



Auditing

in the Public Interest

DECEMBER 2001

REFLECTING ON 2001



Wayne Cameron, Auditor-General.

As calendar year 2001 comes to a close, it is appropriate to look back on the year and reflect on how well we travelled as an Office against the goals we set ourselves a year ago. Our achievements for the financial year to 30 June 2001 are reported in our 2000-01 Annual Report. That document reports that we did well in:

- bedding down the new organisational arrangements;
- increasing the number of reports tabled; and
- improving our responsiveness to requests for advice and comment.

The recent independent performance audit of the Office was very positive and confirmed that we continue to perform efficiently, effectively and economically. The audit was highly complimentary in some areas, such as our strategic audit planning practices and, as one expects from an audit, identified areas where further improvements could be effected. We welcome the audit and will incorporate the observations into our existing corporate development program.

Year-end also sees the Office's senior management team involved in strategic audit planning. This process leads to the identification of priority areas for future audits (following a broad consultative process with interested parties), the output of which is reflected in the preparation of a draft work plan for 2002-03. That document is then discussed with Parliament's Public Accounts and Estimates Committee prior to being tabled in Parliament before 30 June 2002. The work plan then becomes publicly available.

With December 2001 upon us, we can, with some satisfaction, observe improvements to our processes and output. The recent filling of senior positions in the Office, including the vacant position of Deputy Auditor-General by Mr Edward Hay, will provide a firm base from which to go forward. Our key drivers for 2002 will be in the following areas:

- **to be pro-active** – get to things early;
- **effective consultation** – with clients, contractors and peak bodies; and
- **improved efficiency** – through upgraded systems and processes.

On behalf of all the staff of the Victorian Auditor-General's Office, I extend my very best wishes to you for the festive season.

WAYNE CAMERON
Auditor-General

PERFORMANCE AUDIT OF THE OFFICE



Joe Manders, Assistant Auditor-General, Corporate Planning and Parliamentary Liaison (right) discussing issues relating to the performance audit of the Office with Stuart Alford, Partner, Ernst & Young.

The *Audit Act* 1994 provides for an independent performance audit of our Office to be conducted at 3-yearly intervals by an auditor appointed by Parliament on the recommendation of the Public Accounts and Estimates Committee.

The performance auditor is required to determine whether the Auditor-General is achieving his or her objectives effectively, and is doing so efficiently and economically, and in compliance with the audit legislation.

In May this year, Stuart Alford, Partner of Ernst & Young, was appointed to conduct the fourth performance audit of the Office. Mr Alford commenced his audit in June and reported to Parliament late in October.

We were very pleased with the auditor's principal conclusions that the Office is:

- complying with Australian auditing and accounting standards; and
- achieving its objectives effectively, economically and efficiently, and in compliance with the Audit Act.

We also welcomed the auditor's suggestions in areas where he considered there was scope for the Office to build on its past performance and achieve further improvement. Each of these suggestions will be taken into account as part of our continuous improvement program designed to better meet the needs and expectations of Parliament.

REPORTS TABLED IN PARLIAMENT, SPRING SESSION, 2001

During the recent Spring Session of Parliament, the Office tabled the following reports:

- *Management of major injury claims by the Transport Accident Commission*, tabled 10 October 2001;
- *Teacher work force planning*, tabled 21 November 2001;
- *Report of the Auditor-General on the Finances of the State of Victoria, 2000-01*, tabled 22 November 2001;
- *Report on Public Sector Agencies - Results of 30 June 2001 financial statement audits*, tabled 27 November 2001;
- *Management of injury claims by the WorkCover Authority*, tabled 28 November 2001; and
- *Departmental performance management and reporting*, tabled 28 November 2001.

Our Annual Report for 2000-01 was also tabled, on 22 November 2001.

The content of all reports is available on the Office website at www.audit.vic.gov.au

Report of the Auditor-General on the Finances of the State of Victoria, 2000-01

Our *Report of the Auditor-General on the Finances of the State of Victoria, 2000-01* outlined the results of our audit of the Annual Financial Report for the State of Victoria for the year ended 30 June 2001. The Annual Financial Report presented the financial position of the State of Victoria and the Victorian Budget Sector, and the results of operations and cash flows. A clear audit opinion was provided on the 2000-01 Annual Financial Report.



