



PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Appointment of an Auditor to Conduct a Financial Audit of the Victorian Auditor-General's Office

REPORT TO THE PARLIAMENT
APRIL 1995



NOT FOR LOAN

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PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

REPORT TO THE PARLIAMENT
APPOINTMENT OF AN AUDITOR TO CONDUCT A
FINANCIAL AUDIT OF THE
VICTORIAN AUDITOR-GENERAL'S OFFICE

APRIL 1995

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PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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Hon. G.G. Weideman, JP, MP (Chairman)
Hon. I.M.J. Baker, MP (Deputy Chairman)
Hon. P.R. Hall, MLC
Mr T. Hyams, MP
Mr A.F. Plowman, MP
Mr E.R. Smith, MP
Hon. T.C. Theophanous, MLC
Mr K.J. Thomson, MP
Hon. D.R. White, MLC

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FUNCTIONS OF THE PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

The Public Accounts and Estimates Committee is constituted under the *Parliamentary Committees Act 1968*, as amended. It presently consists of nine members of Parliament drawn from the Legislative Council and the Legislative Assembly.

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 any supplementary estimates of receipts and payments presented to the Assembly and the Council;

if the Committee is required or permitted so to do by or under the Act.

EXTRACTS FROM THE RECORDS OF PARLIAMENT

MINUTES OF THE PROCEEDINGS OF THE LEGISLATIVE COUNCIL

Tuesday 10 November 1992

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE - The Honourable R.I. Knowles moved, by leave, That, contingent upon the Royal Assent being given to the Parliamentary Committees (Amendment) Bill, the Honourables P.R. Hall, T.C. Theophanous and D.R. White be members of the Public Accounts and Estimates Committee

Question - put and resolved in the affirmative.

VOTES AND PROCEEDINGS OF THE LEGISLATIVE ASSEMBLY

Friday 13 November 1992

JOINT INVESTIGATORY COMMITTEES - Motion made, by leave, and question - That contingent on the coming into operation of the *Parliamentary Committees (Amendment) Act 1992* -

Mr Baker, Mr Hyams, Mr Plowman (*Benambra*), Mr Smith (*Glen Waverley*), Mr Thomson (*Pascoe Vale*) and Mr Weideman be members of the Public Accounts and Estimates Committee.

(*Mr Gude*) - put and agreed to.

APPOINTMENT OF AN AUDITOR TO CONDUCT A FINANCIAL AUDIT OF THE VICTORIAN AUDITOR-GENERAL'S OFFICE

INTRODUCTION

Pursuant to the *Audit Act* 1994 the Public Accounts and Estimates Committee recommends to the Parliament the appointment of an independent auditor to conduct an audit of the Victorian Auditor-General's Office.

Section 17 of the *Audit Act* 1994 states:

A person may be appointed by resolution of the Legislative Council and Legislative Assembly, on the recommendation of the Public Accounts and Estimates Committee of the Parliament, as an independent auditor of the Victorian Auditor-General's Office.

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 of the *Audit Act* 1994 are attached as Appendix A.

Sections 17 and 18 do not explicitly state what the audit comprises. The *Audit Act* 1994 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 upon which the Committee has posed its recommendation to appoint the Auditor. Sections 17 and 18 also do not explicitly empower the Committee to make 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 Auditor-General. **Expressed legislative powers for the Committee, and its successor Committees, to make directions to the Auditor, and to determine the terms and conditions of the appointment is recommended.**

RECOMMENDED APPOINTMENT

The Committee invited written quotations from four of the major accounting firms in March 1995 and received only one quotation from KPMG chartered accountants.

The Government Purchasing Board's *Interim Supply Policies and Guidelines* (dated 1 February 1995) state, in respect of the purchase of services with an estimated value in excess of \$2,000 but not exceeding \$50,000, that at least three written independent quotations are required to be obtained, if practicable.

The Committee recommends that further quotations not be sought or an open tender called given:

- the Committee received only one quote in response to its written invitation for a quotation, having invited four of the 'Big Six' accounting firms to quote;
- the Committee's selection criteria requires the services of a major accounting firm;
- the sole respondent satisfies the Committee's selection criteria;
- the sole respondent has performed the external audit of the Victorian Auditor-General's Office for several years;
- the quoted fee for the audit is commensurate with the audit, as described in the *Audit Act 1994*, and the fee previously paid by the Victorian Auditor-General's Office for the audit of its financial statements;
- the additional cost involved in calling an open tender, or seeking further written quotations; and
- the quoted audit fee amounts to a total of \$9,250.

