Public Accounts and Estimates Committee

PUBLIC ACCOUNTS
AND ESTIMATES COMMITTEE

FORTIETH REPORT TO PARLIAMENT

Report on the Appointment of
Independent Auditors to conduct
Financial and Performance Audits
of the Victorian Auditor-General’s
Office

MAY 2001

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PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE
MEMBERSHIP - 54TH PARLIAMENT

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Hon. R Hallam, MLC (Deputy Chairman)
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DUTIES OF THE COMMITTEE

The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the Parliamentary Committees Act 1968, as amended.

The Committee comprises ten Members of Parliament drawn from both Houses of Parliament and all political parties and includes an Independent Member.

The Committee carries out investigations and reports to Parliament on matters associated with State financial management. Its functions under the Act are to inquire into, consider and report to the Parliament on:

(a) any proposal, matter or thing connected with public administration or public sector finances;

(b) the annual estimates or receipts and payments and other budget papers and supplementary estimates of receipts and payments presented to the Assembly and the Council.

In consultation with the Auditor-General, the Committee determines the objectives of performance audits and identifies any particular issues that need to be addressed during these audits.
CHAPTER 1: INTRODUCTION

1.1 Legislative requirements

Pursuant to sections 17 to 19 of the Audit Act 1994, as amended, the Public Accounts and Estimates Committee is required to recommend to the Parliament the appointment of independent auditors to conduct:

- an annual financial audit of the Victorian Auditor-General’s Office; and
- a performance audit of the Victorian Auditor-General at least once every three years.

The relevant sections of the Audit Act are attached as Appendix 1.

1.2 Selection process

On 16 March 2001, the Committee sought submissions by tender by advertising in The Financial Review and, on 17 March 2001, in The Age and The Australian newspapers. The Committee also wrote to 30 major accounting firms and various academics, inviting proposals.

On 15 March 2001, the Committee appointed the following Members to a Sub-Committee to review the tender proposals:

- Mr P Loney, MP (Chairman of the Committee and Chairman of the Sub-Committee);
- Hon. R Hallam, MLC (Deputy Chairman of the Committee);
- Hon. L Asher, MP; and
- Mrs J Maddigan, MP.

Mr Trevor Wood from the Public Accounts and Estimates Committee secretariat was appointed to assist the Sub-Committee.

Requests were made by some potential tenderers for the Committee to clarify matters raised in the audit specifications. The
Committee determined that it would not brief potential tenderers individually, but would conduct a information session open to all. An information session was conducted by the Chairman, Mr. Peter Loney, MP, the Deputy Chairman, Hon. Roger Hallam, MLC, and Mr Trevor Wood on 2 April 2001.

At this information session the expectations of the Committee in terms of the audits to be undertaken were communicated and issues raised by several potential tenderers, were clarified.

The Committee received seven proposals for the financial audit and seven proposals for the performance audit. The Committee was impressed with the quality of the submissions.

Mr Wood, a former senior executive from the Victorian Auditor-General’s Office, assisted with the analysis of the submissions received. After evaluation by Members of the Sub-Committee, a short-list of tenderers was compiled.

On 23 April 2001, the Sub-Committee interviewed representatives of four firms submitting proposals for the performance audit; and three firms submitting proposals for the financial audit.
CHAPTER 2: FINANCIAL AUDIT

2.1 Background

Section 17 of the Audit Act 1994, as amended, provides in part that:

(1) A person may be appointed by resolution of the Legislative Council and the Legislative Assembly, on the recommendation of the Parliamentary Committee of the Parliament\(^1\), as an independent auditor of the Victorian Auditor-General’s Office.

(2) An appointment –

(a) must not be made for a period exceeding 3 years, but may be renewed; and

(b) may provide for the payment of remuneration.

(4) The function of the independent auditor is to carry out audits of the Victorian Auditor-General’s Office in accordance with this Part.

Sections 17 and 18 do not explicitly state what the audit comprises. The Audit Act defines an audit as including an examination and inspection. The audit is intended to comprise an audit of the financial statements of the Victorian Auditor-General’s Office and this is the basis on which the Committee has made a recommendation. Sections 17 and 18 also do not explicitly empower the Committee to give directions to the auditor or to determine the terms and conditions of the appointment, as is the case with the Committee’s responsibilities under the same Act in respect of the appointment of the performance auditor of the Victorian Auditor-General’s Office.

Previous reports\(^2\) of this Committee, and its predecessor, have recommended that the Audit Act be amended to provide that the Public Accounts and Estimates Committee can give directions to

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\(^1\) In Section 3 of the Audit Act "Parliamentary Committee" is defined as the Public Accounts and Estimates Committee

the independent auditor in relation to the financial audit and to determine the terms and conditions of the appointment.

