

Relevant strategic objectives

Reports and advice

Being authoritative and relevant

Parliament

Being highly regarded by Parliament

Here is an overview of our achievements, challenges and future steps for our Performance Audit business unit.

Challenges in the year ahead

- Our significant turnover and staffing challenges require us to be innovative in our structure and delivery of our work program (page 36).
- Our average indexed ratings for questions about audit value was decreased by 10 per cent, from 74 per cent in 2014–15 to 64 per cent in 2015–16, with audit clients less likely to agree that the audit would help them to improve the performance of the audited activity (page 64).
- Our average index score for performance audit reporting decreased by 3 per cent, from 76 per cent in 2014–15 to 73 per cent in 2015–16, with agencies' perceptions about the balance and fairness of our reports affecting the score (page 64).

Next steps

- We will focus on our six improvement projects, which will enhance the quality of our performance audit practices (page 66).
- We will continue to build advanced data analytic capabilities throughout our office (page 66).
- We will review our approach towards the selection of follow-up audit topics (page 66).
- We will review and update our audit procedures as appropriate, to account for our new 'follow-the-dollar' powers (page 66).
- We will work with other jurisdictions to develop a strategy for the way we conduct concurrent audits (page 66).



Achievements

- We delivered 29 performance audit reports delivered (including six follow-up audits), three more than our target of 26 (page 60).
- 139 of the 145 recommendations we made were accepted (page 20).
- We reviewed and re-engineered our Performance Audit methodology (page 62).
- We reviewed and strengthened our audit topic selection framework to increase its rigour (page 61).
- We restructured our teams to better target our audit effort and maximise our impact throughout the public sector (page 64).
- We established a specialist data analytics strategy and capability team within the office (page 65).

What we do

Our performance audit program provides assurance to Parliament and the public on the effectiveness, efficiency and economy of public sector agencies' operations and activities, and the extent to which they are complying with relevant legislation.

Performance audits may examine all or part of an agency's activities, or the activities of a number of agencies. Our audits can find examples of better practice and can identify opportunities for improvement.

Below is a list of all performance audit reports tabled during the year.

<p>August 2015</p> <p><i>Unconventional Gas: Managing Risks and Impacts</i></p> <p><i>Applying the High Value High Risk Processes to Unsolicited Proposals</i></p> <p><i>Biosecurity: Livestock</i></p> <p><i>Follow up of Management of Staff Occupational Health and Safety in Schools</i></p> <p><i>Follow up of Managing Major Projects</i></p> <p><i>Follow up of Collections Management in Cultural Agencies</i></p> <p>September 2015</p> <p><i>Realising the Benefits of Smart Meters</i></p> <p><i>Regional Growth Fund: Outcomes and Learnings</i></p> <p>October 2015</p> <p><i>Department of Education & Training: Strategic Planning</i></p> <p><i>Delivering Services to Citizens and Consumers via Devices of Personal Choice: Phase 2</i></p> <p>December 2015</p> <p><i>Access to Public Sector Information</i></p> <p><i>Implementing the Gifts, Benefits and Hospitality Framework</i></p> <p><i>East West Link Project</i></p> <p><i>Responses to Performance Audit Recommendations 2012–13 and 2013–14</i></p>	<p>February 2016</p> <p><i>Victorian Electoral Commission</i></p> <p><i>Public Safety on Victoria's Train System</i></p> <p><i>Hospital Performance: Length of Stay</i></p> <p><i>Administration of Parole</i></p> <p>March 2016</p> <p><i>Local Government Service Delivery: Recreational Facilities</i></p> <p><i>Bullying and Harassment in the Health Sector</i></p> <p><i>Patient Safety in Victorian Public Hospitals</i></p> <p><i>Digital Dashboard: Status Review of ICT Projects and Initiatives – Phase 2</i></p> <p><i>Grants to Non-Government Schools</i></p> <p>May 2016</p> <p><i>Reducing the Burden of Red Tape</i></p> <p><i>Monitoring Victoria's Water Resources</i></p> <p><i>Managing and Reporting on the Performance and Cost of Capital Projects</i></p> <p>June 2016</p> <p><i>Follow up of Residential Care Services for Children</i></p> <p><i>Follow up of Asset Confiscation Scheme</i></p> <p><i>Follow up of Recreational Maritime Safety</i></p>
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We tabled 29 of the 35 performance audit reports listed in our Annual Plan 2015–16, three more than our target of 26 performance audit reports. The 29 reports consist of 27 performance audit reports and two Information Systems Audit reports.

Four audits originally planned for delivery in 2015–16 were deferred to either 2016–17 or 2017–18:

- Audit committee governance
- Diverting young people from the criminal justice system
- Effectiveness of school governance
- High Value High Risk.

Prospective audits 'University student management systems' and 'Administration of court non-judicial functions', originally scheduled to be completed in 2015–16, were discontinued after further assessment of the proposed topic.

How we do it

The quality of our performance audits is measured and monitored through our performance audit program quality framework.

