section 16 of the *Audit Act 1994* empowers the Auditor-General to report to Parliament on the results of audits and to include any information that the Auditor-General thinks is desirable in relation to the matters subject to audit. Parliamentary reports on the results of financial audits routinely comment on:

- the effectiveness of internal controls
- the timeliness of financial reporting
- financial sustainability of entities
- financial reporting developments, and performance reporting where applicable.

In October 2013 we propose to table the Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2012–13.

We also propose to table four reports in November 2013 on the results of our 2012–13 financial audits of local government, portfolio departments, public hospitals, and water entities. We plan to report on the results of the 2013 audits of the tertiary education sector and other entities in May 2014.

The Act requires the Auditor-General to prepare a review report on the Estimated Financial Statements for the general government sector. The report will be included in the 2014–15 Budget Papers which will be presented to Parliament in May 2014.

Further information about reports proposed for tabling during 2013–14 is shown in Figure 2A.

Figure 2A
Parliamentary reports on results of financial audits to be tabled in 2012–13

Report title	Proposed report topics
Whole-of-government	
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2012–13	The results of the audit of the State's Annual Financial Report addressing the quality and timeliness of financial reporting, significant financial results for the state and financial implications of significant projects and developments during 2012–13 and subsequent to year end.
Portfolio or sector specific	
Local Government: Results of the 2012–13 Audits	The results of the audits of approximately 103 entities in the local government sector addressing their financial performance and sustainability, performance reporting, management of rate revenue, and the operation of audit committees.
Portfolio Departments and Associated Entities: Results of the 2012–13 Audits	The results of the annual financial statement audits of approximately 204 entities, commenting on financial results, reporting developments, use of contractors and temporary staff, and management of business continuity and information technology disaster recovery planning.
Public Hospitals: Results of the 2012–13 Audits	The results of the annual financial statement audits of approximately 113 entities in the public hospital sector, addressing their financial performance and sustainability and management of private patient fees and risk.
Water Entities: Results of the 2012–13 Audits	The results of the audits of the 19 entities in the water sector addressing their financial performance and sustainability, performance reporting, management of their treasury functions and procurement, and information technology security and change management.
Tertiary Education and Other Entities: Results of the 2013 Audits	The results of the annual financial audits of approximately 106 entities with a financial year end other than 30 June 2013, addressing their financial performance and sustainability, performance reporting, their financial policies and delegations and management of procurement.

Source: Victorian Auditor-General's Office.

2.2.5 Current and future areas of financial audit focus from 2013–14 to 2016–17

Appendix D presents the areas of financial audit focus for 2013–14 and future areas of financial audit focus for 2014–15 to 2016–17, by report, for each major financial statement component.

These future areas of focus are an indicative program from which we will develop our future annual plans. While they show our current assessment of audit risks, we may need to revise our plan over time to respond to emerging issues so that our audit coverage remains relevant and responsive.

2.3 Performance audit

2.3.1 Selecting areas of audit focus

Our areas of performance audit focus are selected within a framework that considers the performance of the public sector against the 'five goals for a stronger, fairer and safer Victoria'. These high-level goals were outlined in the Governor's speech at the opening of the 57th Parliament on 21 December 2010.

The five goals are:

- a growing economy
- services that work
- strong families and vibrant communities
- secure water and a healthy environment
- government you can trust.

We identify areas for audit coverage that are major contributors to achieving these goals. More detail about our performance audit topic selection framework can be found in Appendix C.

2.3.2 Areas of performance audit focus for 2013–14

This section sets out our areas of performance audit focus for 2013–14. For each audit listed, the final audit approach will be set after the completion of detailed planning. This process includes consultation with the Public Accounts and Estimates Committee and relevant departments and agencies.

A growing economy
• Apprenticeship and traineeship completion
• Asset management and maintenance by councils
• Developing transport infrastructure and services for population growth areas
• Tourism strategies

Apprenticeship and traineeship completion

Victoria has a skills shortage in key industrial trades that require workers with apprenticeship and traineeship qualifications. The Victorian Training Guarantee aims to increase the supply of skilled workers in response to a changing labour market, improve productivity, and encourage participation in education.

The Victorian Training Guarantee provides subsidies for eligible Victorians in nationally recognised training. Apprenticeship and traineeship enrolments increased by 10 and 49 per cent respectively from 2008 to 2011. Enrolments have concentrated on traditional trades for apprenticeships and on professional services, manufacturing and wholesale industries for traineeships.

This audit will assess the effectiveness of measures to reform the Victorian apprenticeship and traineeship system. In particular, it will review retention and completion rates and the effectiveness of subsidies.

Asset management and maintenance by councils

Local councils managed around $67 billion in assets in 2011–12. Councils are required to appropriately plan for, develop and maintain these assets.

Councils are also required to implement principles of sound financial management under the *Local Government Act 1989* and associated regulations. Councils should also develop and implement their own asset policies and practices, guided by applicable policy frameworks.

This audit will assess how well councils are managing and maintaining their physical assets and whether asset management planning takes into account changing community needs and circumstances.

Developing transport infrastructure and services for population growth areas

Melbourne's population is growing rapidly and is expected to reach over 5 million before 2030. Much of this growth is expected to occur in the outer Melbourne growth areas of Cardinia, Casey, Hume, Melton, Mitchell, Whittlesea and Wyndham.

Past and ongoing rapid population growth is creating a major challenge for the state to provide the transport infrastructure and services needed to sustainably support these growing communities.

The *Transport Integration Act 2010* outlines that transport and land use should be effectively integrated to improve accessibility and transport efficiency.

This audit will assess the effectiveness of state agencies in planning and delivering transport infrastructure and services to population growth areas.

Tourism strategies

Victoria's tourism industry is one of the state's largest revenue sources, employing at least 185 000 Victorians and contributing around $15.9 billion to the economy in 2010–11. Over $350 million has been spent on tourism marketing and product development strategies since 1999.

In 2006 a *10 year Tourism and Events Industry Strategy* was launched followed by *Victoria's China Tourism Strategy* in May 2012. A broader Tourism 2020 strategy is expected to be released in 2013.

These strategies have focused on marketing Victoria to domestic and international audiences, attracting and facilitating investment in tourism infrastructure, aviation access improvements, and building skills and capacity in the tourism workforce.

This audit will assess the effectiveness of strategies, programs and initiatives designed to develop and support Victoria's tourism industry.

Services that work

- Access to education for rural students
- Accessibility of mainstream services for Aboriginal Victorians
- Clinical ICT systems in the Victorian Public Health Sector
- Occupational health and safety risk in public hospitals
- Oversight and accountability of committees of management
- Prevention and management of drug use in prisons
- Prisons: Health and transportation
- Residential care services for children
- Shared services in local government

Access to education for rural students

Student retention rates are typically lower in regional communities than in metropolitan areas. Regional students also have lower participation rates in higher education. The 2009 Parliamentary *Inquiry into Geographical Differences in the Rate in which Victorian Students Participate in Higher Education* recommended the adoption of a range of interventions to address barriers to participation.

The Rural Education Reference Group was established in 2011 to improve opportunities for rural and regional students. The Department of Education and Early Childhood Development runs targeted programs in rural schools to improve student retention rates, and attract and retain high quality teachers.