Our analysis of the State's overall financial condition showed that it remains strong, but there are a number of challenges facing the Government which will impact on its flexibility in responding to future opportunities. These challenges include managing the impact of increasing expenditure pressures including wage growth, reduced State own-source revenues as a result of the introduction of the National Tax Reforms and in the event of a downturn in economic conditions.

The Government has continued to enhance financial accountability and transparency during the year through the implementation of quarterly financial reports for the Budget Sector and mid-year financial reports covering the whole-of-government.

The ongoing challenge for the Government is to continue to enhance the quality of disclosure and reporting of its activities to the public and Parliament, through greater analysis and commentary accompanying the financial reports.

Report on Public Sector Agencies

The *Report on Public Sector Agencies - Results of 30 June 2001 financial statement audits* sets out the results of financial statement audits conducted on public sector agencies for the financial year ending 30 June 2001, and a number of special reviews undertaken up to the date of preparation of the report.

The audit results indicated that:

- while there has been a significant improvement in the timeliness of completion of audited financial statements and performance statements by local government entities, there remains scope for improvement in the timeliness of completion of audited financial statements in other portfolios;
- it is important that avenues are identified and pursued to improve the timeliness of the financial reporting process, as timeliness of reporting is an essential characteristic of an effective accountability process; and
- some annual reports published and presented to Parliament by public hospitals for 2000-01 were inconsistent with those audited.

The report also included the results of a number of special reviews, including the:

- cost and impact on Victorian public sector agencies of the HIH Insurance Group collapse;
- outcome of IT audits of government departments and other agencies;
- financial viability of hospitals;
- housing rental arrears;
- financial viability of Tourism Victoria;
- City of Greater Geelong's involvement in the Geelong Business and Trade Centre; and
- sale of Harding Park, Geelong.



The City of Greater Geelong's involvement with the Harding Park site was commented on in the report.

Management of major injury claims by the Transport Accident Commission

Major injury claims (comprising catastrophic injuries such as acquired brain and spinal cord injuries) are a small proportion of the Transport Accident Commission's total active claims (1 900 claims, or 4.6 per cent of open claims at June 2001), but are a substantial portion of the transport accident scheme's liabilities (46 per cent, or \$1 878 million at June 2001).



Rehabilitation services supplied by an approved provider.

The performance audit reported that:

- Claims expenditure is rising in all areas, especially long-term care costs (attendant care, home and vehicle modifications), a trend which is expected to continue until the scheme matures in around 15-20 years. Without careful management, the transport accident scheme will eventually require additional community funding or provide reduced benefits;
- Ninety-two per cent of the sample of claimants we examined had achieved maximal progress to date against anticipated outcomes. Five per cent received less than satisfactory case management;
- Many claimants interviewed felt that the Commission did not provide comprehensive and consistent information regarding benefits and entitlements;
- Major injury claimants require lifetime care. In line with best practice standards, the Commission needs to focus beyond shorter-term injury-related needs;
- The Commission currently does not have a mechanism for assessing and monitoring claimant outcomes to assist decision-making on claimants' service provision; and
- Support co-ordinators perform a critical role in managing the rehabilitation of claimants, their relationship with the Commission and the financial implications of claims. The Commission must address the variability in skills and knowledge and need for further training of support co-ordinators.

The Commission acknowledged the issues raised in the report, highlighting actions it is taking to improve claimant outcomes and work practices, including a strategic review of its management of long-term care claims.

Teacher work force planning

This audit examined whether effective arrangements were in place for planning and managing the supply of, and demand for, primary and secondary teachers. The audit reported that:

- current work force planning activities have been limited in their effectiveness due to a lack of focus on both government and non-government sectors, and particular curriculum or geographic segments of the teacher labour market;
- while most schools undertake some form of work force planning, integrated information and planning tools and better training and support are needed;
- initiatives such as the Teaching Scholarship Scheme, designed to ensure an increased supply of government teachers, have had only a marginal impact;

- there have been limited initiatives to address subject areas of teacher shortage and schools with staffing difficulties; and
- the development of a long-term teacher supply plan by key stakeholders such as universities is needed to support the achievement of government policy objectives.



Teacher and students at Old Orchard Primary School, Blackburn North.

The audit concluded that the teacher labour market was moving from a position of surplus to one of overall balance with shortages in segments of the market such as information technology in secondary schools. The government teacher work force is ageing, with approximately 45 per cent of teachers expected to progressively retire over the next 10 years. The teacher labour market is likely to move into a position of shortage unless there is an increase in the number of new teachers joining the work force.