The quality framework includes:

- processes for the selection of performance audit topics
- processes for delivering our audits
- a standards-based performance audit methodology.

Selection of performance audit topics

We seek to maximise the impact of our performance audits. As part of the process for shortlisting potential topics, we assess the risk and materiality of the activity proposed for examination.

We also consider:

- whether we have effectively covered our legislative obligations to review efficiency, effectiveness, economy and compliance with all relevant Acts, and to consider waste, probity and resource management
- the spread of activity throughout the sectors and selected themes
- the number of standalone and other topics
- the coordination between our performance audit and financial audit programs.

In 2015–16, we reviewed and strengthened our topic selection framework to increase its rigour, by introducing the following additional criteria:

- **Potential for our office to have an impact**—in examining the potential impact of a particular topic, we seek to determine if it has the potential to improve the achievement of government's desired outcomes or program objectives (effectiveness), or the management of public resources (efficiency, economy)
- **Potential for our office to address matters of public interest**—we consider whether the audit topic has the potential to improve outcomes for key segments of the Victorian community (such as vulnerable people, regional Victoria and Indigenous Australians), or the public's understanding of high-profile and contentious issues.

Figure 22 provides a high-level illustration of our performance audit topic selection framework.

[Figure 22] Selection of performance audit topics



See the our Annual Plan 2016–17 for more discussion of VAGO's performance audit topics.

Stakeholder consultation and engagement

We consult widely with parliamentarians, public sector agencies and the community to gather information and ideas, and to discuss the merits and approach of potential audit topics. This helps us target our audits, both at a whole-of-government level and within sectors.

We analyse feedback from stakeholders and the community to identify themes that recur and are highly relevant to our mandate. These themes are fed into our annual planning process for consideration.

Parliament plays a significant part in shaping our audit program. In our 2016 parliamentary survey, half (52 per cent) of all respondents made suggestions in relation to areas for us to focus on, most of which we can group into four main areas:

- efficiency/accountability of government service provision (in terms of staff and/ or financial aspects)
- transport/infrastructure
- environmental issues
- following up on ongoing issues (with follow-up audits).

Delivering our audits

With our thorough approach to gathering and analysing information, briefing agencies and clearing proposed audit reports, each audit typically ranges from six to 10 months in duration. This is why we include a two-year program in our Annual Plan.

After we have consulted on the specification of an audit as part of our annual planning process, we will typically undertake more detailed planning and scoping to refine the criteria and lines of inquiry related to the audit. We normally do this by gathering and reviewing relevant documents and consulting key stakeholders, including agencies, interest groups, academics and others about key matters. We then finalise the specification before commencing the conduct of the audit.

Resourcing our audits

Our performance audits are typically delivered by in-house staff who are trained internally. From time to time, we engage experts to advise our performance audit teams on complex and technical issues.

Standards-based performance audit methodology

We carry out our performance audits using our AmP system, an electronic database which was developed in-house. AmP is used to document work and evidence and assist to manage and review audits.

AmP contains policies, guidance and standard procedures that align with the auditing standards set by the Australian Auditing and Assurance Standards Board.

In 2015–16 VAGO completed an AmP Review project to update our methodology, practice and policies, including the provision of AmP guidance to staff.

Challenge Committee

Our Challenge Committee oversees the progress of audits and clarifies any ambiguities to ensure the quality, accuracy, logic and rigour of an audit to determine whether it should progress to the next stage. The committee adds value to the audit process, and to the office more broadly, by identifying opportunities to improve internal processes and common themes in audits.

Debrief process

When a performance audit is completed, we debrief to identify key lessons, issues, and opportunities for improvement. Each audit debrief is considered and discussed by our Challenge Committee.

The lessons and outcomes from audits are shared with staff and used to inform staff training materials.

In 2015–16, several continual improvement actions were identified through the debrief process. These covered a range of areas, including:

- stakeholder engagement
- alternative ways to approach the resourcing of audit teams
- internal process improvements
- staff training and development.

Many recommended actions have either been addressed or are the focus of continuing business improvement projects.

Quality assurance

To seek assurance that our audits meet professional and VAGO quality standards, the robustness of the audit process and the quality of the final audit report are reviewed. See page 49 for further information.

Feedback from audited agencies

For every performance audit, we undertake a postaudit survey to find out if audited agencies found the audit valuable. These surveys tell us whether the audited agencies believe the audit will help them to improve their performance.

For performance audits tabled in 2015–16, the average indexed ratings for questions about audit value was 64 per cent, a decrease from 74 per cent in 2014–15. While mostly positive, audit clients were less likely to agree that the audit would help them to improve the performance of the audited activity.

We also ask audited agencies about the performance audit process and performance audit reporting to identify areas for improvement. While the average index score for the performance audit process was consistent with the previous year, the average index score for performance audit reporting fell from 76 per cent in 2014–15 to 73 per cent in 2015–16, with agencies' perceptions about the balance and fairness of our reports affecting the score.

Extracts from agencies' responses to our post-audit surveys

“ The auditors identified useful and constructive recommendations that will improve monitoring of [the audited activity]. The report was thorough and clear on what needed to be improved, why, and the outcomes expected.