This audit will assess the effectiveness of programs to support equitable access to education in rural and regional Victoria including actions taken in response to the 2009 Parliamentary Inquiry.

Accessibility of mainstream services for Aboriginal Victorians

There are significant gaps between Aboriginal and non-Aboriginal health, education, employment and life expectancy outcomes in Victoria. The 2006 Australian Census estimated that there are approximately 30 000 Aboriginal Victorians, with about half of them living in regional areas. While tailored service delivery is available in some areas, given the population size and distribution, most Aboriginal Victorians must rely on mainstream services.

Bridging gaps in wellbeing is central to the strategies outlined in *A Fairer Victoria*, the *Victorian Indigenous Affairs Framework* 2010–13 and the Council of Australian Government's *Closing the Gap* goals and targets.

This audit will assess the effectiveness of strategies in improving the accessibility of selected mainstream services for Aboriginal Victorians and the process used to develop those strategies.

Clinical ICT systems in the Victorian Public Health Sector

Clinical information and communication technology (ICT) systems are designed to improve healthcare delivery and outcomes by making the provision of care more efficient, better managing available resources, and attracting and retaining a highly skilled workforce.

Expenditure on the Health*SMART* program has exceeded $400 million since its approval in 2003. However, the program has ceased and no further development will be funded by the Victorian Government, with ongoing costs of existing Health*SMART* infrastructure to be borne by individual health services using the ICT products.

A number of hospitals that were not part of the Health*SMART* program have implemented clinical ICT systems using internal funds.

This audit will assess the effectiveness of the rollout of clinical ICT systems in a selection of hospitals in Victoria, and whether intended benefits are being realised.

Occupational health and safety risk in public hospitals

Health workers make up almost 4 per cent of Victoria's employees. Occupational health and safety (OHS) incidents involve significant costs to health services including medical and legal expenses, and indirect costs resulting from absenteeism, poor performance, and reduced efficiency. As employers, health services are responsible for preventing and managing OHS risks to their staff and patients.

Common risks include incidents involving violence and aggression, manual handling and needle stick injuries as well as work load, fatigue and sleep deprivation, which may lead to adverse events. The Department of Health is responsible for a range of programs and policies to support health services and professionals, including promoting safe working environments.

This audit will assess how well health services, with support from the department, are managing OHS risks for their workforce.

Oversight and accountability of committees of management

The Department of Environment and Primary Industries (DEPI) will be responsible for managing around 11 500 public land reserves. DEPI will manage 4 000 of these reserves directly, while the remainder are managed by committees of management appointed by the minister under the *Crown Lands (Reserves) Act 1978*.

Committees of management have extensive powers, particularly in relation to developing land, managing tenure arrangements, and overseeing financial and contract arrangements.

This audit will assess the effectiveness and efficiency of committees of management and their compliance with the Act. It will also examine the quality of DEPI's oversight of these committees.

Prevention and management of drug use in prisons

The *Victorian Prisons Drug Strategy* (VPDS) 2002 aims to prevent drugs entering prisons, minimise drug-related harm, and give a balanced approach between control and detection, and treatment and health.

Corrections Victoria, a service agency within the Department of Justice, is responsible for directing, managing and operating Victoria's corrections system including implementing the VPDS.

This audit will assess how effectively and efficiently Corrections Victoria has prevented supply, demand and harm of drugs in prisons.

Prisons: Health and transportation

Health and transportation services for prisons are contracted out for an approximate total value of $207 million and $39 million respectively. Many core functions of Corrections Victoria rely upon the effective management of these contracts.

The Justice Health Unit within Corrections Victoria was set up in 2007 to administer health services for prisoners across the justice system. The Justice Health Unit engaged a centralised provider in 2008 to deliver all health services in state and private prisons over four years.

The Department of Justice re-tendered the transport contract in 2009 for a five-year period. This includes all prisoner transportation services for Victoria Police, the Department of Justice, the Department of Human Services and private prisons.

This audit will assess whether contracted services for prison health and transport are operating effectively, providing value for money and allocating optimal risk to contractors.

Residential care services for children

Residential care provides short-, medium- and long-term out-of-home care in community-based facilities for children and young people aged mainly 12–17 years who are unable to be placed in foster, kinship or permanent care. Around 500 children and young people live in residential care across Victoria. The Department of Human Services contracts community service organisations to run these residential units.

Children in residential care generally fare worse than children in home-based care across a range of indicators. Residential care can impact on their quality of health, education, income, employment and personal relationships.

The audit will examine how effectively the department provides services to support appropriate and stable outcomes for children in residential care. This includes safety and quality within the residential care system, individual care planning and leaving care services.

Shared services in local government

Councils spend more than $4 billion per year to provide local services and infrastructure. Many councils are experiencing difficulty in meeting these costs, which increases the need to seek efficiencies through alternative service delivery methods such as shared services.

The Municipal Association of Victoria, together with the Department of Transport, Planning and Local Infrastructure, is leading the $4.7 million Councils Reforming Business Program which was introduced in 2007. The program assists councils to develop and implement new programs to boost efficiency, reduce costs and provide better services to communities. Shared services is one of the five key priority areas in the program.

This audit will assess whether councils are effectively using shared services to improve service delivery and achieve savings, and the effectiveness of support provided by Local Government Victoria through its shared services program.

Strong families and vibrant communities

- Access to services for culturally and linguistically diverse communities
- Implementation of the Strengthening Community Organisations action plan
- Managing emergency services volunteers
- Recreational maritime safety

Access to services for culturally and linguistically diverse communities

Non-English speaking migrants or refugees can experience problems when accessing government services as a result of cultural and language factors. In particular, refugees are likely to have intensive service needs in the areas of health and education.

As a general rule, the public sector provides access to many services, with some subject to eligibility rules. These include health, education, transport, justice and a range of social services, such as public housing. However, a more proactive approach may be required to make sure that migrants and refugees are able to fully access services.

This audit will assess the extent to which individuals from culturally and linguistically diverse backgrounds are able to access critical public sector services, including health and education, with a particular focus on refugees.

Implementation of the Strengthening Community Organisations action plan

The not-for-profit and community sector plays an important role in providing a range of community services. There are over 140 000 community organisations in Victoria that contribute to the delivery of services, including health, education, aged care and social services.

In 2008, the government developed an action plan for Strengthening Community Organisations to improve the capacity and long-term sustainability of the community sector. The Office for the Community Sector was established to oversee implementation of the plan. The government has invested $13.8 million for the delivery of initiatives under the plan over four years, from 2008–09 to 2011–12. These community or not-for-profit organisations in Victoria deliver around $2.2 billion in government programs.

This audit will assess the overall implementation of the action plan. It will also assess how effectively the Office for the Community Sector has implemented a selection of key actions, and the extent to which expected outcomes have been achieved.

Managing emergency services volunteers

Volunteers contribute an estimated $10 billion a year to the Victorian economy. The Country Fire Authority has around 58 000 volunteers and the Victorian State Emergency Services around 5 500.

The 2009 Black Saturday fires and widespread flooding in 2010 and 2011 demonstrated the importance of having effective strategies to attract and retain volunteers, and appropriately train them to maintain their capacity and capability.

