



Auditing

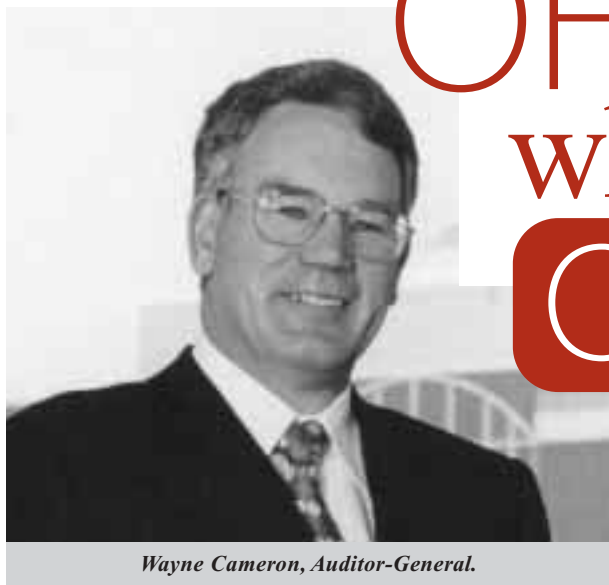
in the Public Interest

AUTUMN 2002

OH,
what a

CHANGING

WORLD
WE LIVE IN



Wayne Cameron, Auditor-General.

While we all recognise that change is a basic characteristic of our world, and we all seek to keep track of those forces that shape our businesses, all too often unforeseen changes can impact on our ability to carry out our tasks or perform our duties. Witness the events over the last few months: the changes in the accounting profession, and the increasing difficulties people have with finding adequate insurance cover. Often, these changes run deeper than what we first anticipate. The challenge for us all is, notwithstanding maintaining an effective corporate radar, to allow enough time to consider the consequences of those forces of change on our business, and on our ability to continue to perform efficiently and effectively.

In some instances we can respond by turning what may appear to be a risk, into an opportunity. In other circumstances, our capacity to reshape our world and respond to those forces is beyond our own capacities and we look to our community leaders for guidance. Such is the nature of risk management and its emerging contemporary significance. Its impact can be quite direct in the public sector which, at times of volatility and uncertainty, is expected to play a lead role in ensuring community certainty, and for effective delivery of societal goals, including protection of the environment and caring for the underprivileged.

Public sector managers carry 2 levels of responsibility when dealing with change. One level is focused on ensuring that our business functions can be undertaken in the best manner possible; the other level is to ensure that we adequately discharge our primary role as advisers to governments, to communities and to institutional bodies on how, having recognised the forces of change, we propose fair, just and affordable responses to those forces.

An important element of this management framework is an effective consultative process with key stakeholders. Solutions are more frequently assisted by effective communication, not only in terms of the identification of possible solutions, but equally importantly in the nature of the engagement process itself. We should never underestimate the rewards and the power of effective consultative processes.

J.W. CAMERON
Auditor-General

“IN THE PUBLIC INTEREST”

150TH ANNIVERSARY OF THE VICTORIAN AUDITOR-GENERAL'S OFFICE

The Victorian Auditor-General's Office is one of the few public sector agencies in Victoria whose history dates back to the colony's separation from New South Wales in 1851.

In its early years, the Office was embroiled in controversy over its role in the financial crisis that played a large part in the events leading to the Eureka uprising. It experienced further controversy in the mid-1990s when the legislative powers of the Auditor-General were significantly changed.



*Charles Ebdon,
Victoria's first Auditor-General, 1851-52.*

To commemorate our 150th anniversary, Dr Peter Yule was engaged to prepare the history of the Office. Peter is one of Australia's most highly respected historians, and has written extensively on both Australian and British history and his work is widely published, especially in the field of Victorian local, economic and medical history.

The book is entertaining and sheds new light on many aspects of the history of Victoria. It makes fascinating reading for anyone interested in the development of public accountability in the State, and the personalities and key events that have characterised the functioning of the Office over the past 150 years.

