



# PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

## Appointment of an Auditor to Conduct a Performance Audit of the Auditor-General

REPORT TO THE PARLIAMENT  
APRIL 1995



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**PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE**

**REPORT TO THE PARLIAMENT  
APPOINTMENT OF AN AUDITOR TO CONDUCT A  
PERFORMANCE AUDIT OF THE  
AUDITOR-GENERAL**

**APRIL 1995**

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## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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### Members

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

### Staff of the Committee

Mr C. S. Burke, Director of Research  
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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 PERFORMANCE AUDIT OF THE AUDITOR-GENERAL

### INTRODUCTION

Pursuant to the *Audit Act* 1994 the Public Accounts and Estimates Committee recommends to the Parliament the appointment of an auditor to conduct a performance audit of the Auditor-General.

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

*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.*

*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 Public Accounts and Estimates Committee of the Parliament.*

Section 19 of the *Audit Act* 1994 is attached as Appendix A.

### RECOMMENDED APPOINTMENT

In October 1994 the Committee sought submissions by open tender, by advertisement in *The Age* newspaper. In November 1994 the Committee also wrote to major accounting firms, inviting proposals.

The Committee received six proposals in December 1994. Pursuant to the Committee's selection criteria, four proposals were subsequently explored by way of interview with the Committee. The Committee appreciates the effort which was put into the preparation of the proposals.

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 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 Auditor-General;
- have knowledge and experience in the use of modern audit methodologies and performance evaluation techniques;
- have knowledge and experience in the application of large scale audit project methodologies;
- have a general understanding of the nature of public sector organisations and the Victorian public sector's system of financial administration;
- have the ability to allocate sufficiently skilled and experienced staff to undertake 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.

The Committee resolved to recommend the appointment of Mr Alan Talbot of Price Waterhouse to conduct the performance audit of the Auditor-General pursuant to the *Audit Act 1994*.

Mr Alan Talbot is one of Price Waterhouse's most senior audit partners, responsible for the audit of a number of the firm's largest clients, including ICI, Smorgon ARC, JB Were & Son and until recently Shell.

Mr Talbot, up until December 1994, was Chairman of the Auditing Standards Board in Australia and for five years was Chairman of the Auditing Practices Committee of the International Federation of Accountants. Mr Talbot has worked on the development of auditing standards for the public sector and for performance audits.

Mr Talbot will be assisted by a specialist team with extensive experience and/or understanding of the Victorian public sector, performance and financial auditing (both locally and overseas), information technology issues, practice management issues and the Auditor-General's environment.

## RECOMMENDED TERMS AND CONDITIONS OF THE APPOINTMENT

Section 19 of the *Audit Act* 1994 states, in part, that 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 Public Accounts and Estimates Committee of the Parliament; and*
- (b) *in conducting the audit, must comply with directions as to the audit given by that Committee.*

### *Directions*

The Committee directs the 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;
- determine the adequacy of the Victorian Auditor-General's Office's corporate and business plans, including performance measures and targets;
- determine the extent to which the Victorian Auditor-General's Office is achieving its Corporate Mission;
- determine whether the Victorian Auditor-General's Office complies with Australian auditing standards;
- determine internationally established best practices in public sector performance auditing to assess the performance of the Victorian Auditor-General's Office;

- specify the performance measures and benchmarks (both qualitative and quantitative) against which the Victorian Auditor-General's Office is measured and assessed, including provision of those performance measures and benchmarks to the Auditor-General at an early stage in the audit, and any changes during the audit, for his comment;
- survey a representative sample of users of the Auditor-General's Reports to the Parliament (members of Parliament, representatives of the Executive Government and selected others, including the general community) to determine whether the Auditor-General is meeting his objectives in this area;
- survey a random sample of auditees to examine the Victorian Auditor-General's Office's ability and willingness to apply appropriate resources to meet their needs, (the number sampled in this survey should not exceed the number sampled in the survey conducted under the preceding direction);
- review the audit methodologies used by the Victorian Auditor-General's Office, including a review of engagements in both the areas of financial and performance audit;
- review the overall management of resources within the Victorian Auditor-General's Office in the light of comments made by the first performance auditor dealing with public sector constraints over the Victorian Auditor-General's Office;
- follow up relevant matters raised in the report of the first performance audit of the Victorian Auditor-General's Office;
- follow up relevant matters raised by the Committee in its Report on *The Performance Audit of the Auditor-General of Victoria* (November 1993);
- conduct the audit in compliance with the *Audit Act 1994*;
- conduct the audit in compliance with Statement of Auditing Practice AUP 33 'Performance Auditing', and other relevant Auditing Standards and Statements; and

- identify clear recommendations capable of implementation to effect improvement where deemed possible/desirable.

*Timing of the report*

The Auditor shall make his report in accordance with the Act by, or before 15 September 1995, 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.

*Remuneration for the audit*

The Committee has determined that the remuneration for the performance audit will be \$265,000.