This audit will assess the effectiveness of volunteer management strategies to meet Victoria's emergency service needs. In particular, it will focus on volunteer recruitment and retention, training and education, and resource allocation.

Recreational maritime safety

The most recently available data shows that the number of hospital-treated injuries resulting from recreational boating activity increased by approximately 70 per cent over five years to 2007–08. One of the key factors—increasing congestion on waterways—is due to sustained growth in shipping, other commercial traffic and recreational boating activities.

The *Marine Safety Act 2010* and *Marine Safety Regulations 2012* aim to provide safe maritime operations in Victoria.

This audit will assess whether agencies have improved the safety of Victoria's waterways for recreational vessels, including a review of Transport Safety Victoria—the body responsible for recreational maritime activities.

Secure water and a healthy environment

- Managing Victoria's timber resources
- Operating water infrastructure using public private partnerships

Managing Victoria's timber resources

The timber industry employs over 25 000 people and generates more than $400 million annually. Every year the industry contributes around $1.5 billion to Victoria's economy through forestry business expenditure.

The 2011 *Timber Industry Action Plan* replaced the 2009 *Timber Industry Strategy* and aims to provide a productive, competitive and sustainable Victorian timber industry.

Without effective management, timber harvesting can lead to long-term adverse impacts on forest ecosystems, loss of biodiversity and water quality and productive uses and recreation. Ineffective management of timber resources may also impact on employment within the sector and have associated social impacts.

This audit will assess whether native forest timber resources on public land are being managed in a productive and sustainable manner.

Operating water infrastructure using public private partnerships

Outsourcing the provision of water infrastructure and services can be an effective approach in a resource-constrained environment. Water is an essential service that needs robust quality standards, assured provisions and security. Achieving value for money from such partnerships requires the delivery of specified services that meet water quality standards at intended costs, and sustain contracted risk allocations. This approach needs to be supported by appropriate contract management and performance monitoring practices.

In addition to the Victorian Desalination Plant, a range of public private partnerships have been established in the water sector. They include the Wodonga Wastewater Treatment Plant, the Campaspe Water Reclamation Scheme, the Ballarat North Water Reclamation, and the Aqua 2000 Project. The combined value of these four projects is $204 million.

This audit will assess the operational effectiveness of public private partnerships for water and wastewater treatment.

Government you can trust

- Asset confiscation scheme
- CenITex
- Implementation of the government risk management framework
- Management of environmental levies and charges
- Managing consultancies
- Managing telecommunications usage and expenditure
- Performance reporting systems in education
- Racing industry: Grants management
- Regulation of public sector insurance schemes
- WoVG *Information Security Management Framework*

Asset confiscation scheme

The *Confiscation Act 1997* provides for the restraint and forfeiture of property, and the management and disposal of goods derived from the proceeds of crime. The estimated value of criminal assets frozen in Victoria has increased from around $3.5 million in 1999–2000 to $61.5 million in 2011–12. The scheme paid $6.4 million to victims of crime in 2011–12.

The Asset Confiscation Scheme requires cooperation across multiple agencies including:

- Victoria Police, which is responsible for dealing with more complex matters arising under the Act and preparing legal documents for the Office of Public Prosecutions
- the Office of Public Prosecutions, which deals with asset confiscation and matters arising under the Act
- the Asset Confiscation Operations, which is responsible for managing and governance of the scheme.

This audit will assess how effective, efficient and economical the Asset Confiscation Scheme is in achieving the objectives of the *Confiscation Act 1997*.

CenITex

The Centre for IT Excellence (CenITex) is a government entity created in July 2008 by the Department of Treasury and Finance. It partnered with the department through its previous Government Services Division to deliver the government's Efficient Technology Services Program, which has now concluded.

CenITex currently provides services to most government departments and a number of associated agencies. It runs three streams of work: business as usual, transformation and project management.

This audit will assess the efficiency and effectiveness of the CenITex information and communication technology consolidation strategy and quality of service delivery to customers, as well as achievement of expected value for money since its establishment.

Implementation of the government risk management framework

The State of Victoria is one of Australia's biggest businesses, with more than 265 000 public sector employees, revenue in 2011–12 of around $54.5 billion and assets in the order of $221.5 billion. An important component of public sector governance is the identification, assessment, management and reporting of public sector risks.

The Department of Treasury and Finance and the Victorian Managed Insurance Authority are responsible for overseeing financial, insurable and non-financial risks across the Victorian public sector. It is essential that an effective risk management framework is in place to manage public sector risk to best practice standard.

This audit will assess whether the government's risk management framework is being effectively implemented to manage risk.

Management of environmental levies and charges

A large proportion of Victoria's residents and businesses pay levies and charges to fund environmental programs and activities. The combined value of the parks, waterways and drainage, waste, and water management levies and charges was around $540 million in 2011 and $600 million in 2012.

These levies and charges include the parks charge collected by water authorities, the waterways and drainage charge collected on behalf of Melbourne Water, the environmental contribution collected by water authorities and the landfill and industrial waste levies collected by the Environment Protection Authority.

This audit will assess how effectively and efficiently selected agencies collect, manage and use environmental levies and charges.

Managing consultancies

Consultants can be engaged to provide expert analysis and advice as an input into policy formation and decision-making, or to perform specific tasks. Government departments and agencies are required to disclose details of consultancies costing over $10 000 in their annual reports. In 2011–12, government departments disclosed 82 such consultancy arrangements with a total cost of $6.2 million.

Departments and agencies should engage and manage consultants in compliance with relevant procurement and disclosure requirements and obtain value for money from these arrangements. Consultancy advice should also be made public as appropriate.

This audit will assess whether selected departments and agencies are managing consultants effectively and efficiently. It will review compliance with relevant requirements for the engagement, management and disclosure of consultants, and whether consultancy advice is actively used to improve public sector operations.

Managing telecommunications usage and expenditure

In Victoria, all public sector agencies are able to opt in to a State Purchase Contract for fixed line, mobile and data telecommunication services. Recent reviews and investigations in other states have found that better management and oversight of telecommunications usage and costs can achieve significant savings.

Better monitoring can minimise waste and reduce the risk of overcharging, provide more proactive management of contracts to extract value and detect inappropriate telecommunications usage by employees.

This audit will assess whether agencies with a significant telecommunications spend are achieving value for money by controlling spend, ensuring efficient phone use and monitoring supplier compliance with contract arrangements.

Performance reporting systems in education

The Department of Education and Early Childhood Development (DEECD) is responsible for administering the early childhood, school, and vocational education and training sectors.

Effective performance reporting by DEECD is critical for evaluating and continually improving its services, programs and policies.

The effectiveness of DEECD's data control systems, and the quality and reliability of data reported by educational providers forms the foundation for the department to meet its compulsory reporting and accountability of educational outcomes.

This audit will assess the effectiveness of DEECD's information management systems, processes and controls.

Racing industry: Grants management

The racing controlling bodies—Racing Victoria Limited, Harness Racing Victoria and Greyhound Racing Victoria—perform a range of functions including setting the rules of racing, providing integrity services and other compliance functions, and supporting industry development.