The Committee is disappointed that the last review of the Audit Act did not take any action on this matter. The Committee reiterates its earlier advice and recommends that the Government include this provision when the Audit Act is next amended.

2.2 Previous arrangements

Since 1995, Mr Douglas Bartley, a Partner of KPMG, has undertaken the financial audit of the Victorian Auditor-General’s Office. In its Thirty-Second Report to the Parliament, the Committee indicated it would call tenders in 2001 to undertake the financial audit for the following three years.3

2.3 Financial Auditor’s role

The auditor’s role will be to:

- conduct an audit of the Victorian Auditor-General’s financial statements for the year ended 30 June 2001;
- form an opinion as to whether the financial statements of the Victorian Auditor-General’s Office present fairly the financial position of the Office as at 30 June 2001 and the results of its operations and its cash flows for the financial year ended on that date in accordance with applicable accounting standards and other mandatory professional reporting requirements and comply with the requirements of the Financial Management Act 1994, as amended; and
- conduct the audit in compliance with the Audit Act 1994, as amended, and relevant auditing standards and statements.

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2.4 Selection criteria

In seeking to appoint the auditor, the Committee considered the following selection criteria. The auditor should:

- be a member of a leading Australian or international organisation in the field of auditing and hold a prominent and respected position in the profession;
- have an appreciation of the role of the Victorian Auditor-General’s Office;
- have a general knowledge and understanding of the Victorian public sector’s system of financial administration; and
- have sufficiently skilled and experienced staff to assist with the audit.

2.5 Recommended appointment

After assessing each proposal against the selection criteria and clarifying with the short-listed tenderers their audit methodology and approach, the Committee resolved to recommend the appointment of Mr Christopher Lewis, a Partner with KPMG, on the basis that:

- he is a Member of the Auditing and Assurance Standards Board; and
- he is highly qualified and experienced in undertaking audits in both the private and public sectors.

The Committee further recommends that Mr Lewis be appointed for three years, subject to negotiation with the Public Accounts and Estimates Committee on a suitable level of remuneration for future financial audits.
2.6 **Recommendations**

Accordingly, the Committee recommends that:

**Recommendation 2.1:**

In accordance with Section 17 of the *Audit Act 1994*, as amended:

(a) the Legislative Council and the Legislative Assembly appoint Mr Christopher Lewis of KPMG, in accordance with Appendix 2, to conduct the financial audit of the Victorian Auditor-General’s Office for the 2000-2001 financial year;

(b) the level of remuneration for the financial audit be $19,800, inclusive of GST; and

(c) Mr Lewis be appointed for three years, subject to negotiation with the Public Accounts and Estimates Committee, of a suitable level of remuneration for future financial audits.

**Recommendation 2.2:**

The Audit Act be amended to provide that, in relation to financial audits of the Victorian Auditor-General’s Office, the Public Accounts and Estimates Committee can:

(a) give directions to the independent auditor appointed to undertake financial audits; and

(b) determine the terms and conditions of the appointment of the auditor.
CHAPTER 3: PERFORMANCE AUDIT

3.1 Background

The Audit Act requires that a performance audit of the Auditor-General be conducted at least once every three years. Under the Act, the Public Accounts and Estimates Committee is responsible for recommending the appointment of an auditor.

Section 19 of the Audit Act 1994 as amended, states in part that:

(1) An audit shall be conducted under this section at least once every 3 years to determine whether the Auditor-General is achieving his or her objectives effectively and doing so economically and efficiently and in compliance with this Act.

(2) An audit under this section shall be conducted by an auditor appointed by resolution of the Legislative Council and the Legislative Assembly, on the recommendation of the Parliamentary Committee.

3.2 Selection criteria

In seeking to appoint the auditor, the Committee considered the following selection criteria. The auditor should:

- be a member of a leading Australian or international organisation in the fields of auditing and consulting (with an emphasis on performance evaluation) and hold a prominent and respected position in the profession;

- have an appreciation of the role of the Victorian Auditor-General’s Office;

- have knowledge and experience in the application of large-scale audit project methodologies;

- have knowledge and experience in the use of modern audit methodologies and performance evaluation techniques;
have a general knowledge and understanding of the nature of public sector organisations and the Victorian public sector’s system of financial administration; 

- have sufficiently skilled and experienced staff to assist with the audit; and 

- not be involved during the course of the audit with an audit examination or consultancy in a department or agency in respect of which the Auditor-General has a statutory responsibility so as to avoid a possible conflict of interest with the performance audit functions.