“ ... It would also have been [beneficial] to include a project that was running well and on schedule, to highlight any differences in project management skills or capability.

Key developments in 2015–16

Performance Audit restructure

As indicated in our *Annual Report 2014–15*, we reviewed the Performance Audit business unit's operating structure in early 2015–16 as part of our commitment to continual improvement. In early 2015–16, we introduced a new structure to Performance Audit to better target audit effort, and maximise our impact in the public sector.

After receiving feedback from staff, we further refined the structure in the second half of 2015–16.

Our Performance Audit business unit now consists of six teams:

- Community safety
- Education
- Environment
- Health and human services
- Infrastructure
- Investments.

The new structure encourages greater collaboration across the Performance Audit business unit, as well as innovation in how we select, plan and execute our audits. This structure also recognises that there are some challenges that can only be resolved through a whole-of-government approach, and which cannot be addressed adequately through a traditional sector-based audit structure. By better focusing on the things that matter most, our new structure aims to maximise our impact on improving public sector performance in these critical areas.

Improvement projects

Within the Performance Audit business unit, we established six working groups to explore and oversee the implementation of improvement projects identified through reflection on operations, or through the audit debrief process.

The working groups focus on:

- strategic audit planning
- workforce development
- continual improvement/learning and development
- audit resourcing
- business information
- stakeholder engagement.

Data analytics in audits

In 2015–16, our Information Systems Audit business unit established an advanced analytics strategy and specialist data analytics team. Through the use of new technologies and advanced analytics, the team aims to leverage data to enhance the audit process, reduce audit risks and uncover insights. Recent performance audits that have incorporated data analytics extensively include *Hospital Performance: Length of Stay* (February 2016), and the ‘Efficiency and Effectiveness of Hospital Services: Emergency Care’ audit currently in progress.

VAGO’s advanced analytics capability will:

- enhance typical financial analytics work and develop limited forensic data audit capability to help improve the effectiveness and efficiency of audits
- establish data analytics infrastructure and capability, including skills, competencies, and resources for data analytics in performance audits
- build partnerships with national and international audit analytics user groups in order to share information
- provide auditors with easy-to-use intuitive tools, such as interactive dashboards.

In 2015–16, our data analytics team developed an advanced data analytics strategy and explored suitable tools and systems, leading to the development of a proof of concept. The focus going forward will be the implementation of systems and tools and the building of internal advanced analytic capabilities throughout our office.

Increased flexibility in follow-up audits

In 2015–16, we discontinued our *Responses to performance audit recommendations* report, after analysing how agencies responded to the report, and finding that we could not always verify agencies’ stated responses. However, we will continue to carry out follow-up audits, choosing each topic after discussions with agencies and reviewing evidence of the actions agencies have implemented in addressing our audit report recommendations. This will give us more flexibility and allow us to target follow-up audits better.

Governance program

We will continue to examine governance issues in the public sector through our Governance Program. The audit stream of the program will examine key governance issues in the Victorian public sector. The stream includes the following audits for 2016–17:

- Audit committee governance
- Managing public sector records
- Board performance
- Internal audit programs
- Effectiveness of the Victorian Public Sector Commission.

We will also examine existing education and better practice activities as part of our ‘Effectiveness of the Victorian Public Sector Commission’ audit, also scheduled for 2016–17.

Looking forward

Targeted audit program and follow-the-dollar audits

In 2016–17, we plan to table 29 performance audit reports drawn largely from the topics listed in our Annual Plan 2016–17. We remain committed to our follow-up program and intend to review our approach towards the selection of follow-up audit topics. Furthermore, in response to amendments to the *Audit Act 1994*, we will further review and update our audit procedures as appropriate, to account for our new 'follow-the-dollar' powers.

Collaborating with others

We plan to work with other jurisdictions to develop a strategy for the way we conduct concurrent audits, particularly in light of changes to the *Audit Act 1994* and our ability to now share more information with other auditor-general offices.

Innovation and continual improvement

We are committed to continuing to improve our performance audit practices. We will build on our improvement projects as follows:

- **Strategic audit planning**—We will explore additional ways to ensure that we are selecting the most appropriate topics to audit. We will also review how we engage the Victorian community and seek feedback on audit topics that are in the public interest.
- **Workforce development**—We aim to ensure the quality of our workforce remains strong through ongoing recruitment and succession planning.
- **Continual improvement/learning and development**—We are committed to providing our workforce with learning and development opportunities that will assist in building their knowledge and skills in performance auditing.
- **Audit resourcing**—We are reviewing our approaches to resourcing our audits to ensure that we are efficient in our auditing and have the right audit teams for our planned audits.
- **Business information**—We are reviewing our business reporting to ensure that we have the information we need to make the improvements we are striving for.
- **Stakeholder engagement**—We are exploring ways to improve our stakeholder engagement, with audited agencies and the broader Victorian community.
- **Data analytics**—We will continue to build internal advanced analytic capabilities throughout our office.