Over the period 2011–12 to 2014–15 the racing industry will receive $79.5 million for industry development. The Department of Justice, through the Office of Liquor, Gaming and Racing, manages the grants programs to disburse these funds to the industry.

This audit will assess whether the Department of Justice and controlling bodies are effectively and efficiently managing racing industry grants. It will review operational objectives, risk management, accountability and value for money.

Regulation of public sector insurance schemes

Public sector insurance agencies have substantial assets and liabilities. They also generate substantial annual premiums to fund those liabilities. These agencies are required to submit an annual attestation to the Department of Treasury and Finance, which acts as the Prudential Supervisor.

In 2010 a Prudential Insurance Standard was introduced for Victorian Government insurance agencies. The standard is designed to safeguard the interests of policyholders, make sure that schemes have sufficient assets to fund liabilities, and to minimise any adverse impacts on the state's financial position.

This audit will assess the compliance of Victorian WorkCover Authority, the Transport Accident Commission and the Victorian Managed Insurance Authority with the requirements of the prudential insurance standard.

WoVG Information Security Management Framework

In 2012, the Department of Treasury and Finance refreshed the standards and guidelines associated with the whole of Victorian Government (WoVG) *Information Security Management Framework*. Recently announced machinery of government changes will see this function move to the Department of State Development, Business and Innovation from 1 July 2013.

The framework aims to deliver greater efficiency and value for money for agency information security investment, by providing a common approach. It also aims to improve data sharing and provide a common basis for cross-agency initiatives to consistently protect the state’s systems and data.

This audit will assess the effectiveness of the relevant central agencies in coordinating and monitoring department and agency implementation of the *Information Security Management Framework* and related compliance with processes and plans. It will also test the effectiveness of controls in place in a number of agencies.

2.3.3 Current and future areas of audit focus from 2013–14 to 2016–17

Appendix E presents the proposed areas of performance audit topics for 2013–14, and prospective performance audit topics for the period 2014–15 to 2016–17 by sector for each of the 'five goals'.

A list of reports tabled during the term of the 57th Parliament from December 2010 to June 2013 can be found at Appendix F.

Appendix A.

Our outputs for 2013–14

The resources allocated to VAGO each year through Victoria's annual Budget process are determined in consultation with Parliament's Public Accounts and Estimates Committee.

Under the Budget framework, our resourcing is based on two output groups:

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

Output 1: Parliamentary reports and services

Our Parliamentary reports

Our primary client is the Victorian Parliament. We inform the Parliament of our work through reports that provide independent assurance on the adequacy of accountability and resource management in the public sector. Our reports relate to:

- performance audits which focus on the effectiveness, efficiency and economy of publicly-funded activities, or probity and compliance
- an annual assessment of the state's finances
- observations from the previous June and December rounds of financial statement audits.

We also table the Auditor-General's Annual Plan and the VAGO Annual Report to inform Parliament and the wider community about our planned activity and our actual performance, respectively.

In 2013–14, we are committed to tabling 36 reports in Parliament (target of 36 2012–13).

The Annual Plan lists additional topics above this committed number to provide flexibility to our work program if a proposed audit needs to be delayed or deleted.

Services that we provide to Parliament

In addition to our reports, we provide a range of other services to Parliament including:

- advice and assistance to Parliament, including submissions to Parliamentary committees on matters relevant to their inquiries
- responding to inquiries from Members of Parliament, government agencies and the public, which sometimes leads to the conduct of audits

- advice to central agencies and other public sector agencies, in such areas as draft legislation, financial management proposals, and the development of accountability frameworks
- guidance to public sector agencies, arising from our audit work, in specific areas of governance, management and accountability to support their improved future performance
- advice to external bodies on emerging developments associated with the public sector, including commentary on draft accounting and auditing pronouncements.

These services help foster better accountability and performance, and promote better practice resource management in the public sector.

By providing this range of services, we seek to use the skills and experience of VAGO to encourage sustained improvement in the management of public resources.

Performance measures

Figure A1 outlines the performance measures we will be accountable for in 2013–14 as part of our delivery of the Parliamentary reports and services output.

Figure A1
Output 1: Parliamentary reports and services

Performance measure	Unit of measure	2013–14 target	2012–13 expected outcome	2012–13 target	2011–12 actual
Quantity					
Auditor-General's reports	number	36	37	36	37
Quality					
Average score of audit reports by external/peer assessors[(a)]	per cent	80	80	80	83
Overall level of external satisfaction with audit reports and services—Parliamentarians	per cent	85	85	85	93
Timeliness					
Inquiries from Members of Parliament and the public responded to within 28 days	per cent	95	95	95	99
Reports completed on time[(b)]	per cent	90	97	90	87
Cost					
Total output cost[(c)]	$ million	15.3	15.3	14.9	13.7

(a) This performance measure replaces the 2012–13 performance measure *Average score of audit reports by external assessors*. The 2013–14 performance measure is the same as the 2012–13 measure except for the addition of the term 'peer' and measures the same activity as the previous measure.

(b) The 2012–13 expected outcome exceeds the 2012–13 target. 36 of the 37 reports are expected to be completed on time in 2012–13. The one late report is a carryover from 2011–12.

(c) The higher 2013–14 target reflects indexation.

Source: 2013–14 Budget Papers.

Output 2: Audit reports on financial statements

Key attest functions

A core statutory responsibility of the Auditor-General is to undertake an annual examination of the financial statements and some performance statements of departments and public bodies, including municipal councils, and to issue an audit opinion on the presentation of those statements.

Our main products from the exercise of this mandatory responsibility are the:

- independent review of the government's Estimated Financial Statements and provision of a report for inclusion in the annual Budget Papers presented to Parliament
- audit opinions on the financial statements of public sector agencies and on the government's Annual Financial Report
- audit opinions on non-financial performance indicators prepared by local government entities, certain water bodies, and technical and further education institutes
- letters conveying findings of audits to the management of audited agencies.

Examination and certification by the Auditor-General of warrants authorising the expenditure of public funds by government

The preparation of warrants in Victoria is required under provisions contained in the *Constitution Act 1975* and the *Financial Management Act 1994*.

Warrants provide the constitutional authority for the Treasurer to spend allocated funding in the annual Budget and must be signed by the Auditor-General and approved by the Governor.

Warrants examined and certified by the Auditor-General during 2012–13 had an aggregate expenditure value of more than $45.5 billion at 18 June 2013 ($48.6 billion in 2011–12).

Performance measures

Figure A2 outlines the performance measures for which we will be held accountable in 2013–14 for delivery of the 'audit reports on financial statements' output.

Figure A2
Output 2: Audit reports on financial statements

Performance measure	Unit of measure	2013–14 target	2012–13 expected outcome	2012–13 target	2011–12 actual
Quantity					
Audit opinions issued on non-financial performance indicators[(a)]	number	115	115	114	115
Audit opinions issued on the financial statements of agencies[(b)]	number	559	553	563	563
Quality					
External/peer reviews finding no material departures from professional and regulatory standards	per cent	100	100	100	100
Timeliness					
Audit opinions issued within statutory deadlines	per cent	98	98	98	99
Management letters issued to agencies within established time frames[(c)]	per cent	90	90	90	96
Cost					
Total output cost	$ million	22.3[(d)]	22.7	22.7	22.8

(a) The higher 2013–14 target reflects an increase in the number of entities required to prepare non-financial performance statements.