The book will be officially launched in late May, and will be available for purchase from the Information Victoria Bookshop, and from leading booksellers throughout Victoria. Please contact Kim Nolan at kim.nolan@audit.vic.gov.au for additional information on the book, or to receive an order form to purchase a copy.



VISIT TO MELBOURNE BY MEMBERS OF THE UNITED STATES GENERAL ACCOUNTING OFFICE

We were delighted to meet with representatives of the US General Accounting Office (GAO) on 25 and 26 February as part of a study by the GAO of recent international public sector management reforms. Discussions with the visitors focused on many areas including the following 3 topics that had been identified as areas of specific interest to their study tour:

- government management reforms in general, including current developments in performance measurement, fostering accountability through the use of performance contracts, and performance reporting;
- recent and current initiatives in the area of human resource management/human capital reform; and
- efforts to make services more citizen-centered and responsive to clients, including the use of single window portals, service contracts, satisfaction surveys and “joined up” services.

THE “TRILOGY” ACCOUNTING STANDARDS POST-IMPLEMENTATION REVIEW

The financial year ended 30 June 2001 saw the introduction of the “Trilogy” Accounting Standards:

- AASB 1018/AAS 1 - Statement of Financial Performance;
- AASB 1040/AAS 36 - Statement of Financial Position; and
- AASB 1034/AAS 37 - Financial Report Presentation and Disclosure.

As these Standards introduced a number of new reporting requirements, the Australian Accounting Standards Board (AASB) sought comments from constituents on their experience with the implementation of the Trilogy. The Office provided a submission to the AASB on issues identified during the 30 June 2001 audit round.



Discussions between staff from our Office and the US General Accounting Office.

Arrangements were also made for the visitors to meet with several Victorian public sector organisations on issues relevant to the study tour. While they were here, they held discussions with:

- Randall Straw, Executive Director, Multimedia Victoria and Terry Wright, Acting Director, e-government Strategy and Policy, Multimedia Victoria;
- Peter Loney MP, Chairperson, Public Accounts and Estimates Committee, and Michele Cornwell, the Committee’s Executive Officer;
- Paul Eate, Assistant Commissioner for Public Employment, Office of Public Employment;
- Steve Gurr, Director, Resource Management Reform, Department of Treasury and Finance; and
- David Adams, Director, Policy Development and Research, Department of Premier and Cabinet, and several of David’s colleagues.

We appreciated greatly the co-operation and assistance provided by the above parties and their willingness to share some of their time and experiences with the visitors from the USA.



As a result of the post-implementation review process, the AASB has issued Exposure Draft ED 105 proposing changes to AASB 1018/AAS 1 to apply to reporting periods ending on or after 30 June 2002. The Exposure Draft published on the AASB website identifies the following amendments:

- clarification that revenues and expenses included in profit or loss/result from ordinary activities are all disclosed on the face of the statement of financial performance and may be disclosed either in total or disaggregated;

2001-02 ANNUAL REPORTING CYCLE

LOOKING FORWARD TO JUNE 2002

- require revenues to be reconciled to the detailed disclosure of revenues required by existing AASB 1004/AAS 15, paragraph 12.1(b), and expenses other than borrowing costs expense to be reconciled to the disclosure of expenses by nature or by function, where revenues and expenses are not fully disaggregated on the face of the statement of financial performance;
- specify that sub-totals additional to those prescribed by existing paragraphs 4.1(e), (g), (i) and (k) and 4.3(e) are to be presented less prominently than the prescribed sub-totals;
- permit the revenues and expenses disclosed in accordance with exiting paragraph 5.4 to be disclosed on the face of the statement of financial performance or in the notes in the financial report;
- deleting paragraphs 12.1(b), 12.1.2 and 12.3 from AASB 1004/AAS 15, and replacing them with similar paragraphs in AASB 1018;
- expenses other than borrowing costs expense must be classified all by nature or all by function and that a hybrid classification is prohibited;
- unclassified expenses individually and in aggregate (commonly labelled “other expenses”) are subject to Accounting Standard AASB 1031 and Australian Accounting Standard AAS 5 - Materiality;
- the net gain or the net loss on the disposal of property, plant and equipment be deemed to be a revenue or an expense, respectively, and be disclosed as a revenue or an expense in the statement of financial performance and accompanying notes in the financial report; and
- clarification that the disclosure of a reconciliation with an international GAAP in the notes in the financial report is not prohibited by existing AASB 1018/AAS 1, paragraph 4.6.

