



PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

THIRTY-SECOND REPORT TO PARLIAMENT

**REPORT ON THE
APPOINTMENT OF AN INDEPENDENT AUDITOR
TO CONDUCT A FINANCIAL AUDIT FOR 1999-2000
OF THE VICTORIAN AUDITOR-GENERAL'S OFFICE
AND A FINAL AUDIT OF AUDIT VICTORIA**

MARCH 2000

Ordered to be printed

By authority
Government Printer for the State of Victoria

TABLE OF CONTENTS

Committee Membership	i
Duties of the Committee	iii
Chapter 1:	
Appointment of an independent Auditor to conduct a financial audit of the Victorian Auditor-General's Office	1
Chapter 2:	
Appointment of an Auditor to conduct a final financial audit of Audit Victoria	5
Appendices:	7
1. Extract from the <i>Audit Act</i> 1994, as amended.	7
2. Appointment and remuneration of an auditor to conduct a financial audit of the Victorian Auditor-General's Office, as recommended by the Public Accounts and Estimates Committee.	9
3. Contract arrangements for the Auditor appointed by the Public Accounts and Estimates Committee to undertake the final financial Audit of Audit Victoria.	15

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Members

Mr P J Loney, MP (Chairman)
Hon. W Forwood, MLC (Deputy Chairman)
Hon. L Asher, MP
Ms A P Barker, MP
Ms S M Davies, MP
Hon. R M Hallam, MLC
Mr T J Holding, MP
Mrs J M Maddigan, MP
Hon. G K Rich-Phillips, MLC
Hon. T C Theophanous, MLC

Secretariat

Ms M Cornwell, Executive Officer
Ms F Essaber, Assistant Executive Officer

The Committee's address is: Level 8
35 Spring Street
Melbourne Victoria 3000

Telephone Inquiries: (03) 9651 3556

Facsimile: (03) 9651 3552

Email: paec@parliament.vic.gov.au

Internet: www.parliament.vic.gov.au/paec

DUTIES OF THE COMMITTEE

The Public Accounts and Estimates Committee is constituted under the *Parliamentary Committees Act 1968*, as amended.

The Committee comprises ten Members of Parliament drawn from both Houses of Parliament and all parties and 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; and
- (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.

The Committee, in consultation with the Auditor-General, also determines the objectives of performance audits and identifies any particular issues that need to be addressed during these audits.

CHAPTER 1

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

Introduction

Pursuant to the Audit Act 1994, as amended, the Public Accounts and Estimates Committee is required to recommend to the Parliament, the appointment of an independent auditor to conduct a financial audit of the Victorian Auditor-General's office.

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

¹ In Section 3 of the Audit Act "Parliamentary Committee" is defined as the Public Accounts and Estimates Committee.

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 Auditor-General.

Previous reports² of the former Public Accounts and Estimates Committee have recommended that the Audit Act be amended to provide that the Public Accounts and Estimates Committee can give directions to 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 recent amendments to the Audit Act did not take any action on this recommendation. This Committee reiterates the earlier advice and **recommends** that the Government include this provision when the Audit Act is amended later this year.

Selection of Auditor for 1999-2000 financial audit of the Auditor-General's Office

For the past six years, Mr Douglas N. Bartley, a partner of KPMG, has undertaken the financial audits of the Victorian Auditor-General's Office.

After reviewing the arrangements that have operated for the past year, the Committee believes there would be merit in renewing the appointment of Mr Bartley for another and final year on the basis that:

² Public Accounts and Estimates Committee, *Reports on the Appointment of an Auditor to Conduct a Financial Audit of the Victorian Auditor-General's Office*, dated April 1995, June 1996, May 1997 and April 1998.

- he is highly qualified and experienced in undertaking audits in both the private and public sectors;
- following the recent changes to the Audit Act, the audit will be undertaken during a period of significant change for the Auditor-General's Office as it incorporates the operations of Audit Victoria. Accordingly, it would be advantageous to appoint an auditor who has an understanding of the financial operations of the Auditor-General's Office.

The Committee intends to call tenders next year to undertake the audit for the following three years.

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 2000;
- 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 2000 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;
- verify all material assets, liabilities, commitments and contingent liabilities taken on by the Auditor-General's Office in respect of the transfer from Audit Victoria;
- verify potential ongoing exposures associated with any work either in progress or completed by Audit Victoria; and
- conduct the audit in compliance with the *Audit Act 1994*, as amended, and relevant auditing standards and statements.