(b) The lower 2013–14 target reflects a change in the number of entities subject to audit.

(c) In the 2011–12 Budget Papers, this performance measure was named *Management letters and reports to ministers issued within established time frames*. It measures the same activity as before but was amended in the 2012–13 Budget Papers to increase clarity.

(d) The $22.3 million stated in the 2013–14 Budget Papers is $1.1 million lower than the 2013–14 target figure due to an unprocessed journal by the Department of Treasury and Finance. The department has given an undertaking to VAGO to increase the output target to $23.4 million at the next 2013–14 Budget update.

Source: 2013–14 Budget Papers.

Appendix B.

Financial audit framework

The legislated financial reporting framework states that agency heads are responsible for the preparation and content of their financial reports.

Our financial audits focus on providing reasonable assurance that the certification given by each agency head on their financial report can be relied on by users of the report.

Figure B1 sets out the legislative frameworks for both financial reporting and auditing, and shows how they relate to each other.

Figure B1
Legislative framework for financial reporting and auditing

Public sector entities	Victorian Auditor-General's Office
Purpose	
Manage entities and prepare financial reports in compliance with legislative and reporting requirements.	Examine the underlying accounts and records of public sector entities, including the systems and processes used to generate financial reports, and provide assurance by expressing an opinion on fairness of presentation.
Legislation	
Financial Management Act 1994 (for public sector entities including departments) or *Corporations Act 2001* (for incorporated entities) or *Associations Incorporation Reform* Act *2012* (for incorporated associations) or *Local Government Act 1989* (for local councils and regional library corporations).	*Audit Act 1994*.

Figure B1
Legislative framework for financial reporting and auditing – *continued*

Public sector entities	Victorian Auditor-General's Office
Standards	
Accounting standards issued by the Australian Accounting Standards Board for public and private sector entities, for example: • Property, Plant and Equipment (AASB 116) • Accounting for Government Grants and Disclosure of Government Assistance (AASB 120) • Employee Benefits (AASB 119).	Auditing standards issued by the Auditing and Assurance Standards Board for audits of public and private sector entities, for example: • Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment (ASA 315) • The Auditor's Responses to Assessed Risks (ASA 330) • Going Concern (ASA 570).
Directions	
Standing directions of the Minister for Finance under the *Financial Management Act 1994*, for example: • Financial Governance (2.2) • Information Technology Management (3.2.1) • Physical and Intangible Assets (3.4.9). Financial Reporting Directions under the *Financial Management Act 1994*, for example: • Disclosures of Responsible Persons, Executive Officers and other Personnel in the Financial Statements (FRD 21B) • Standard Disclosures in the Report of Operations (FRD 22C) • Non-Current Physical Assets (FRD 103D).	Guidance statements issued by the Auditing and Assurance Standards Board for the purpose of understanding and complying with the auditing standards.
Tools	
Model financial reports (for relevant entity type) generally comprising: • Comprehensive operating statement • Balance sheet • Cash flow statement • Statement of changes in equity • Summary of significant accounting policies • Explanatory notes.	Risk-based audit methodology to: • understand the entity and its environment, including its internal controls • identify and assess key risks facing the entity, risk mitigation strategies, significant recent developments, and the governance and management control framework • assess processes and controls over management, accounting and information technology systems • test controls • examine in detail balances and underlying transactions, assess the reasonableness of balances, and review the presentation and disclosure in the financial reports • express an opinion on the financial reports.

Source: Victorian Auditor-General's Office.

The risk-based audit methodology that we apply to financial audits meets Australian Auditing Standards. It first requires us to gain an understanding of each entity, and its underlying systems of internal control, so that we can target our evidence gathering and assessment activities to areas of the greatest risk of material misstatement.

To address these risks we look for direct evidence to substantiate whether balances and disclosures are correct and also assess the strength of the internal controls over financial reporting. We are required to assess the controls in each system each year, but test their operational effectiveness less frequently, based on our risk assessment.

We also focus on areas where experience shows that issues of governance, probity, fraud, waste, and noncompliance with legislation or public sector financial management and reporting requirements can arise.

Figure B2 shows how the major financial statement components relate to the underlying systems and processes.

Figure B2
Relationship between financial statements and supporting systems

	Financial statement components			
Cycle	**Comprehensive operating statement**	**Balance sheet**	**Explanatory note disclosures and general internal controls**	**Related systems and processes**
Revenue	Appropriations and transfer payments such as grants	Statutory receivables	Departmental outputs, summary of compliance with annual Parliamentary and special appropriations, annotated revenue agreements	Cash receipting and banking
	Sales of goods and services	Inventory trade receivables		Sales, credit and billing
	Fees and charges revenue	Unearned fees and charges		Cash receipting and banking
	Investment income such as interest and dividends.	Cash, deposits and other investments, accrued interest.	Financial instruments.	Treasury management.
Expenditure	Depreciation expense	Property, plant and equipment Intangible assets		Fixed asset management
	Interest expense	Interest bearing liabilities	Financial instruments	Treasury management
	Grants and other transfers	Payables		Grant management
	Supplies and services	Payables	Commitments and contingencies	Procurement—purchasing and payment, banking
	Employee benefits.	Employee provisions.	Executive remuneration/ related party: responsible persons, superannuation.	Payroll and human resources.

Figure B2
Relationship between financial statements and supporting systems – *continued*

Cycle	Financial statement components			Related systems and processes
	Comprehensive operating statement	Balance sheet	Explanatory note disclosures and general internal controls	
Cash and financing	Interest income, loss/gain on financial assets	Cash, deposits and other investments	Cash flow information	Banking, treasury management
	Interest expense.	Interest bearing liabilities.	Financial instruments.	Banking, treasury management.
Property plant and equipment	Depreciation expense, gain/loss on non-financial assets	Property, plant and equipment Intangible assets		Fixed asset management, capital project management
	Rental income, gain/loss on non-financial assets.	Investment properties.		Investment management.
Equity	Movements in physical asset revaluation reserve	Physical asset revaluation reserve		Reserve management.
	Movements in financial assets available-for-sale reserve.	Financial assets available-for-sale reserve		
		Contributed capital.		

Source: Victorian Auditor-General's Office.

These areas are examined with reference to applicable legislation, accounting and auditing standards, and where applicable, the standing and financial reporting directions issued under the *Financial Management Act 1994*.

Appendix C.

Performance audit topic selection framework

Figure C1 sets out the framework we use to select performance audit topics.

Figure C1
Performance audit topic selection framework

(a) 'Five goals for a stronger, fairer and safer Victoria'. This framework was outlined in the Governor's speech at the opening of the 57th Parliament on 21 December 2010.

Source: Victorian Auditor-General's Office.

