



PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

THIRTY-SEVENTH REPORT TO PARLIAMENT

REPORT ON THE FINANCIAL AUDIT OF THE VICTORIAN AUDITOR-GENERAL'S OFFICE FOR 1999-2000 - REVISED AUDIT FEES

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Public Accounts and Estimates Committee

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

MEMBERSHIP

Mr P Loney, MP (Chairman)
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Hon. L Asher, MP
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Ms S Davies, MP
Hon. R Hallam, MLC
Mr T Holding, MP
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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: FINANCIAL AUDIT OF THE VICTORIAN AUDITOR-GENERAL'S OFFICE

Background

In accordance with 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, as an independent auditor of the Victorian Auditor-General's Office.¹*
- (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.*

In March 2000 the Public Accounts and Estimates Committee recommended to the Parliament that Mr Douglas N. Bartley, a Senior

¹ In Section 3 of the *Audit Act 1994* "Parliamentary Committee" is defined as the Public Accounts and Estimates Committee

Partner with KPMG, undertake the financial audit of the Victorian Auditor-General's Office for the 1999-2000 financial year and the remuneration for this audit be \$15,000.²

This fee was based on the advice received by the Committee and the Financial Auditor, that by 30 June 2000 the integration of the Victorian Auditor-General's Office and Audit Victoria would be completed and that one common set of financial systems would be in operation.

Mr Bartley's appointment and the fee recommended by the Committee was subsequently endorsed by the Legislative Assembly and the Legislative Council on 21 March 2000.

Subsequent Developments

Advice has now been received from Mr Bartley, the financial auditor, and confirmed by the Auditor-General's Office, that the financial systems of the Victorian Auditor-General's Office and Audit Victoria were still operating independently as at 30 June 2000. This means, from an audit perspective, that significantly more work has to be undertaken to enable the financial auditor to form an opinion on the aggregated results of the two agencies.

The additional work mainly relates to the following:

- reviewing, documenting and testing of the controls over two separate sets of financial systems. The Committee understands that this is a reasonably substantial exercise in respect of Audit Victoria as the internal audit work relied on for audit purposes relates only to the financial systems of the Victorian Auditor-General's Office;

² Public Accounts and Estimates Committee, Report No. 32 *Report on the Appointment of an Independent Auditor to Conduct a Financial Audit of the Victorian Auditor-General of the Victorian Auditor-General's Office and the Final Financial Audit of Audit Victoria*, March 2000, p. 4.

- performing a reconciliation of the results produced by the two separate systems to ensure that they appropriately aggregate to the final set of results and that any inter-entity type transactions are eliminated; and
- reviewing the nature of the classifications used in the trial balances of each of the entities to ensure that like items are aggregated appropriately for disclosure purposes in the financial statements.

The Auditor-General's Office has advised that the delay in merging the two financial systems occurred because of the significant staff restructuring and system re-integration that resulted from the amalgamation of the Auditor-General's Office and Audit Victoria.

The Committee has received confirmation from the Auditor-General's Office that the systems have now been substantially merged and this problem will not affect the preparation of the 2000-2001 financial year financial statement.

Proposed fee revision

The financial auditor has suggested that an additional fee of \$9,000 be charged to cover the costs of these additional procedures.

The Auditor-General's Office has confirmed the extent of the additional audit work to be undertaken and agreed that the additional fee should be paid for the audit.

Recommendation

Accordingly, the Committee recommends:

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

That the Legislative Council and the Legislative Assembly agree that the level of remuneration to be paid to Mr Douglas N. Bartley of KPMG, to complete the financial audit of the Victorian Auditor-General's Office for the 1999-2000 financial year be increased by \$9,000 to a total remuneration of \$24,000 for undertaking the audit.

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.

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

- (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.

**APPENDIX 2: EXTRACT FROM THE LEGISLATIVE
ASSEMBLY VOTES AND
PROCEEDINGS NO. 25
OF 21 MARCH 2000**

5 FINANCIAL AUDIT OF THE AUDITOR-GENERAL'S OFFICE -

Motion made, by leave, and question -- That, pursuant to section 17 of the *Audit Act 1994* -- (a) Mr Douglas N Bartley of KPMG be appointed to conduct the financial audit of the Auditor-General's Office for the 1999-2000 financial year in accordance with the conditions of appointment and remuneration contained in the Report of the Public Accounts and Estimates Committee on the Appointment of an Independent Auditor to Conduct a Financial Audit of the Victorian Auditor-General's Office (Parliamentary Paper No 14, Session 1999-2000); and (b) the level of remuneration for this financial audit be \$15,000 (*Mr Batchelor*) -- put and agreed to.

Ordered -- That a message be sent to the Legislative Council acquainting them of the resolution and seeking their concurrence therein.

**APPENDIX 3: EXTRACT FROM THE
 LEGISLATIVE COUNCIL
 MINUTES OF THE PROCEEDINGS
 NO. 18 OF 21 March 2000**

8 AUDITOR-GENERAL'S OFFICE FINANCIAL AUDIT -- The Deputy President announced the receipt of a Message from the Assembly acquainting the Council that they have agreed to the appointment of Mr. Douglas N. Bartley to conduct the financial audit of the Auditor-General's Office, and desiring the concurrence of the Council therein.

Ordered -- That the Message be taken into consideration forthwith.

The Honourable M.M. Gould moved, by leave, That the Council concur with the Assembly and resolves, That, pursuant to section 17 of the *Audit Act 1994*:

1. Mr Douglas N. Bartley of KPMG be appointed to conduct the financial audit of the Auditor-General's Office for the 1999-2000 financial year in accordance with the conditions of appointment and remuneration contained in the Report of the Public Accounts and Estimates Committee on the Appointment of an Independent Auditor to Conduct a Financial Audit of the Victorian Auditor-General's Office (Parliamentary Paper No 14, Session 1999-2000); and
2. The level of remuneration for this financial audit be \$15,000.

Question -- put and resolved in the affirmative.

Ordered -- That a Message be sent to the Assembly acquainting them accordingly.