Recommendations

The Committee recommends:

Recommendation 1.1: That in accordance with section 17 of the Audit Act 1994 as amended:

- (a) the Legislative Council and the Legislative Assembly appoint Mr Douglas N. Bartley of KPMG, in accordance with Appendix 2, to conduct the financial audit of the Victorian Auditor-General's Office for the 1999-2000 financial year;**
- (b) the level of remuneration for the financial audit be \$15,000.**

Recommendation 1.2: That the Audit Act be amended to provide that in relation to financial audits of the 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 2

APPOINTMENT OF AN AUDITOR FOR THE FINAL FINANCIAL AUDIT OF AUDIT VICTORIA

As a result of recent amendments to the Audit Act, the majority of assets, liabilities and responsibilities of Audit Victoria have been transferred to the Victorian Auditor-General's Office with effect from 1 January 2000. Consequently, there will have to be a final financial audit of Audit Victoria to cover the period 1 July to 31 December 1999.

As the Auditor-General is required to verify this audit, it is inappropriate for his Office to undertake it. Accordingly the Committee, on the advice of the Auditor-General, has resolved to extend the scope of Mr Bartley's appointment to cover the final financial audit of Audit Victoria.

The auditor's role will be to:

- conduct an independent audit of Audit Victoria's financial statements for the period 1 July 1999 to 31 December 1999;
- form an opinion as to whether the financial statements of Audit Victoria present fairly the financial position of that Office as at 31 December 1999 and the results of its operations and its cash flows for the period 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;
- verify detailed supporting schedules in relation to all assets, liabilities (including leave entitlements), commitments and contingent liabilities.

- verify a schedule detailing ongoing exposures associated with any work completed by Audit Victoria which was not undertaken on behalf of the Auditor-General; and
- conduct the audit in compliance with the *Audit Act 1994*, as amended, and relevant accounting standards and statements.

As there is no legislative requirement for the audit of Audit Victoria to be endorsed by the Parliament, the Public Accounts and Estimates Committee has appointed Mr Bartley to undertake the audit.

The cost for this audit will be \$25,000.

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 Committee³ 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 Parliamentary Committee of the Parliament, 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

³ In Section 3 "Parliamentary Committee" is defined as the Public Accounts and Estimates Committee.

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.

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 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, 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 Douglas N. Bartley.
 - 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 year ended 30 June 2000;

- 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 2000 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;
 - 2.3 verify all material assets, liabilities, commitments and contingent liabilities taken on by the Auditor-General's Office in respect of the transfer from Audit Victoria;
 - 2.4 verify potential ongoing exposures associated with any work either in progress or completed by Audit Victoria;
 - 2.5 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*, as amended;
 - 2.6 conduct the audit in compliance with the *Audit Act 1994*, as amended; and
 - 2.7 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 audit shall be \$15,000. This amount shall be paid on transmission of the financial statements of the Office for the year ended 30 June 2000, 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**CONTRACT ARRANGEMENTS FOR THE AUDITOR
APPOINTED BY THE PUBLIC ACCOUNTS AND ESTIMATES
COMMITTEE TO UNDERTAKE THE FINAL FINANCIAL
AUDIT OF AUDIT VICTORIA****WHEREAS**

- A. Mr Douglas N. Bartley is appointed by the Public Accounts and Estimates Committee to conduct the final financial audit of Audit Victoria.

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 Douglas N. Bartley.

APPOINTMENT

2. The Auditor shall:
- 2.1 conduct an independent audit of Audit Victoria, being an audit of Audit Victoria’s financial statements, for the period 1 July 1999 to 31 December 1999;
 - 2.2 form an opinion as to whether the financial statements of Audit Victoria present fairly the financial position of that Office as at 31 December 1999 and the results of its operations and its cash flows for the period 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;

- 2.3 verify detailed supporting schedules in relation to all assets, liabilities (including leave entitlements), commitments and contingent liabilities.

In addition, a schedule detailing ongoing exposures associated with any work completed by Audit Victoria which was not undertaken on behalf of the Auditor-General will need to be verified as part of the audit process.

- 2.4 furnish his opinion (refer part 2.2) to the Auditor-General's office for inclusion with Audit Victoria's report to the Parliament under the provisions of the *Financial Management Act 1994*, as amended;
- 2.5 conduct the audit in compliance with the *Audit Act 1994*, as amended; and
- 2.6 conduct the audit in compliance with relevant Auditing Standards and Statements.

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

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.

5. 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.
6. 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.
7. 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.
8. 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.
9. 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.
10. 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.

11. 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.
12. The Public Accounts and Estimates Committee, 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

13. The amount to be paid to the Auditor for all work done in undertaking the audit shall be \$25,000. This amount shall be paid on transmission of the financial statements of Audit Victoria for the period ended 31 December 1999, including a report of the Auditor detailing his opinion on those financial statements, to the Public Accounts and Estimates Committee.

The Auditor warrants to meet all expenses incurred during the audit without any further recourse to the Parliament of Victoria.