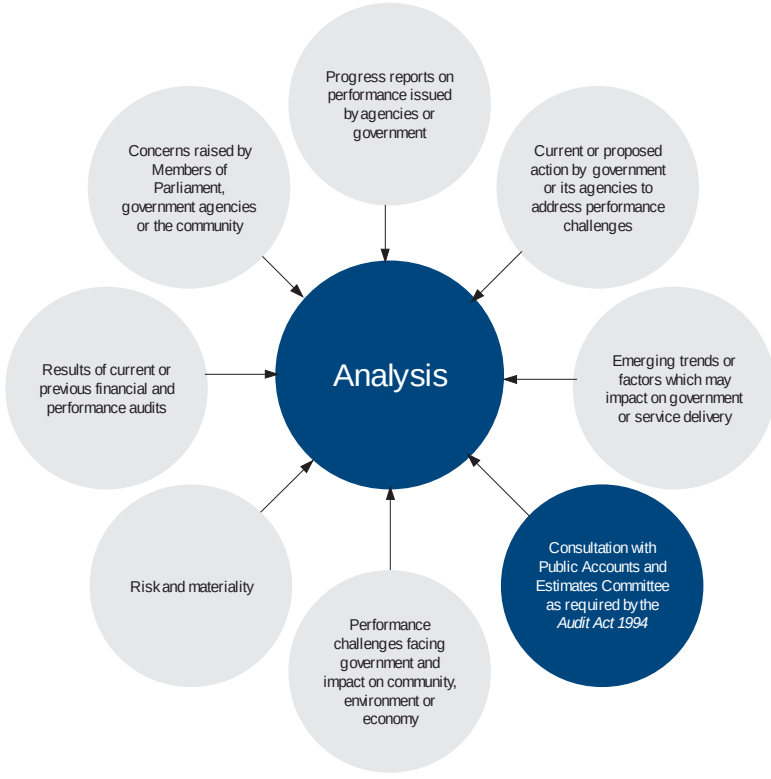
When identifying public sector programs and initiatives for audit attention, we consult widely with departmental secretaries, agency senior management and line managers, as well as departmental audit committees.

We also consult with industry regulators, statutory office bearers and commissioners. Other stakeholders, such as sector experts and industry representatives, community organisations, academics, recipients of government services and other interested parties are an important part of our environmental scanning which helps us to understand the operating context of the public sector and relevant issues. During our planning process we also review correspondence from the public and Parliamentarians to the Auditor-General and carefully consider these for any matters warranting further attention.

These discussions give us up-to-date knowledge of emerging issues, performance gaps, and any emerging risks to the efficient, effective and economic delivery of services or public sector initiatives. They can also help us identify incidence of noncompliance and potential waste, maladministration or mismanagement.

The process we use to identify and analyse potential topics is shown in Figure C2.

Figure C2
Factors considered during the analysis stage



Source: Victorian Auditor-General's Office.

Appendix D.

Areas of financial audit focus 2013–14 to 2016–17

Figure D1 presents the areas of financial audit focus for 2013–14 and future areas of financial audit focus for 2014–15 to 2016–17, by report, for each major financial statement component.

Figure D1
Areas of financial audit focus

Sector	2013–14			2014–15			2015–16			2016–17		
	Comprehensive operating statement	Balance sheet	Explanatory note disclosures and general internal controls	Comprehensive operating statement	Balance sheet	Explanatory note disclosures and general internal controls	Comprehensive operating statement	Balance sheet	Explanatory note disclosures and general internal controls	Comprehensive operating statement	Balance sheet	Explanatory note disclosures and general internal controls
Local Government	Rate revenue		Audit committees	Management of grants	Management of creditors	Risk management	Credit card security and usage	Management of employee leave		Asset revaluation reserve		Business continuity and information technology disaster recovery planning
Portfolio Departments and Associated Entities	Use of contractors and temporary staff		Business continuity and information technology disaster recovery planning		Asset management	Internal audit	Executive remuneration		Commitments (including PPPs)	Travel and accommodation expenses		Financial policies and delegations
Public Hospitals	Private patient fees		Risk management	Government revenue	Asset management	Internal audit	Outsourcing	Management of employee leave	Workforce management	Credit card security and usage		Business continuity and information technology disaster recovery planning
Tertiary Education and Other Entities	Procurement		Financial policies and delegations	Student fee revenue	Asset management	Risk management	Sensitive and discretionary expenditure		Fraud risk assessment and control monitoring	Management of sessional academic staff		Budgets and margins for academic courses
Water Entities	Procurement	Treasury management	Information technology security Information technology change management	Revenue		Audit committees			Business continuity and information technology disaster recovery planning Internal audit		Asset valuation	Budget management

Source: Victorian Auditor-General's Office.

Appendix E.

Areas of performance audit focus 2013–14 to 2016–17

Figure E1 presents the proposed areas of performance audit topics for 2013–14, and prospective performance audit topics for the period 2014–15 to 2016–17.

Each prospective audit has been categorised by sector, as well as the 'Five goals for a stronger, fairer and safer Victoria' which were outlined in the Governor's speech at the opening of the 57th Parliament on 21 December 2010.

Legend:

- ● a growing economy
- ○ services that work
- ♦ strong families and vibrant communities
- ◊ secure water and a healthy environment
- ► government you can trust.

Figure E1
Areas of performance audit interest

Sector	2013–14	2014–15
Business and Innovation	● Tourism strategies	● Developing export through trade events ► Supporting innovation in Victoria's screen industry
Education and Early Childhood Development	○ Access to education for rural students ● Apprenticeship and traineeship completion ► Performance reporting systems in education	○ Allocating capital funding to TAFE institutes ○ School governance ○ Training for teachers ○ Transitioning from preschool to prep
Health	○ Occupational health and safety risk in public hospitals	♦ Department of Health's role in emergency management ○ End of life care ○ Supporting clinical training
Human Services	○ Residential care services for children	○ Department of Human Services workforce ○ Redeveloping the Aids and Equipment Program
Information and Communications Technology	► CenITex ○ Clinical ICT systems in the Victorian Public Health Sector ► WoVG *Information Security Management Framework*	○ Emergency response ICT (incorporating Project 000) ► Registration and licensing system project ○ TAFE institutes: Student Management Solution ► Value for money and effectiveness of ICT contractors and consultants
Justice	► Asset confiscation scheme ♦ Managing emergency services volunteers ○ Prevention and management of drug use in prisons ○ Prisons: Health and transportation ► Racing industry: Grants management	○ Access to legal aid ○ Effectiveness and efficiency of regionalisation of services in the justice sector ♦ Justice portfolio mental health strategies ○ Transition support for prisoners
Local Government	● Asset management and maintenance by councils ○ Shared services in local government	► Effectiveness of councillor training and support ● Long-term financial planning by local government
Planning and Community Development	○ Accessibility of mainstream services for Aboriginal Victorians ♦ Implementation of the Strengthening Community Organisations action plan	● Victoria's consumer protection framework for building construction
Primary Industries	◊ Managing Victoria's timber resources	◊ Managing mining approvals: Environmental conditions
Sector-wide and Central Agencies	♦ Access to services for culturally and linguistically diverse communities ► Managing consultancies ► Implementation of the government risk management framework ► Managing telecommunications usage and expenditure ► Regulation of public sector insurance schemes	► Compliance with non-financial requirements of annual reporting ► Effectiveness of probity practitioners in procurement ► Implementing the Regulatory Performance Framework ► Public sector performance measurement and reporting
Sustainability and Environment	► Management of environmental levies and charges ◊ Operating water infrastructure using public private partnerships ○ Oversight and accountability of committees of management	◊ Managing landfill ◊ Managing native vegetation ◊ Managing water demand and supply
Transport	● Developing transport infrastructure and services for population growth areas ♦ Recreational maritime safety	○ Coordinating public transport ◊ Managing the environmental impacts of transport ○ Operational effectiveness of Myki ticketing system ● Tendering SmartBus contracts