Departmental performance management and reporting



This audit focused on the performance management and reporting framework for the Victorian budget sector. The framework is currently being developed by the Government to drive the achievement of government outcomes, and to provide enhanced public accountability for departmental performance. We reported that the framework:

- Is not complete. In the absence of key components, including the Government's desired outcomes, measures of progress, departmental objectives and associated performance indicators, the framework has not driven the achievement of the Government's outcomes. Some, but not all, of these components have since been put in place. However, until the framework is complete, our Office will not be in a position to exercise its mandate to provide audit assurance on performance indicators for measuring achievements against departmental objectives;
- Is partial in that it does not adequately address performance management and reporting in public bodies; and
- May not address key aspects relating to the long-term sustainability of government operations, unless these aspects are made explicit in setting departmental objectives.

We recommended that the framework be completed and implemented. We also suggested the following enhancements to external reporting at the whole-of-government and departmental levels:

- annual *ex-ante* reporting of the whole-of-government strategic directions and priorities and measures of progress and targets related to government outcomes, to be tabled in Parliament;

- annual *ex-ante* reporting signalling the key objectives, performance indicators, measures and targets, risks, strategies and priorities through departmental plans, to be tabled in Parliament;
- annual reporting of whole-of-government performance against government outcomes and related measures of progress, and for tabling of the report in Parliament; and
- consolidated reporting of cross-agency programs or strategies.

The central agencies commented that the report was comprehensive and constructive, providing a reference point for departments. Most departments concurred with the report and commented favourably on the recommendations made.

Management of claims by the Victorian WorkCover Authority

The Victorian WorkCover Authority is responsible for administering the State's WorkCover Scheme to provide rehabilitation and compensation for injured workers. Following a strategic review of its performance, the Authority had embarked on a course of substantial change at the time the audit was being undertaken. A key outcome of the Authority's review was the need to overhaul its claims management system as well as developing appropriate strategies to mitigate risks associated with the re-introduction of common law rights.



A WorkSafe Victoria inspector discusses workplace safety.

Key challenges facing the Authority in the management of claims included:

- delays in claim notification adversely affecting return to work and claims management outcomes;
- sustained growth in medical and like expenditure, but no apparent improvement in return to work rates;
- static return to work rate in recent years (89 per cent, 1993-94 and 85 per cent, 1999-2000);
- average satisfaction with the services agents provide;
- increasing long-term claims; and
- in the past, the delivery of common law benefits became financially unviable.

The financial position of the Authority also requires improvement. The scheme is not expected to reach full funding until June 2004.

In the new model being adopted for claims management, the Authority's outsourced claims management structure will be relatively unchanged, despite past poor performance and the success of different approaches elsewhere. While the new approach incorporates some better to best practice design features

which should address past deficiencies, the success of the new claims management model will be dependent on factors including the performance and quality of its agents and the Authority's more pro-active oversight of the system. The Authority did not address the potential for linking claims management to injury prevention, as occurs in some best practice systems. The report stated that success of the claims management model cannot be assessed until it is fully operational in December 2002.

We also reported that:

- the Authority had failed to adequately oversee management by its agents of claimants on the co-ordinated care program; and
- actions taken to date by the Authority to manage common law claims (of critical importance to the scheme's financial viability) were appropriate, however, it was too early to conclude on their likely success.

The Authority welcomed the report and the Office's assessment of its new approach and strategies for managing claims. It endorsed our recommendation for rigorous monitoring by the Authority to address any emerging shortcomings.

The next table illustrates the performance of public sector agencies by ministerial portfolio in meeting the 12 week legislated completion timeframe for both the 1999-2000 and 2000-2001 reporting cycles.

TIMELINESS OF FINANCIAL STATEMENT COMPLETION BY PORTFOLIO, 1999-2000 AND 2000-01

Portfolio	2000-01		1999-2000	
	Number of statements finalised within 12 weeks	Per cent (a)	Number of statements finalised within 12 weeks	Per cent (a)
Education, Employment and Training	1	20	1	20
Human Services	35	31	51	49
Infrastructure (b)	4	27	6	40
Justice	9	47	5	28
Natural Resources and Environment	33	42	19	24
Premier and Cabinet	5	42	4	33
State and Regional Development	6	35	6	35
Treasury and Finance	37	54	40	61
Total	130	40	132	42

(a) Percentage of total audits within portfolio.