3.3 **Scope of the performance audit and recommended terms and conditions of the appointment**

Section 19 of the *Audit Act* 1994 as amended, states in part that:

(3) **An auditor appointed under this section -**

(a) *shall be appointed on such terms and conditions and is entitled to such remuneration as are determined by the Parliamentary Committee; and*

(b) *in conducting the audit, must comply with directions as to the audit given by that Committee.*

Previous performance audits undertaken in 1992 and 1995 have been wide-ranging and have retrospectively reviewed all aspects of the Auditor-General’s operations over a three year period.

However, the focus of the last performance audit in 1998 was very limited in scope because the Victorian Auditor-General’s Office was preparing to operate in a contestable audit services regime. The emphasis during this audit was on assessing the ongoing effectiveness of the processes developed by the Auditor-General’s Office in response to the changes in the role of the Office. The Committee used this performance audit to add value during the transitional phase.

Major changes to the Office’s legislative and operational environment occurred during 1999-2000, which resulted in the
removal of the legislative requirement for the Auditor-General to contract out audits, the abolition of the Government statutory body, Audit Victoria, and the absorption of staff and audit responsibilities from Audit Victoria back into the Victorian Auditor-General’s Office.

Given the magnitude and significance of this change, the Committee would have preferred to delay the performance audit until the new arrangements had been in effect for some time. However, it is a legislative requirement that a performance audit be undertaken every three years, and as the last performance audit was undertaken as at 30 June 1998, the Committee had no flexibility in the timetable for this performance audit.

3.4 Directions

The Committee has directed the Auditor to conduct the audit as follows:

The performance auditor should determine whether the Victorian Auditor-General’s Office is achieving its objectives effectively, economically and efficiently and in compliance with the Audit Act 1994, as amended. In this context and without limiting the scope of the audit, the following matters should be addressed:

1. Assess the appropriateness of the outcomes, objectives, action strategies and performance measures and outcome targets set by the Auditor-General in his Annual Plan and determine the extent to which they are being achieved.

2. Review key management issues, including:

   (a) the adequacy and effectiveness of the annual planning process;
   (b) the adequacy and effectiveness of systems to measure and improve productivity;
   (c) the adequacy of the existing costing system to ensure all recoverable costs are collected for Government and that there is no cross-subsidisation between chargeable and non-chargeable functions of the Office;
(d) the culture of management and its effect on performance;
(e) the effectiveness of the relationships between the Office and its clients (particularly the Public Accounts and Estimates Committee and the Parliament) and any factors influencing those relationships;
(f) the extent to which best practice in public sector management has been adopted by the Office; and
(g) whether the Office complies with Australian auditing standards.

3. Review the efficiency and effectiveness of the management and conduct of performance audits undertaken by the Office, with particular attention to:

(a) the extent to which the criteria for selecting performance audits address the public interest and high risk areas of Government;
(b) the extent to which selection criteria for performance audits ensure key programs in areas of Government receive adequate coverage;
(c) the effectiveness of the planning and management of performance audits;
(d) compliance with statutory requirements for the conduct and reporting of performance audits;
(e) whether the methodologies and practices used by the Office for the conduct of performance audits, including the engagement of contractors on behalf of the Auditor-General to assist in and/or undertake particular audits, are appropriate and well managed;
(f) the adequacy of the investigative process and the evidential material to support conclusions arising from reports of the performance audits;
(g) the appropriateness of quality control procedures including the communication of findings to all audited agencies with an interest in such findings;
(h) the appropriateness of the mix between specialist expertise, contractors and in-house staff in undertaking particular performance audits;
(i) the appropriateness of criteria against which the efficiency and effectiveness of performance audits conducted by the Office are measured;

(j) whether the performance audit program and reports are meeting the information requirements of the Public Accounts and Estimates Committee, the Parliament and the community.

4. Determine whether the methodologies and practices used by the Auditor-General for the conduct of financial statement audits and other audits, including the engagement of contractors on his behalf to assist in and/or undertake these audits, are appropriate and well managed.

5. Survey a representative sample of users of the Auditor-General’s reports to the Parliament (Members of Parliament, Public Accounts and Estimates Committee, representatives of Executive Government and the community, including key interest groups), to determine whether the Auditor-General is meeting his objectives, particularly in delivering value-adding reports to agencies and Parliament and providing value for money to the Parliament and the Victorian community.