Preparers and auditors of financial statements are advised to monitor the AASB's website to ensure that the 30 June 2002 financial statements comply with the outcome of the post-implementation review process.

With 30 June 2002 fast approaching, agencies and auditors are currently gearing up for the 2001-02 annual reporting cycle.

Over recent years, requirements concerning the timeliness of annual reporting and the quality of disclosure within financial reports have placed increasing demands on those involved in the process. These demands have highlighted, more than ever, the need for a co-operative and co-ordinated approach between the financial management staff of public sector agencies and their auditors.

Given the volume of audits with the same reporting and auditing targets, auditors will be working closely with agencies to effectively schedule the year-end reporting and auditing processes, resolving emerging issues as early as possible and, where practical, maximising the extent of audit work that can be undertaken prior to balance date.

Planning for year-end reporting and auditing

Key reporting and auditing targets are established under the *Financial Management Act 1994*, set by the Department of Treasury and Finance in relation to the finalisation of the State's Consolidated Annual Financial Report or, for certain agencies, outlined in reporting provisions within specific legislation.

A key facet of the annual reporting process will be for agencies and auditors to agree on a schedule of completion dates for the various tasks required to meet these key targets. For many agencies, this process has already commenced. For other agencies, auditors will be in contact in the near future to facilitate the scheduling of the year-end reporting and auditing tasks.

To meet the stringent reporting and auditing requirements for all agencies, it will be important that scheduled completion dates are achieved. Any potential variation to schedules should be identified as early as possible so that alternative timing can be agreed.

Emerging issues

Recent years have witnessed a range of new or amended Accounting Standards and other reporting requirements. The 2001-02 financial year is proving to be no exception with a range of emerging requirements relevant to the preparation of annual financial reports and covering areas such as the valuation of assets and the treatment of capital contributions.



Russell Walker and Margaret Salter discuss accounting issues during an in-house Technical Issues Committee meeting.

The application of these requirements may raise specific accounting and reporting issues within individual agencies. No doubt other complex issues will arise in certain agencies throughout the reporting and audit process. The timeliness with which these issues are resolved will be a major factor in the ability of agencies and auditors to meet reporting deadlines.

To facilitate timely resolution, issues should be identified, discussed and resolved as early as possible, preferably prior to 30 June. During the planning and interim phases of the audit process, auditors will inform agency management of any issues identified that may impact on the financial report. Similarly, the Office would appreciate early advice by agencies of potential issues to allow consideration on a timely basis.

Audit work prior to balance date

With ongoing enhancements to monthly financial reporting and financial systems in many Victorian public sector agencies, increasing scope exists for audit procedures, traditionally completed post-balance date, to be undertaken during the interim phase of the audit.

In 2001-02, auditors will, wherever possible, aim to maximise the work undertaken prior to 30 June. The extent of work to be undertaken during the interim phase will be discussed with agencies as part of the audit planning process. Auditors would also welcome any suggestions from agencies that may further increase the scope for work to be completed at an earlier stage of the audit.

An initiative used by certain agencies in recent years has been the preparation of draft financial reports based on 31 May financial information. This practice facilitates early discussions between management and auditors on the format and disclosures proposed for the annual financial report. Other agencies may wish to consider the benefits of implementing this practice.

The current financial year will also see an increasing focus by audit on the issue of interim management letters to progressively inform agencies of the results of the audit and identify issues, such as control deficiencies, that may require immediate management action.