(b) Excludes local government bodies.

TIMELINESS OF FINANCIAL REPORTING

General government

The annual reporting and audit requirements for departments and other public sector agencies are set out in the *Financial Management Act 1994* and the *Audit Act 1994*. Under section 45 of the Financial Management Act, each department and public body must submit its annual financial statements to the Auditor-General within 8 weeks of the end of the financial year.

The Auditor-General is then required by the *Audit Act 1994* to complete the audit of these financial statements within 4 weeks of their receipt. Accordingly, the legislative framework requires the

audited financial statements of the public sector to be completed within 12 weeks of the end of the relevant financial year.

The relevant Minister is required to table in each House of Parliament the annual report of each entity, including the audited financial statements within 4 months of the end of the financial year or the next sitting day after the end of the fourth month.

The table below illustrates the overall performance of public sector agencies with 30 June 2001 balance dates in meeting the statutory reporting requirements.

TIMELINESS OF FINANCIAL STATEMENT COMPLETION, ALL DEPARTMENTS AND PUBLIC SECTOR AGENCIES WITH 30 JUNE 2001 BALANCE DATES (a)

Finalisation of audited financial statements (no. of weeks after end of financial period)	Entities	
	Number	Per cent (cumulative)
Less than 8 weeks	29	9
8 to 10 weeks	46	23
10 to 12 weeks	55	40
12 to 14 weeks	90	67
14 to 16 weeks	33	77
More than 16 weeks (b)	75	100
Total	328	-

(a) Excluding Parliament and the local government sector.

(b) Includes 22 entities whose financial statements had not been finalised by 16 November 2001.

Local government

The annual reporting and audit requirements for entities in the local government sector are generally set out in the *Local Government Act 1989* and the *Audit Act 1994*. Under section 126 of the *Local Government Act 1989*, each municipal council and regional library corporation must submit its annual report, including a report of operations, and audited financial statements to the Minister for Local Government within 3 months of the end of the financial year. The annual report of municipal councils is also required to include an audited performance statement.

Under the *Audit Act 1994*, the Auditor-General is required to make a report on the audit of the financial statements within 4 weeks of their receipt.

The following table illustrates the overall timeliness of entities within the local government sector in the completion of audited financial statements and, where applicable, performance statements during the 1999-2000 and 2000-01 reporting cycles.

TIMELINESS OF AUDITED FINANCIAL STATEMENT AND, WHERE APPLICABLE, PERFORMANCE STATEMENT COMPLETION WITHIN THE LOCAL GOVERNMENT SECTOR, 1999-2000 AND 2000-01

Finalisation of audited statements (no. of months after end of financial period)	2000-01		1999-2000	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Within 3 months	72	72	36	36
3 to 4 months	19	91	37	73
Over 4 months (a)	9	100	27	100

(a) Includes 8 entities whose audited statements had not been finalised by 16 November 2001.

NATURE OF AUDIT OPINIONS ISSUED BY THE OFFICE

General government

The Victorian Auditor-General's Office issued 281 clear audit opinions on the financial statements of public sector agencies (excluding local government and related entities), with qualified audit opinions issued on 25 financial statements for year-ended 30 June 2001 accounts.

Major reasons for the issue of qualified audit opinions were:

- Inappropriate disclosure of grants within financial statements. These grants, which were non-reciprocal in nature, were not disclosed in accordance with Australian Accounting Standard AAS 15 - *Revenue* which requires that they be treated as income in the accounts of the recipient in the year of receipt. The majority of these qualifications were issued in respect of public hospitals (12 instances), one agency within the Justice portfolio and one agency within the State and Regional Development portfolio;
- Four hospitals - qualified on the grounds that they failed to consolidate foundations that were regarded as "controlled entities" in accordance with Australian Accounting Standard AAS 24 - *Consolidated Financial Reports*; and
- Five agencies in the Human Services portfolio - qualified on the grounds that they failed to revalue land and buildings or other significant asset classes as required by the *Financial Management Act 1994*. The financial statements of one agency in the State and Regional Development portfolio, and one agency in the Natural Resources and Environment portfolio, were also qualified on this issue.