6. Identify clear recommendations capable of implementation to effect improvement where deemed possible/desirable.

The Committee further directs the Auditor to:

(a) conduct the audit in compliance with the Audit Act 1994, as amended; and

(b) conduct the audit in compliance with Statement of Auditing Practice AUP 33 ‘Performance Auditing’, and other relevant Auditing Standards and Statements.

The report of the performance audit should:

(a) specify the performance measures and benchmarks (both qualitative and quantitative) against which the Victorian Auditor-General’s Office was measured and assessed;
(b) provide an opinion on the Victorian Auditor-General’s Office’s compliance with Australian auditing and accounting standards;

(c) detail conclusions and include clear recommendations capable of implementation to effect improvement where considered necessary; and

(d) provide an overall opinion as to whether the Victorian Auditor-General’s Office is achieving its objectives effectively, economically and efficiently and in compliance with the Audit Act 1994, as amended.

3.5 Timing of the report

The Auditor shall make his report in accordance with the Act by, or before the commencement of the 2001 Spring sitting of Parliament, or such later date as the Committee may direct, and within seven sitting days after making the report, must transmit the report to the Legislative Assembly and the Legislative Council.

3.6 Level of remuneration

The Committee has determined that the remuneration for the performance audit will be $220,000, inclusive of GST.

3.7 Recommended appointment

After reviewing all proposals received and conducting interviews, the Committee resolved to recommend the appointment of Mr Stuart Alford of Ernst & Young to conduct the performance audit of the Victorian Auditor-General’s Office.

Mr Alford, a practising audit partner with Ernst & Young, is also Chairman of the Auditing and Assurance Standards Board and is the Australian accounting profession representative on the International Auditing Practice Committee of the International Federation of Accountants. Mr Alford also undertook the 1998 performance review of the Victorian Auditor-General’s Office.
Mr Alford will be assisted by Dr Gordon Robertson, former Deputy Auditor-General for Western Australia, and a specialist team with experience and understanding of the Victorian public sector, performance and financial auditing, information technology issues and management issues.

3.8 Recommendations

Accordingly, the Committee recommends that:

Recommendation 3.1:

In accordance with section 19 of the Audit Act 1994, as amended, the Legislative Council and the Legislative Assembly appoint Mr Stuart Alford of Ernst & Young, in accordance with Appendix 3, to conduct the performance audit of the Victorian Auditor-General’s Office.

Recommendation 3.2:

The level of remuneration for the performance audit be $220,000, inclusive of GST.
APPENDIX 1: EXTRACT FROM THE AUDIT ACT* 1994, AS AMENDED

17. Independent auditor to audit Victorian Auditor-General’s Office

(1) A person may be appointed by resolution of the Legislative Council and Legislative Assembly, on the recommendation of the Parliamentary Committee\(^4\), as an independent auditor of the Victorian Auditor-General’s Office.

(2) An appointment -
   (a) must not be made for a period exceeding 3 years, but may be renewed; and
   (b) may provide for the payment of remuneration.

(3) Remuneration payable under the appointment shall be paid out of the Consolidated Fund which is to the necessary extent appropriated accordingly.

(4) The function of the independent auditor is to carry out audits of the Victorian Auditor-General’s Office in accordance with this Part.

(5) Subject to any directions given by the Parliamentary Committee, sections 11, 12, and 14 apply in relation to the independent auditor as if references in those sections to the Auditor-General were references to the independent auditor.

18. Report of independent auditor

(1) The independent auditor may make a report on an audit carried out under section 17.

(2) A report under sub-section (1) may include such information and such recommendations as the independent auditor thinks fit for the more effective, efficient and economic operation of the Victorian Auditor-General’s Office.

\(^4\) In Section 3 “Parliamentary Committee” is defined as the Public Accounts and Estimates Committee
(3) The independent auditor must not make a report of an audit under this section unless -
   (a) at least 10 days before making the report, the independent auditor -
      (i) has given the Auditor-General a copy of the report or a summary of the findings and proposed recommendations; and
      (ii) has, in writing, asked the Auditor-General for submissions or comments before a specified date, being at least 7 days after the report is given to the Auditor-General;
   (b) has included in the report any submissions or comment received, before the specified date, from the Auditor-General or a summary, in an agreed form, of any such submissions or comment.

(4) The independent auditor must, within 7 sitting days after making the report, transmit the report to each House of Parliament.

19. Performance audit of the Victorian Auditor-General's Office

(1) An audit shall be conducted under this section at least once every 3 years to determine whether the Auditor-General is achieving his or her objectives effectively and doing so economically and efficiently and in compliance with this Act.

(2) An audit under this section shall be conducted by an auditor appointed by resolution of the Legislative Council and the Legislative Assembly, on the recommendation of the Parliamentary Committee.