Audit Office assistance

Any specific queries by agencies relating to their reporting or audit process should be initially directed towards the Audit Director or Partner responsible for their audit.

Any additional queries may be directed to:

- David Reid, General Manager, Financial Audit (telephone: 03 8601 7013) in relation to audits undertaken directly by Victorian Auditor-General's Office staff; and
- Yves Tawil, Director, Contracts Management and Audit Quality (telephone: 03 8601 7191) in relation to audits undertaken by private sector contractors.

UK STUDY TOUR

The following members of staff recently completed a study tour of the UK:

- Greg Pound, Assistant Auditor-General, Accounting and Auditing Policy;
- Russell Walker, Assistant Auditor-General, Strategic Planning and Sector Liaison; and
- Steve Mitsas, Director, Statewide and Central Agencies.



Enjoying a break from a heavy round of meetings and discussions (from left: Russell Walker, Greg Pound and Steve Mitsas).

The study tour examined issues associated with:

- Private Finance Initiatives and Public Private Partnerships (PFI/PPP);
- performance reporting; and
- parliamentary appropriations and the associated management and accountability framework.

During the period 8 to 12 April, numerous meetings were held with the following organisations:

- National Audit Office;
- HM Treasury;
- Audit Commission;
- Office of Government Commerce;
- Department of Defence; and
- HM Prison Service.

Meetings were also held with representatives of accounting firms, the International Accounting Standards Board and UK Accounting Standards Board to discuss PFI/PPP and other financial reporting issues.

AUDIT (FURTHER AMENDMENT) BILL

Parliament is currently considering, within the above Bill, a range of proposed amendments to the Audit Act. Most of the amendments appear to have all-party support, and include, among other things:

- widening of the definition of an authority subject to audit by the Auditor-General to encompass entities controlled by the State or other authorities;
- capacity for the Auditor-General to table reports out of Session;
- lifting of the statutory threshold from net assets of \$1 million to expenditure of \$5 million for determining authorities in respect of which the Auditor-General may delegate to service providers the power to sign audit opinions on financial statements;
- a specific requirement for the Auditor-General to include in the Office's annual report details of quality assurance practices in place;
- power to the Auditor-General to provide information to designated public officials such as the responsible Minister, the Police Commissioner and the Ombudsman etc. whenever deemed desirable during the course of an audit; and
- indemnity protection to the Auditor-General and staff (to be enshrined in the Constitution Act) from personal liability for acts or omissions carried out in good faith in the performance of duties.



There are 3 issues in the Bill that have been subject to recent debate within Parliament, namely:

- whether a proposed requirement for the Auditor-General to provide advance notification of an intention to report should apply to all reports, i.e. both in and out of Session;
- the period of advance notice of intention to report (one or 2 business days); and
- the wording for a clause aimed at prohibiting improper use of proposed reports received by parties during the client consultative process.

If Parliament reaches agreement on these matters and approves passage of the other clauses within the Bill, the amendments dealing with delegation of authority to sign audit opinions and assignment of indemnity protection are likely to become effective from the date of Royal Assent. The remaining amendments would operate from 1 July 2002.

OUR AUTUMN 2002 PARLIAMENTARY REPORTING PROGRAM

The Office's Annual Plan (tabled in June 2001) described our proposed parliamentary work program for 2001-02. Six reports were tabled in the Spring 2001 Session of Parliament and another 6 are expected to be, or have been, tabled during the Autumn 2002 Session.

International students in Victorian universities (tabled 18 April 2002)

International students are now an important and growing part of Australia's higher education system. Victorian universities enrolled some 31 000 international students in 2000 - comprising about 20 per cent of the student population.

The scope of the audit was confined to Victorian universities and did not include TAFE institutes or private providers of higher education. Three universities were selected for detailed examination: Monash University, RMIT University, and The University of Melbourne. Together, these universities accounted for 75 per cent of all full fee-paying international students in Victorian universities in 2000.



This audit assessed whether international student programs in Victorian universities have:

- impacted on access to university for Victorian students;
- impacted on the academic standards of universities;
- been of financial benefit to universities and the Victorian economy; and
- been adequately regulated and monitored.