Figure E1
Areas of performance audit interest – *continued*

2015–16	2016–17
● Supporting the automotive industry	● Meeting workforce skill gaps through migration programs
♦ Emergency management planning for schools ○ Integrated children's centres ○ Outside school hours care program ● Reforming the skills system	♦ Access and participation in education by vulnerable students ► Funding model for government schools ○ Programs for gifted and talented students ○ Student transition
○ Planning for Melbourne's health infrastructure ► Reporting hospital performance	○ Health service governance ♦ Sexual and reproductive health services
♦ Preventing and responding to violence against women ♦ Services for youth at risk	♦ Early intervention for children at risk ○ Outcomes from 'Services Connect'
► Developing the core law enforcement support system in Victoria Police ► Managing ICT procurement in the public sector ○ Strategic planning to manage pace and impact of technology change in public sector ICT ○ Using ICT to improve road management outcomes	○ Delivering services to citizens and consumers via personal devices of choice ○ Using technology to improve safety outcomes in public domain spaces
○ Court backlogs ○ Deploying the police force across the state ♦ Emergency response to natural disasters ♦ Gambling industry reform: Realising intended outcomes	○ Administration of parole ○ Managing infringements ♦ Preventing crime ○ Regulating gambling and liquor
◊ Land use planning: Preparing for risk of rising sea levels	● Managing Victoria's planning contribution system
● Implementing Melbourne's metropolitan planning strategy ● Managing the Regional Growth Fund ♦ Strengthening the capacity and capability of the Aboriginal services sector	● Effectively planning for growth areas ♦ Implementing the *Aboriginal Heritage Act 2006* ● Managing Victoria's planning system for land use and development
◊ Managing marine fisheries resources	◊ Biosecurity
○ Access to public sector information ► Managing non-ICT procurement in the public sector ► Public consultation in policy development	► Implementing the Gifts, Benefits and Hospitality framework ► Managing public sector records ► Responding to the recommendations of independent accountability organisations
◊ EPA licensing reform ◊ Managing emergency environmental incidents ◊ Protecting the environment: Monitoring compliance with project approval conditions	◊ Effectively managing Catchment Authorities ◊ Managing Alpine Resorts ◊ Victorian Desalination Plant PPP: Operational and environmental effectiveness
♦ Effectively deploying Protective Service Officers ● Managing and maintaining roads ● Managing and reporting on the cost of capital projects	● Effectively managing freight growth ♦ Improving safety on Victoria's roads ● Prioritising major transport projects

Source: Victorian Auditor-General's Office.

Appendix F.

Parliamentary reports December 2010–June 2013

Figure F1 presents a list of reports tabled during the term of the 57th Parliament from December 2010 to June 2013.

Each audit has been categorised by sector, as well as the 'Five goals for a stronger, fairer and safer Victoria' which were outlined in the Governor's speech at the opening of the 57th Parliament on 21 December 2010.

Legend:

- ● a growing economy
- ○ services that work
- ♦ strong families and vibrant communities
- ◊ secure water and a healthy environment
- ► government you can trust.

Figure F1
Parliamentary reports December 2010–June 2013

Sector	December 2010–June 2011	2011–12	2012–13
Business and Innovation		● Biotechnology in Victoria: The Public Sector's Investment ● Melbourne Markets Redevelopment	● Investment Attraction ► Managing Major Projects
Education and Early Childhood Development	○ Early Childhood Development Services: Access and Quality ○ Indigenous Education Strategies for Government Schools ○ Managing Student Safety ► Tertiary Education and Other Entities: Results of the 2010 Audits	○ Casual Relief Teacher Arrangements ○ Science and Mathematics Participation Rates and Initiatives ► TAFE Governance ► Tertiary Education and Other Entities: Results of the 2011 Audits ► Victorian Institute of Teaching	○ Implementation of School Infrastructure Programs ○ Programs for Students with Special Learning Needs ○ Management of Staff Occupational Health and Safety in Schools ○ Student Completion Rates ► Tertiary Education and Other Entities: Results of the 2012 Audits ► The State of Victoria's Children: Performance Reporting
Health	○ Managing Drug and Alcohol Prevention and Treatment Services	○ Maternity Services: Capacity ► Payments to Visiting Medical Officers by Rural and Regional Hospitals ► Procurement Practices in the Health Sector ► Public Hospitals: Results of the 2010–11 Audits	○ Consumer Participation in the Health System ○ Infection Prevention and Control in Public Hospitals ► Public Hospitals: Results of the 2011–12 Audits
Human Services		○ Access to Public Housing ○ Individualised Funding for Disability Services	♦ Addressing Homelessness: Partnerships and Plans ♦ Carer Support Programs
Information and Communications Technology	● Victorian Life Sciences Computation Initiative	► Obsolescence of Frontline ICT: Police and Schools	○ Learning Technologies in Government Schools
Justice	♦ Construction of Police Stations and Courthouses ♦ Effectiveness of Victims of Crime Programs ♦ Problem-Solving Approaches to Justice ► Allocation of Electronic Gaming Machine Entitlements	♦ Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm ► Management of Trust Funds in the Justice ► Portfolio Road Safety Camera Program	○ Consumer Protection ○ Management of Unplanned Leave in Emergency Services ○ Prison Capacity Planning
Local Government		● Business Planning for Major Capital Works and Recurrent Services in Local Government ► Fraud Prevention Strategies in Local Government ► Local Government: Results of the 2010–11 Audits ► Performance Reporting by Local Government	► Local Government: Results of the 2011–12 Audits ● Organisational Sustainability of Small Councils ► Rating Practices in Local Government
Planning and Community	● Revitalising Central Dandenong	○ Compliance with Building Permits	♦ Management of the Provincial Victoria Growth Fund
Primary Industries		◊ Agricultural Food Safety	◊ Effectiveness of Compliance Activities: Departments of Primary Industries and Sustainability and Environment ◊ Management of Freshwater FIsheries
Sector-wide and Central Agencies	● Effectiveness of Small Business Victoria's Support Programs ► Acquittal Report: Results of the 2009–10 Audits	► Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010–11 ► Freedom of Information ► Government Advertising and Communications ► Personal Expense Reimbursement, Travel Expenses and Corporate Credit Cards ► Portfolio Departments and Associated Entities: Results of the 2010–11 Audits ► State Trustees Limited: Management of Represented Persons	► Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011–12 ♦ Collections Management in Cultural Agencies ► Flood Relief and Recovery ● Planning, Delivery and Benefits Realisation of Major Asset Investment: The Gateway Review Process ► Portfolio Departments and Associated Entities: Results of the 2011–12 Audits ► Public Asset Valuation
Sustainability and Environment	◊ Environmental Management of Marine Protected Areas ◊ Facilitating Renewable Energy Development ◊ Municipal Solid Waste Management	● Supporting Changes in Farming Practices: Sustainable Irrigation ◊ Managing Contaminated Sites ► Water Entities: Results of the 2010–11 Audits	◊ Energy Efficiency in the Health Sector ► Environment and Sustainability Sector: Performance Reporting ► Water Entities: Results of the 2011–12 Audits
Transport	● Management of Major Road Projects ♦ Local Community Transport Services: The Transport Connections program ♦ Motorcycle and Scooter Safety Programs	● Management of Road Bridges ○ Public Transport Performance ♦ Developing Cycling as a Safe and Appealing Mode of Transport	● Fare Evasion on Public Transport ● Managing Traffic Congestion ● Port of Melbourne Channel Deepening Project: Achievement of Objectives

Source: Victorian Auditor-General's Office.