(3) An auditor appointed under this section -
   (a) shall be appointed on such terms and conditions and is entitled to such remuneration as are determined by the Parliamentary Committee; and
   (b) in conducting the audit, must comply with directions as to the audit given by that Committee.
(4) The remuneration payable to an auditor appointed under this section shall be paid from money appropriated to the Parliament.

(5) Subject to any directions given by the Parliamentary Committee, sections 11, 12 and 14 apply in relation to an auditor appointed under this section as if references in those sections to the Auditor-General were references to the auditor appointed under this section.

(6) An auditor appointed under this section must not make a report of an audit under this section unless –

(a) at least 28 days before making the report, the auditor has given the Auditor-General a summary of findings and proposed recommendations in relation to the audit; and

(b) has, in writing, asked the Auditor-General for submissions or comment before a specified date, being at least 14 days after the report is given to the Auditor-General.

(7) The auditor must include in the report of an audit under this section any submissions or comment received, before the report is made, from the Auditor-General or a summary, in an agreed form, of any such submissions or comment.

(8) The auditor, in a report of an audit under this section –

(a) may include such information as he or she thinks desirable in relation to matters that are the subject of the audit; and

(b) must set out the reasons for opinions expressed in the report; and

(c) may include any recommendations arising out of the audit as he or she thinks fit to make.

(9) The auditor must cause a copy of the report to be transmitted to each House of Parliament within 7 sitting days of that House after making the report.
APPENDIX 2: APPOINTMENT AND REMUNERATION OF AN AUDITOR PURSUANT TO SECTION 17 OF THE AUDIT ACT 1994, AS AMENDED, AS RECOMMENDED BY THE PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

WHEREAS

A. An independent auditor shall carry out audits of the Victorian Auditor-General’s Office in accordance with sections 17 and 18 of the Audit Act 1994, as amended.
B. Mr Christopher Lewis of KPMG is appointed by resolution of the Legislative Council and the Legislative Assembly, on the recommendation of the Public Accounts and Estimates Committee of the Parliament, to conduct the Audit.

DEFINITIONS

1. In this document unless otherwise specified or unless the context otherwise requires:
   1.1 “Act” means the Audit Act 1994, as amended.
   1.2 “Committee” means the Public Accounts and Estimates Committee.
   1.3 “Liaison Officer” means the Executive Officer of the Committee.
   1.4 “Auditor” means Mr Christopher Lewis.
   1.5 “Audit” means an audit as described in sections 17 and 18 of the Audit Act 1994, as amended.
   1.6 “Office” means the Victorian Auditor-General’s Office.
APPOINTMENT

2. The Auditor shall:
   2.1 conduct an independent audit of the Office, being an audit of the Office’s financial statements, for the years ended 30 June 2001, 2002 and 2003;
   2.2 form an opinion as to whether the financial statements of the Office present fairly the financial position of the Office as at 30 June 2001, 2002 and 2003 and the results of its operations and its cash flows for the financial years ended on those dates in accordance with applicable accounting standards and other mandatory professional reporting requirements and comply with the requirements of the Financial Management Act 1994, as amended;
   2.3 furnish his opinion (refer part 2.2) to the Committee for inclusion with the Office’s annual report to the Parliament under the provisions of the Financial Management Act 1994, as amended;
   2.4 conduct the audit in compliance with the Audit Act 1994, as amended; and
   2.5 conduct the audit in compliance with relevant Auditing Standards and Statements.

3. Section 18 of the Act provides that the Auditor may make a report. The Auditor must, within seven sitting days after making a report in accordance with the Act, transmit the report to the Legislative Assembly and the Legislative Council.

4. The Auditor shall liaise with the Liaison Officer as reasonably required by the Liaison Officer during the period of the audit.

5. All documents (other than working papers) prepared pursuant to the audit and all documents supplied to the Auditor for the purpose of the audit (excluding those documents returned to the originating source) shall be and remain the property of the Victorian Parliament and shall be delivered by the Auditor to the Committee upon the completion of the audit. The Committee will keep the documents delivered by the Auditor to the Committee for a period of at least seven years and
provide the Auditor, or his representative, with access to such documents as is appropriate.

All working papers are to be made available to future Auditors. The documents supplied to the Auditor pursuant to the audit shall not without the prior approval of the Committee be used, copied or reproduced for any purpose other than for the execution of the work contained in the audit.

6. The Auditor shall not without the prior written approval of the Committee disclose to any person any material obtained or produced during the course of the audit.