The Office's review processes ensure that audits are conducted to the highest professional standard.

Other qualified audit reports were issued due to the inappropriate recognition of debtors (2 instances in the Human Services portfolio), inappropriate accounting for assets (one instance in the State and Regional Development portfolio) and the incorrect recognition of an expense and an associated liability (one instance in the State and Regional Development portfolio).

Local government

Financial statements

Eighty-four clear audit opinions were issued on the financial statements of local government entities, and 8 qualified audit opinions issued on 30 June 2001 accounts. The major reasons for qualified audit opinions related to non-compliance with the requirements of Australian Accounting Standards dealing with the valuation, depreciation and reporting of non-current assets.

Specific issues included:

- failure to undertake a condition assessment of non-current assets when undertaking revaluations (5 instances);
- failure to undertake asset revaluations with sufficient regularity (one instance);
- inappropriate accounting for a change in the condition of infrastructure assets (one instance); and
- lack of adequate documentation to support asset valuations (one instance).

Performance statements

Sixty-three clear audit opinions were issued on the performance statements prepared by municipal councils, with 10 performance statements subject to audit qualification on 30 June 2001 accounts. The major reasons for the issue of qualified audit opinions were:

- failure to include all business plan performance measures and targets in the performance statement (6 instances);
- performance targets by which the performance of the council may be judged were not set out in the business plan (2 instances); and
- sufficient and appropriate records did not exist to support actual results included in the performance statement for certain performance measures (2 instances).

SENIOR STAFF APPOINTMENTS

Deputy Auditor-General appointed



Edward Hay was appointed to the position of Deputy Auditor-General on 26 November 2001. He has an extensive and distinguished career with the Australian National Audit Office, where he was Group Executive Director responsible for a number of large commercial audits, performance audits and business support.

Edward has a Bachelor of Arts (Accounting) from the University of Canberra and is a Member of the Institute of Chartered Accountants.

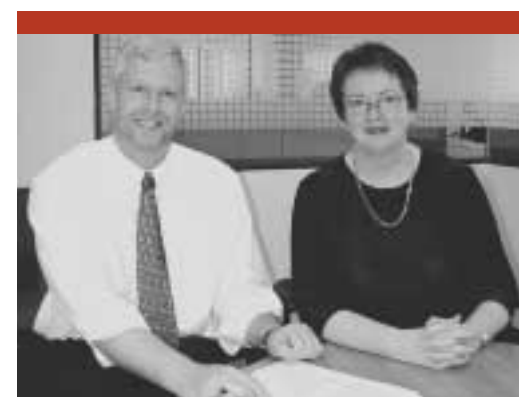
New Directors appointed - Performance Audit Group

Patricia ní Ivor

Patricia ní Ivor has been appointed Director, Performance Audit and took up her position in October 2001.

Patricia has wide experience in government, not-for profit and commercial project management, especially in the education, health and community sectors, with an emphasis on feasibility studies, policy research, critical path analysis and strategic planning.

Patricia has previously worked in the Victorian government education and business sectors, particularly in areas dealing with initiating and monitoring performance and expenditure reforms against government policy and legislative requirements in vocational training and public sector workplace reform. She was involved in Information and Communications Technologies policy co-ordination, reform and innovation in education and has been responsible for strategic planning and policy advice on the Ministry of Education's budget and expenditure.



Scott Bayley and Patricia ní Ivor.

Scott Bayley

Scott Bayley has been appointed to the position of Director, and commenced with the Office on 27 August 2001. Scott is currently working on 2 performance audits, namely, International Students and Mental Health.

Scott previously held the position of Associate Director with the Office of the Auditor-General for Western Australia where he worked for 7 years publishing a number of studies. Scott is also a member of the national board of the Australasian Evaluation Society.



TRIBUTE TO A ROLE MODEL

The Victorian Auditor-General's Office was deeply saddened by the recent loss of a valued colleague and friend. Jan Tranter passed away suddenly on 20 October 2001, after a short illness. She was 55 years of age.

Jan was strongly committed to serving the public interest and excelled in the performance audit arena. She was also a remarkable role model for women in public sector auditing, sharing her skills and experience, and bringing out the best in those who worked with her.