**The Public Accounts and Estimates Committee recommends to the Legislative Council and the Legislative Assembly that Mr Alan Talbot of Price Waterhouse be appointed to conduct the performance audit of the Auditor-General pursuant to the *Audit Act* 1994 on the terms and conditions, and remuneration, as determined by the Committee (refer Appendix B).**

COMMITTEE ROOM  
12 APRIL 1995

EXTRACT FROM THE *AUDIT ACT 1994*

19. *Performance audit of 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 Public Accounts and Estimates Committee of the Parliament.
- (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 Public Accounts and Estimates Committee of the Parliament; 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 Public Accounts and Estimates Committee of the Parliament, sections 11, 12, 13 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.

TERMS AND CONDITIONS, AND REMUNERATION, OF AN AUDITOR APPOINTED PURSUANT TO SECTION 19 OF THE AUDIT ACT 1994 AS DETERMINED 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*.
- B. Mr Alan Talbot 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 Alan Talbot.
  - 1.5 "Audit" means a performance audit as described in section 19 of the *Audit Act 1994*.
  - 1.6 "Office" means the Victorian Auditor-General's Office.

## DIRECTIONS

2. The Committee hereby directs the Auditor to:
  - 2.1 determine whether the Auditor-General is achieving his objectives effectively and doing so economically and efficiently and in compliance with the *Audit Act* 1994;
  - 2.2 determine the adequacy of the Office's corporate and business plans, including performance measures and targets;
  - 2.3 determine the extent to which the Office is achieving its Corporate Mission;
  - 2.4 determine whether the Office complies with Australian auditing standards;
  - 2.5 determine internationally established best practices in public sector performance auditing to assess the performance of the Office;
  - 2.6 specify the performance measures and benchmarks (both qualitative and quantitative) against which the Office is measured and assessed, including provision of those performance measures and benchmarks to the Auditor-General at an early stage in the audit, and any changes during the audit, for his comment;
  - 2.7 survey a representative sample of users of the Auditor-General's Reports to the Parliament (members of Parliament, representatives of the Executive Government and selected others, including the general community) to determine whether the Auditor-General is meeting his objectives in this area;
  - 2.8 survey a random sample of auditees to examine the Office's ability and willingness to apply appropriate resources to meet their needs, (the number sampled in this survey should not exceed the number sampled in the survey conducted under part 2.7);
  - 2.9 review the audit methodologies used by the Office, including a review of engagements in both the areas of financial and performance audit;

- 2.10 review the overall management of resources within the Office in the light of comments made by the first performance auditor dealing with public sector constraints over the Office;
- 2.11 follow up relevant matters raised in the report of the first performance audit of the Office;
- 2.12 follow up relevant matters raised by the Committee in its Report on *The Performance Audit of the Auditor-General of Victoria* (November 1993);
- 2.13 conduct the audit in compliance with the *Audit Act 1994*;
- 2.14 conduct the audit in compliance with Statement of Auditing Practice AUP 33 'Performance Auditing', and other relevant Auditing Standards and Statements; and
- 2.15 identify clear recommendations capable of implementation to effect improvement where deemed possible/desirable.

## TERMS AND CONDITIONS

3. The Auditor is appointed on the following terms and conditions -

### 3.1 Timetable for Reports:

The Auditor shall deliver to the Chairman of the Committee -

- a statement as to progress on 30 June 1995; and
- a statement as to progress on 15 August 1995.

These statements shall exclude any findings or proposed recommendations in relation to the audit.

The Auditor shall make his report in accordance with the Act by, or before 15 September 1995, 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, as required by the Committee.

### **3.2 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 himself available as reasonably required by the Auditor during the period of the audit.

### **3.3 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 upon 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.

### **3.4 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.

### **3.5 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 the 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.

### **3.6 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.

### **3.7 Resourcing**

The Auditor warrants that he will personally perform no less than 26 per cent of workdays spent on the audit. The Auditor will be assisted by Mr McGinniss (who will personally perform no less than 19 per cent of tendered workdays), Mr Boomgaardt (who will personally perform no less than 11 per cent of tendered workdays), Mr De Crespigny (who will personally perform no less than 11 per cent of tendered workdays), Mr Geysen, Mr Lismore and other such support staff as is required. The Committee may direct changes to the team assisting the Auditor, or the extent of involvement of team members in the audit. In addition the Auditor warrants to consult Dr Len Rutman as required during the audit and that Dr Rutman will review report drafts.

### **3.8 Application of Act**

Pursuant to section 19 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.

### **3.9 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.

### **3.10 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.

### **3.11 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.

### **3.12 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.

### **3.13 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.

### **3.14 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.

## REMUNERATION

4. The amount to be paid to the Auditor for all work done in undertaking the audit shall be **two hundred and sixty five thousand dollars (\$265,000.00)** which shall be paid in the following manner:
  - 4.1 Eighty eight thousand dollars (\$88,000.00) on delivery of a satisfactory statement as to progress being presented to the Chairman of the Committee on 30 June 1995;
  - 4.2 Eighty eight thousand dollars (\$88,000.00) on delivery of a satisfactory statement as to progress, which indicates delivery of a draft report to the Auditor-General, being presented to the Chairman of the Committee on 15 August 1995;
  - 4.3 Eighty nine thousand dollars (\$89,000.00) 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.



## PERSONS OR ORGANISATIONS SUBMITTING PROPOSALS

Balcam Williams Pty Limited

Ernst & Young

Hall Chadwick

KPMG Peat Marwick

Price Waterhouse

Mr Manish N. Sundarjee



## 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