Appendix G.

Audit Act 1994 section 7A—comments

COMMENTS provided by the Public Accounts Estimates Committee (PAEC)

PARLIAMENT OF VICTORIA
Public Accounts & Estimates Committee

31 May 2013

Dr Peter Frost
Acting Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Dr Frost

Public Accounts and Estimates Committee review of Draft Annual Plan 2013-14

On behalf of the Committee, I wish to thank you for providing the Committee with a final draft of your Annual Plan for 2013-14 and for VAGO's attendance at Committee meetings in December 2012 and in May this year. The draft Plan provides the Parliament with a comprehensive view of the proposed audit coverage of the Victorian public sector by your Office over the next four years.

The Committee appreciates the Office's consideration of comments made during its consultations with the Committee and also previous recommendations made by the Committee in its Parliamentary reports, in the development of the Office's Annual Plan.

The Committee acknowledges advice provided by your Office at the meeting in May 2013 and in the draft Annual Plan itself that the issues and areas of audit priority detailed in the Plan may be subject to review and modification following the commencement of the incoming Victorian Auditor-General. The Committee notes also your advice that the Committee will be kept fully informed of any such modifications.

The Committee now takes the opportunity, under Section 7A(5) of the *Audit Act* 1994, to make some final comments in relation to the draft Annual Plan 2013-14 (refer Attachment A). You may wish to provide a response to these matters when submitting your Annual Plan 2013-14 to the Parliament.

The Committee looks forward to having input into the future Annual Plans of the Office.

Yours sincerely,

David Morris MP
Chair

PARLIAMENT OF VICTORIA | PUBLIC ACCOUNTS & ESTIMATES COMMITTEE
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COMMENTS provided by PAEC – continued

Attachment A

Comments from the Public Accounts and Estimates Committee on the Victorian Auditor-General's Draft Annual Plan 2013-14

Last year, the Committee suggested the following audit areas be included in the Auditor-General's Annual Plan 2012-13:

- *Literacy and numeracy standards and performance in Victorian schools; and*
- *Effectiveness of road safety initiatives directed at young drivers*

The Auditor-General's tabled response to these suggestions stated:

Literacy and numeracy standards and performance in Victorian schools

'As advised to the PAEC on 13 April 2012, numeracy standards are being assessed as part of the current audit of "Science and mathematics participation rates and initiatives." The planned audit of School Performance will also address aspects of literacy and numeracy standards and performance.
Literacy and numeracy achievement is a key issue that is examined on a yearly basis as part of VAGO's environmental scan of the education sector.'

Committee comment:

The Committee notes that the audit of "*School Performance*" has been removed from the planned audit program for 2013-14. This was discussed with the Committee in December 2012. The Committee notes that the Auditor-General is undertaking an audit of "*Performance Reporting Systems in Education*" during 2013-14.

The Committee notes, however, that 'Literacy Standards and Performance' has not been identified as a potential area for audit focus over the four-year forward plan 2013-14 to 2016-17.

Effectiveness of road safety initiatives directed at young drivers

'As advised to the PAEC on 13 April 2012, this suggestion will be considered when scoping the proposed 2014-15 audit on "Improving safety on Victoria's roads".'

Committee comment:

The Committee notes that in the Office's draft Annual Plan 2013-14, the audit '*Improving safety on Victoria's roads*' which was proposed for 2014-15 has been moved out to 2016-17.

The Committee reiterates its original comments that whilst road safety initiatives have been effective in lowering the road toll in Victoria and in other states of Australia, young drivers continue to be over represented in terms of road injuries and fatalities and hence the matter is considered to warrant significant concern and attention.

VAGO response to PAEC's comments

Figure G1 sets out the matters raised by PAEC in the above correspondence and VAGO's comments.

Figure G1
Matters raised by PAEC, May 2013

PAEC suggestions for the 2013–14 Annual Plan	VAGO comment
PAEC comment	**June 2013**
Area of audit focus: Literacy and numeracy standards and performance in Victorian schools	
The Committee notes that the audit of *School Performance* has been removed from the planned audit program for 2013–14. This was discussed with the Committee in December 2012. The Committee notes that the Auditor-General is undertaking an audit of *Performance Reporting Systems in Education* during 2013–14. The Committee notes, however, that 'Literacy Standards and Performance' has not been identified as a potential area for audit focus over the four-year forward plan 2013–14 to 2016–17.	Improving literacy and numeracy skill has been a major focus of VAGO's performance audit program over a number of years: • In 2009, the audit *Literacy and Numeracy Achievement* examined whether student literacy and numeracy were improving in Victoria's government schools • In 2012, the audit *Science and Mathematics Participation Rates and Initiatives* examined whether DEECD initiatives had improved student participation and achievement in science and mathematics. In addition to our audits, there are a range of publicly reported national and international assessments of literacy and numeracy performance, including: • National Assessment Program–Literacy and Numeracy • OECD Programme for International Student Assessment, next report due December 2013 • International Study Centre Trends in International Mathematics and Science Study report, next report due in 2015 • International Study Centre Progress in International Reading Literacy Study report, next report due in 2016. We intended to further address literacy and numeracy standards in the audit titled *School Performance* in the 2013–14 program. However, this audit was re-scoped and re-titled to focus on the performance reporting systems themselves in response to recent changes to school governance and accountability practices. We consider an audit of literacy and numeracy skills in Victoria in 2017–18 would be well timed to follow on from the assessments of literacy and numeracy performance listed above. There is scope to examine aspects of literacy and numeracy performance as part of more broadly scoped audits related to: • *School governance* (2014–15) • *Training for teachers* (2014–15) • *Programs for gifted and talented students* (2016–17).

Figure G1
Matters raised by PAEC, May 2013 – *continued*

PAEC suggestions for the 2013–14 Annual Plan	VAGO comment
PAEC comment	**June 2013**
Area of audit focus: Effectiveness of road safety initiatives directed at young drivers	
The Committee notes that in the Office's draft Annual Plan 2013–14, the audit *Improving safety on Victoria's roads* which was proposed for 2014–15 has been moved out to 2016–17. The Committee reiterates its original comments that whilst road safety initiatives have been effective in lowering the road toll in Victoria and in other states of Australia, young drivers continue to be over represented in terms of road injuries and fatalities and hence the matter is considered to warrant significant concern and attention.	VAGO will review the proposed future audit of road safety in the next annual planning cycle to incorporate a focus on young drivers.