In seeking to appoint the Auditor, the Committee considered the following selection criteria. That 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 knowledge and experience in the use of modern audit methodologies;

- have an understanding of the nature of public sector financial management and the Victorian public sector's legislative and other requirements for financial administration; and
- have the ability to allocate sufficiently skilled and experienced staff to undertake the audit.

The Committee resolved to recommend the appointment of Mr Douglas N. Bartley of KPMG to conduct the audit of the Victorian Auditor-General's Office pursuant to section 17 of the *Audit Act* 1994.

Mr Douglas N. Bartley has been a partner of KPMG since 1985. Mr Bartley is a partner in the firm's audit division and his audit clients include several large organisations in the transport, banking and finance, manufacturing and automotive industries.

RECOMMENDED PERIOD OF APPOINTMENT AND REMUNERATION

Section 17 of the *Audit Act* 1994 states, in part, that:

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.

Period of appointment

The Committee recommends that the Auditor be appointed for one year, that is to audit the Victorian Auditor-General's Office for the 1994-95 financial year. In addition the Committee recommends that the appointment be renewable, upon resolution of the Legislative Council and Legislative Assembly, on the recommendation of the Committee.

Remuneration for the audit

The Committee recommends that the remuneration for the audit be \$9,250.

The Public Accounts and Estimates Committee recommends to the Legislative Council and the Legislative Assembly that Mr Douglas N. Bartley of KPMG be appointed, in accordance with Appendix B, to conduct the audit of the Victorian Auditor-General's Office pursuant to section 17 of the *Audit Act 1994*.

COMMITTEE ROOM

12 APRIL 1995

EXTRACT FROM THE AUDIT ACT 1994

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 Public Accounts and Estimates Committee of the Parliament, 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 Public Accounts and Estimates Committee of the Parliament, sections 11, 12, 13 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.
- (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.

APPOINTMENT, AND REMUNERATION, OF AN AUDITOR PURSUANT TO SECTION 17 OF THE AUDIT ACT 1994 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.
- B. Mr Douglas N. Bartley 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.
 - 1.2 "Committee" means the Public Accounts and Estimates Committee.
 - 1.3 "Liaison Officer" means the Director of Research of the Committee.
 - 1.4 "Auditor" means Mr Douglas N. Bartley.
 - 1.5 "Audit" means an audit as described in sections 17 and 18 of the *Audit Act* 1994.
 - 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 year ended 30 June 1995;
 - 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 1995 and the results of its operations and its cash flows for the financial year ended on that date in accordance with Australian Accounting Standards and comply with the requirements of the *Financial Management Act 1994*;
 - 2.3 furnish his opinion (refer part 2.2) to the Office for inclusion with the Office's annual report to the Parliament under the provisions of the *Financial Management Act 1994*;
 - 2.4 conduct the audit in compliance with the *Audit Act 1994*; and
 - 2.5 conduct the audit in compliance with relevant Auditing Standards and Statements.

This appointment may be renewed with the Auditor's agreement, upon resolution of the Legislative Council and Legislative Assembly, on the recommendation of the Committee.

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.

The Auditor is advised, with respect to section 18(2) of the Act, that a performance audit of the Office shall be conducted during 1995 by another auditor 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*.

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, 13 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 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 audit shall be **nine thousand two hundred and fifty dollars (\$9,250.00)**. This amount shall be paid on transmission of the financial statements of the Office for the year ended 30 June 1995, 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.

REPORTS OF THE PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

REPORT	TITLE	DATE
1	Private Investment in the Provision of Public Infrastructure	November 1993
2	The Performance Audit of the Auditor General of Victoria	November 1993
3	1992-93 Budget Estimates and Outcomes	November 1993
4	A Report on Activities - 1993	May 1994
5	Victorian Public Hospitals - Arrangements with Contracted Doctors	May 1994
6	Interim Report on the 1993-94 Budget Estimates and a Report on a matter related to the Auditor-General's Report on the 1992-93 Finance Statement	May 1994
7	Interim Report on the State's Budget and Financial Management Framework	May 1994
8	Housing Guarantee Fund Limited; A report on the Housing Guarantee Fund Limited's annual reports for 1991-92 and 1992-93	September 1994
9	Final Report on the 1993-94 Budget Estimates and Outcomes	November 1994

OTHER

Thrift and the Noiseless Step; 100 Years of Public Accounts Committees of the Parliament of Victoria	July 1994
Appointment of an Auditor to Conduct a Performance Audit of the Auditor-General	April 1995
Appointment of an Auditor to Conduct a Financial Audit of the Victorian Auditor-General's Office	April 1995