7. The Auditor warrants that, at the date of this document, no conflict of interest exists or is likely to arise in the performance of his obligations under the audit. If, during the term of the audit, a conflict or risk of conflict of interest arises, the Auditor undertakes to notify the Committee immediately in writing of that conflict or risk.

8. Pursuant to section 17 of the Act, sections 11, 12, and 14 of the Act apply to the Auditor as if references in those sections to the Auditor-General were references to the Auditor.

9. Copyright of all documents developed or produced by the Auditor pursuant to the audit shall vest in the Crown in right of the State of Victoria.

10. The Auditor is an independent contractor and the personnel employed or engaged by him shall not by virtue of this document become or be deemed to have become employed by or in the service of the State for the purpose of the Income Tax or Income Tax Assessment Acts and the Accident Compensation Act or for any other purpose.

11. The Auditor releases and shall indemnify the State, its officers and employees from and against liability for or in respect of any physical injury to persons (including death) or damage to property in so far as the injury or damage is attributable to any negligent or unlawful action of the Auditor in the course of carrying out the audit.

12. If either the Committee or the Auditor is rendered unable to carry out the whole or any part of this audit by any reason beyond its control including, but not limited to, acts of God,
acts of governments or governmental authorities, strikes or riots and any other causes of like nature, then the performance of such obligations as are effected by such cause, shall be excused during the continuance or any inability, so caused. Save that this part shall not excuse the State from its obligations to pay fees to the Auditor as they become due.

13. If any provision of this document is held invalid, unenforceable, or illegal for any reason, this document remains otherwise in full force, apart from such provision which is deemed deleted.

14. By resolution of the Legislative Council and the Legislative Assembly, on the recommendation of the Committee, the Legislative Council and the Legislative Assembly at any time giving written notice to the Auditor of its intention so to do may abrogate or constrict this audit or any part of or further part thereof and upon such notice being given the Auditor shall cease or reduce work according to the notice and shall forthwith do everything possible to mitigate the losses consequent thereto.

In the event the Auditor may submit a claim for compensation for such sums as are fair and reasonable in respect of the loss or damage sustained by the Auditor in unavoidable circumstances provided always the Auditor shall not be entitled for the loss of prospective profits.

**REMUNERATION**

15. The amount to be paid to the Auditor for all work done in undertaking the 2000-2001 audit shall be $19,800, inclusive of GST. This amount shall be paid on transmission of the financial statements of the Office for the year ended 30 June 2001, including a report of the Auditor detailing his opinion on those financial statements, to the Legislative Assembly and the Legislative Council or, if earlier, on transmission of the Auditor's report to the Legislative Assembly and the Legislative Council.
The Auditor warrants to meet all expenses incurred during the audit without any further recourse to the Parliament of Victoria.

APPENDIX 3: TERMS AND CONDITIONS, AND REMUNERATION, OF AN AUDITOR APPOINTED PURSUANT TO SECTION 19 OF THE AUDIT ACT 1994, AS AMENDED, AS RECOMMENDED BY THE PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

WHEREAS

A. An audit shall be conducted to determine whether the Auditor-General is achieving his objectives effectively and doing so economically and efficiently and in compliance with the Audit Act 1994, as amended.

B. Mr Stuart Alford of Ernst & Young is appointed by resolution of the Legislative Council and the Legislative Assembly, on the recommendation of the Public Accounts and Estimates Committee of the Parliament, to conduct the audit.

DEFINITIONS

1. In this document unless otherwise specified or unless the context otherwise requires:
   1.1 “Act” means the Audit Act 1994, as amended.
   1.2 “Committee” means the Public Accounts and Estimates Committee.
   1.3 “Liaison Officer” means the Executive Officer of the Committee.
   1.4 “Auditor” means Mr Stuart Alford.
   1.5 “Audit” means a performance audit as described in section 19 of the Audit Act 1994, as amended.
   1.6 “Office” means the Victorian Auditor-General’s Office.
DIRECTIONS

2. The Committee hereby directs the Auditor to evaluate the following specific areas and issues:

2.1 The performance auditor should determine whether the Victorian Auditor-General’s Office is achieving its objectives effectively, economically and efficiently and in compliance with the Audit Act 1994, as amended. In this context and without limiting the scope of the audit, the following matters should be addressed:

2.2 Assess the appropriateness of the outcomes, objectives, action strategies and performance measures and outcome targets set by the Auditor-General in his Annual Plan and determine the extent to which they are being achieved.