*Students of The University of Melbourne
are indicating increasing levels of satisfaction with facilities.*

The key findings of the audit were as follows:

Student access

- Direct displacement of domestic HECS students by fee-paying domestic or international students is both protected against, and regulated by, the Commonwealth's higher education policies.

Academic standards

- University assessment practices are changing in all faculties, irrespective of whether they have high or low numbers of international students. The audit evidence suggests that:
 - While it is common for academics to be lobbied by students seeking a higher grade, where "soft marking" exists, it is an isolated and occasional incident within universities; and
 - There is no evidence to suggest that systematic institutionalised "soft marking" occurs in any of the 3 universities examined. On the occasions when preferential assessment does occur, it arises most commonly where an academic gives a student with under-developed English skills the "benefit of the doubt" on the student's written work.

Financial impacts

- Revenue from fee-paying international students in Victorian universities has grown from \$190 million in 1997 to \$260 million in 1999 - approximately 18 per cent growth per annum. Of the 3 universities, RMIT University has experienced the greatest growth in numbers of international students, generating 22 per cent of its total operating revenue in 1999 from international students. The total financial impact of international university students on the Victorian economy was measured at \$714 million in 1999, equivalent to 0.47 per cent of Victoria's Gross State Product for that year.

Government regulation

- Rapid growth in international students wanting to study in Australia has resulted in a proliferation of both private and public providers of education and training services. This growth has also resulted in strategies being adopted, both by governments and the higher education sector, to monitor and regulate international student programs. It will be some time before these various arrangements are fully implemented, and their effectiveness can be assessed.

The full text of the report is available on the Office's website:
www.audit.vic.gov.au

Investment attraction and facilitation in Victoria

Public assistance to industry includes attracting and facilitating investment through direct financial assistance in the form of cash subsidies, loans and the provision of discounted government services. Assistance can also be provided in a non-financial form involving the provision of information and assistance associated with existing regulations and business development requirements.

The audit will investigate industry attraction and facilitation in Victoria, the transparency of such arrangements, and the adequacy of mechanisms in place to ensure that the recipients of public assistance are generating the expected economic and social benefits to the community.

Nurse work force planning

Addressing nursing shortages is a key priority area of the Government and a range of new initiatives have been introduced to encourage nurses back to the public sector. The recent decision by the Australian Industrial Relations Commission relating to nurses' pay and conditions, including mandating nurse-patient ratios across the hospital system to manage nurse workload, will have important implications for current and future health work force planning in Victoria.

This audit will assess the adequacy of nurse work force planning and management by the Department of Human Services and at the hospital level. The project will also examine the implementation, impact and cost of recent initiatives to address specific nurse work force demand and supply issues and identify any related issues.

Management of roads by local government

Local government's infrastructure assets are valued at around \$27 billion. A recent departmental study revealed significant shortfalls in the level of spending on asset renewal and maintenance. This impacts on the ongoing sustainability of the sector's infrastructure and its ability to provide key services to local communities.

The objective of the audit will be to assess the effectiveness of asset management practices for road assets within the local government sector and to identify improvement opportunities.

Managing Victoria's air quality

The Environment Protection Authority (EPA) is charged with protecting the beneficial uses of the air, water and land from the adverse impacts of waste and unwanted noise. The EPA monitors and manages air quality to comply with the State's environment protection policy and national commitments.

The audit will examine the effectiveness of the EPA's overall monitoring and regulatory role in protecting air quality in Victoria.

Report on public sector agencies

The report will provide information to Parliament on the results of audits on financial statements with 31 December balance dates, and the results of a range of special reviews which are currently being undertaken across the public sector. The Auditor-General's findings and recommendations to be contained in the report will be aimed at presenting value-adding and constructive suggestions for better financial and resource management of the Victorian public sector.

FURTHER INFORMATION



**AUDITOR GENERAL
VICTORIA**

*150
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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