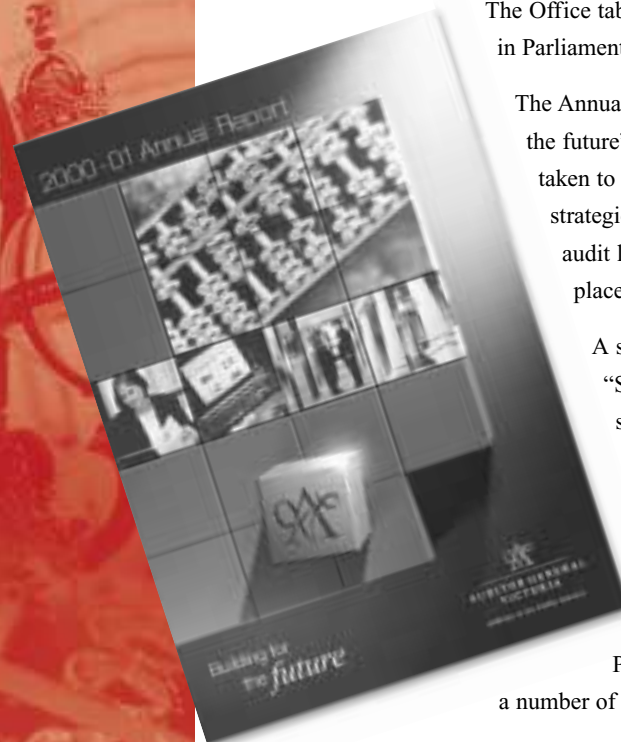
Jan joined the Victorian Auditor-General's Office in 1983 where her capabilities were recognised and she quickly moved through the ranks, to the position of Director, Performance Audit. As a pioneer in the early development of public sector performance auditing, she was responsible for a number of major audits across key economic, social and environmental issues that led to reform within the Victorian public sector. Jan took a leading role in the development of the Office's highly regarded performance audit methodology which, combined with her love of travelling, involved study trips to the UK and the USA to determine best practice in this field.

She also contributed greatly to maintaining a harmonious and focused work environment, particularly through the difficult period of restructuring of the Victorian Auditor-General's Office and the creation of Audit Victoria – and then the Office's subsequent re-formation in 1999.

Jan leaves behind a close and loving family and a wide circle of friends who, like her Office colleagues, valued her sense of humour, her compassion, her sound advice and, most of all, her friendship. She will be sadly missed, but always remembered.

2000-01 ANNUAL REPORT

The Office tabled its Annual Report for the 2000-01 period in Parliament on 22 November 2001.



The Annual Report carried the theme of “Building for the future” and reflected on the recent actions we have taken to re-establish our corporate operational and strategic planning focus, following the significant audit legislative and operational changes that took place over recent years.

A special feature of the Annual Report is the “Snapshot of our Performance for the Year” section which contains summary information on the results of our performance against a number of targets that were set for the year.

While we continued to concentrate on the delivery of high quality financial and performance audit services to

Parliament and our audit clients, we undertook a number of organisational developments enhancements.

Our highlights for the year included:

- completion of our corporate rebuild through creation of a new organisation structure and the filling of all senior positions, following earlier wide-ranging amendments to Victoria’s audit legislation;
- formulation of objectives and strategies to guide our medium-term organisational direction through adoption of a new Corporate Plan covering the 3 year period July 2001 to June 2004;
- presentation to Parliament of our second Annual Plan articulating our work program for the year and the resources required to achieve it;
- delivery of 9 major reports to Parliament and expression of 549 opinions on the financial statements of agencies;
- provision of constructive, professional commentary on a number of public sector guidelines and accounting pronouncements; and
- establishment of firm policies governing the timing, nature and extent of use of contract audit services.

The Annual Report is available on our website at www.audit.vic.gov.au

HONOURS TO STAFF

Australasian Evaluation Society – Caulley Tulloch Prize ... to Scott Bayley



Caulley Tulloch Prize winner - Scott Bayley.

The Australasian Evaluation Society (AES) is a professional organisation for people involved in program evaluation. Scott Bayley has played a variety of roles with the Society including past President of the WA Branch and is a previous editor of the Evaluation Journal of Australia. Scott is currently a member of the Society’s National Board and is the Regional Co-ordinator for Australia.