2.3 Review key management issues, including:
(a) the adequacy and effectiveness of the annual planning process;
(b) the adequacy and effectiveness of systems to measure and improve productivity;
(c) the adequacy of the existing costing system to ensure all recoverable costs are collected for Government and that there is no cross-subsidisation between chargeable and non-chargeable functions of the Office;
(d) the culture of management and its effect on performance;
(e) the effectiveness of the relationships between the Office and its clients (particularly the Public Accounts and Estimates Committee and the Parliament) and any factors influencing those relationships;
(f) the extent to which best practice in public sector management has been adopted in the Office; and
2.4 Review the efficiency and effectiveness of the management and conduct of performance audits undertaken by the Office, with particular attention to:

(a) the extent to which the criteria for selecting performance audits address the public interest and high risk areas of Government;

(b) the extent to which selection criteria for performance audits ensure key programs in areas of Government receive adequate coverage;

(c) the effectiveness of the planning and management of performance audits;

(d) compliance with statutory requirements for the conduct and reporting of performance audits;

(e) whether the methodologies and practices used by the Office for the conduct of performance audits, including the engagement of contractors on behalf of the Auditor-General to assist in and/or undertake particular audits, are appropriate and well managed;

(f) the adequacy of the investigative process and the evidential material to support conclusions arising from reports of the performance audits;

(g) the appropriateness of quality control procedures including the communication of findings to all audited agencies with an interest in such findings;

(h) the appropriateness of the mix between specialist expertise, contractors and in-house staff in undertaking particular performance audits;

(i) the appropriateness of criteria against which the efficiency and effectiveness of performance audits conducted by the Office are measured;

(j) whether the performance audit program and reports are meeting the information requirements of
the Public Accounts and Estimates Committee, the Parliament and the community.

2.5  Determine whether the methodologies and practices used by the Auditor-General for the conduct of financial statement audits and other audits, including the engagement of contractors on his behalf to assist in and/or undertake these audits, are appropriate and well managed.

2.6  Survey a representative sample of users of the Auditor-General’s reports to the Parliament (Members of Parliament, Public Accounts and Estimates Committee, representatives of Executive Government and the community, including key interest groups), to determine whether the Auditor-General is meeting his objectives, particularly in delivering value-adding reports to agencies and Parliament and providing value for money to the Parliament and the Victorian community.

2.7  Identify clear recommendations capable of implementation to effect improvement where considered necessary.

2.8  Conduct the audit in compliance with the Audit Act 1994, as amended; and

2.9  Conduct the audit in compliance with Statement of auditing Practice AUP 33 ‘Performance Auditing’, and other relevant Auditing Standards and Statements.

3.  The report of the performance audit should:

3.1  specify the performance measures and benchmarks (both qualitative and quantitative) against which the Victorian Auditor-General’s Office was measured and assessed;
3.2 provide an opinion on the Victorian Auditor-General’s Office’s compliance with Australian auditing and accounting standards;

3.3 detail conclusions and include clear recommendations capable of implementation to effect improvement where considered necessary; and

3.4 provide an overall opinion as to whether the Victorian Auditor-General’s Office is achieving its objectives effectively, economically and efficiently and in compliance with the Audit Act 1994, as amended.

TERMS AND CONDITIONS

4. The Auditor is appointed on the following terms and conditions:

4.1 Timetable for Reports
The Auditor shall deliver to the Chairman of the Committee –
• a proposed audit plan by the first week of June 2001; and
• a progress statement by 31 July 2001.

This statement shall exclude any findings or proposed recommendations in relation to the audit.

The Auditor shall present and review the preliminary report with the Auditor-General and the Public Accounts and Estimates Committee on or before 14 August 2001.

The Auditor shall present his report in accordance with the Act by, or before the commencement of the Spring sitting of Parliament, or such later date as the Committee may direct, and within seven sitting days after making the report, must transmit the report to the Legislative Assembly and the Legislative Council.
The Auditor shall be available to provide advice to the Committee on the report, after the report has been transmitted to the Legislative Assembly and the Legislative Council.

4.2 Liaison
The Auditor shall liaise with the Liaison Officer as reasonably required by the Liaison Officer during the period of the audit. The Liaison Officer shall make herself available as reasonably required by the Auditor during the period of the audit.

4.3 Documents
All documents (other than working papers) prepared pursuant to the audit and all documents supplied to the Auditor for the purpose of the audit (excluding those documents returned to the originating source) shall be and remain the property of the Victorian Parliament and shall be delivered by the Auditor to the Committee on the completion of the audit.

All working papers are to be made available to future auditors. The documents supplied to the Auditor pursuant to the audit shall not without the prior approval of the Committee be used, copied or reproduced for any purpose other than for the execution of the work contained in the audit.

4.4 Disclosure of information
The Auditor shall not without the prior written approval of the Committee disclose to any person any material obtained or produced during the course of the audit.

4.5 Compliance with Acts
The Auditor shall ensure that in carrying out the audit he shall comply with the requirements of the provisions of all Acts of Parliament of the Commonwealth and with the requirements of the provisions of all Acts of the Parliament of Victoria and with the requirements of all ordinances, regulations, by-laws, orders and proclamations made or issued under any such Acts or
Ordinances and with the lawful requirements of public and other authorities in any way affecting or applicable to the audit.

4.6 Conflict of Interest
The Auditor warrants that, at the date of this document, no conflict of interest exists or is likely to arise in the performance of his obligations under the audit. If, during the term of the audit, a conflict or risk of conflict of interest arises, the Auditor undertakes to notify the Committee immediately in writing of that conflict or risk.

4.7 Resourcing
The Auditor warrants that he will personally perform no less than 15 workdays spent on the audit. The Auditor will be assisted by Dr Gordon Robertson (who will personally perform no less than 13 tendered workdays), Mr David Balcombe (who will personally perform no less than 13 tendered workdays), and other such support staff as required, to a total of 86 workdays. The Committee may direct changes to the team assisting the Auditor, or the extent of involvement of team members in the audit.

4.8 Application of Act
Pursuant to section 19 of the Act, sections 11, 12, and 14 of the Act apply to the Auditor as if references in those sections to the Auditor-General were references to the Auditor.

4.9 Copyright
Copyright of all documents developed or produced by the Auditor pursuant to the audit shall vest in the Crown in right of the State of Victoria.

4.10 Independent Contractor
The Auditor is an independent contractor and the personnel employed or engaged by him shall not by virtue of this document become or be deemed to have become employed by or in the service of the State for the purpose of the Income Tax
or Income Tax Assessment Acts and the Accident Compensation Act or for any other purpose.

4.11 Release and Indemnity
The Auditor releases and shall indemnify the State, its officers and employees from and against liability for or in respect of any physical injury to persons (including death) or damage to property in so far as the injury or damage is attributable to any negligent or unlawful action of the Auditor in the course of carrying out the audit.

4.12 Force Majeure
If either the Committee or the Auditor is rendered unable to carry out the whole or any part of this audit by any reason beyond its control including, but not limited to, acts of God, acts of governments or governmental authorities, strikes or riots and any other causes of like nature, then the performance of such obligations as are effected by such cause, shall be excused during the continuance or any inability so caused. Save that this part shall not excuse the State from its obligations to pay fees to the Auditor as they become due.

4.13 Severability
If any provision of this document is held invalid, unenforceable, or illegal for any reason, this document remains otherwise in full force, apart from such provision which is deemed deleted.

4.14 Termination
By resolution of the Legislative Council and the Legislative Assembly, on the recommendation of the Committee, the Legislative Council and Legislative Assembly at any time giving written notice to the Auditor of its intention so to do may abrogate or constrict this audit or any part of or further part thereof and upon such notice being given the Auditor shall cease or reduce work according to the notice and shall
forthwith do everything possible to mitigate the losses consequent thereto.

In the event the Auditor may submit a claim for compensation for such sums as are fair and reasonable in respect of the loss or damage sustained by the Auditor in unavoidable circumstances provided always the Auditor shall not be entitled for the loss of prospective profits.

RE Muneration

5. The amount to be paid to the Auditor for all work done in undertaking the audit shall be $220,000, inclusive of GST, which shall be paid in the following manner:

5.1 30 per cent on submission of the audit plan;

5.2 30 per cent on completion of all audit field work and delivery of a satisfactory progress statement to the Chairman of the Committee on 31 July 2001;

5.3 30 per cent on submission of a draft report to the Auditor-General and to the Committee by 14 August 2001;

5.4 10 per cent on transmission of the Auditor's report to the Legislative Assembly and the Legislative Council.

The Auditor warrants to meet all expenses incurred during the audit without any further recourse to the Parliament of Victoria.
APPENDIX 4: ORGANISATIONS SUBMITTING PROPOSALS FOR FINANCIAL AUDIT

Arthur Andersen
Day Neilson
Hall Chadwick
KPMG
Moore Stephens HF
PricewaterhouseCoopers
RSM Bird Cameron Partners
APPENDIX 5: ORGANISATIONS SUBMITTING PROPOSALS FOR PERFORMANCE AUDIT

BDO Chartered Accountants & Advisers
Ernst & Young
Horwath Melbourne Partnership
KPMG
Moore Stephens HF
PricewaterhouseCoopers
Stevenson McGregor