Each year the AES awards various prizes for accomplishments in the field of program evaluation. In 2001 Scott won the Caulley Tulloch Prize for the year’s best “pioneering” publication on evaluation. Scott’s journal article: Bayley, S. 2001 “Measuring Customer Satisfaction”, *Evaluation Journal of Australasia*, vol. 1, no. 1, pp. 8-17, was considered to be significant and innovative for 3 reasons:

- His paper provides research evidence to show that commonly adopted approaches for measuring customer satisfaction are fundamentally flawed;
- Currently, traditional test theory forms the basis for virtually all measurement activities in evaluation. His paper challenges the adequacy of this model and then goes on to demonstrate that latent trait theory is a more useful measurement paradigm; and

- Finally, Scott’s paper offers 10 criteria by which the adequacy of any measurement approach can be evaluated. If acted upon, these criteria will serve to fundamentally change the measurement practices of evaluators and other researchers.

Selection for Williamson Community Leadership Program 2002 ... Carol Pagnon

Carol Pagnon, Director, Financial Audit Operations, has been selected to participate in Leadership Victoria’s prestigious Williamson Community Leadership Program for the 2002 calendar year. The Williamson Community Leadership Program is a rigorous, challenging and life-enriching year of seminars, visits, field trips and lectures, which draws together 34 of Victoria’s future leaders and above average achievers from a variety of backgrounds, including the corporate sector, arts, small business, government, welfare, the professions, sport and the rural sector.

The program explores and canvasses social and economic issues within a 10 year horizon, as well as community resources, opportunities and challenges. It allows participants to explore their own values, philosophies, prejudices and beliefs through the opportunities offered by the program. In this process, the participants have close interaction with established leaders from all sectors of the Victorian community and, therefore, are able to tap into the wealth of the leaders’ experiences. As a result, participants will become more committed and better-rounded managers, serve the community in an informed, intelligent and balanced manner, while maintaining an invaluable and ongoing support network. At the successful completion of the program,

admission in the Williamson Community Skills Bank ensures graduates increase their involvement in community matters.

The Office is proud to support Carol, a member of this Office’s Leadership Team, on this Program and we wish her an enriching and exciting year on the Program.



Carol Pagnon – selected for the Williamson Leadership Program 2002

IMPLEMENTATION OF THE “TRILOGY” ACCOUNTING STANDARDS

Understanding and implementing the “trilogy” set of Accounting Standards (AAS 1, AAS 36 and AAS 37) for the financial year ended 30 June 2001 was a challenge that faced both the Office and the entities we audit. These 3 standards significantly altered the basic building blocks of financial report presentation. In particular, what was known as the “balance sheet” and “profit and loss statement” is now known as the “statement of financial position” and “statement of financial performance”, respectively.

Many entities experienced difficulty interpreting and applying the requirements of these standards. Some sectors experienced specific implementation issues. For instance the water industry is to do further work on the application of the requirement in AAS 1 to disclose “cost of goods sold”.

The Office, as well as providing advice on the trilogy to entities and audit service providers individually and at forums, has recently communicated our experiences to the Australian Accounting Standards Board.

RESOURCING FINANCIAL STATEMENT AUDITS

As indicated in our December 2000 newsletter, the Office has adopted a policy of resourcing a minimum of 35 per cent of financial statement audits internally to ensure that we maintain a representative audit presence and capability in each sector. Initial implementation of this policy commenced during June-July this year in conjunction with the tendering of audits in the health and water sectors which were last tendered in 1995-96 and where current audit service provider contracts had expired. This resulted in the transfer of 18 audits in the health sector to the Office’s Financial Audit Group.

The results of the tender round of 148 audits in the health, water and other sectors, which were subject to a selective tender process, were announced in August. New contracts were awarded, commencing from the 30 June 2002 financial year. Contracts were offered to a number of new audit service providers which in part reflects the decision to rotate audit service providers for each audit every 5 years in line with “best practice”, to support the maintenance of audit independence and ensure the application of a fresh and objective perspective to the audit task.

ADDITIONAL COPIES OF “AUDITING IN THE PUBLIC INTEREST”

A number of recipients of our newsletter have contacted us to request extra copies to distribute within their organisation. If you would like additional copies dispatched to you on a regular basis please email Kim Nolan (kim.nolan@audit.vic.gov.au).

FURTHER INFORMATION



AUDITOR GENERAL
VICTORIA

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Years of Auditing in the Public Interest

Further information about any of the issues contained in this publication, or about the Victorian Auditor-General’s Office, may be obtained from:

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