

## Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General's Office

8 November 2016

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# About the Victorian Auditor-General and the Victorian Auditor-General's Office

The Victorian Auditor-General is an independent officer of the Victorian Parliament, appointed to examine and report to Parliament on the efficient and effective management of Victorian public service resources, and to provide assurances on the accuracy of financial statements. The Auditor-General cannot be directed by any person or body and dismissal is only by a resolution of both Houses of Parliament. Although independent, the Auditor-General is still accountable to Parliament, via the Public Accounts and Estimates Committee.

The *Audit Act 1994* (Vic) establishes the legislative framework governing the ongoing role and functions of the Auditor-General. This Act identifies the statutory powers and responsibilities of the Auditor-General.

The Victorian Auditor-General is supported in the execution of his responsibilities by the Victorian Auditor-General's Office (VAGO).

The following provides an overview of VAGO's activities for the 2015-16 financial year:

## PERFORMANCE AUDITS

**29** performance audits conducted

 average cost per audit  
**\$364,870**

## FINANCIAL

annual budget **\$40.8M**

## PEOPLE

 full-time equivalent staff **189.25**

 turnover **15.4%**  
**5.6 years** average length of service

## FINANCIAL AUDIT

**539**  
audit opinions on financial statements

**108**  
audit opinions on non-financial performance indicators

**8** parliamentary reports (reports on the results of financial audits)

**370 vs 186\***  
contracted to audit service providers      conducted in-house

 annual audit costs  
**\$26.0M**

\* Note this relates to all audits underway during the year and does not equal the total number of opinions expressed



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Mr Danny Pearson MP  
Chair, Public Accounts and Estimates Committee  
Parliament of Victoria  
Spring Street  
EAST MELBOURNE VIC 3002

8 November 2016

Dear Mr Pearson,

**Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General's Office**

We are pleased to submit our final report from the recently concluded Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General's Office.

We would like to take this opportunity to thank the Public Accounts and Estimates Committee, the Auditor-General and his team, and the broader Victorian public service for the co-operation which we have received in performing this audit.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Elma von Wielligh-Louw".

Elma von Wielligh-Louw  
Partner  
Deloitte Risk Advisory Pty Ltd

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## **Inherent Limitations**

The Services provided are advisory in nature and have not been conducted in accordance with the standards issued by the Australian Auditing and Assurance Standards Board and consequently no opinions or conclusions under these standards are expressed.

Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made.

Our work is performed on a sample basis; we cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Recommendations and suggestions for improvement should be assessed by management for their full commercial impact before they are implemented.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy, or reliability is given with respect to the statements and representations made by, and the information and documentation provided by the Victorian Auditor-General's Office (VAGO).

## **Limitation of Use**

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# Executive summary



## Introduction

In accordance with the *Audit Act 1994* (Vic), the Parliament of Victoria, through the Public Accounts and Estimates Committee (the Committee or PAEC), requires an independent performance audit over the Victorian Auditor-General (Auditor-General) and the Victorian Auditor-General's Office (VAGO or the Office) to be conducted on a triennial basis.

The performance audit conducted by Deloitte Risk Advisory Pty Ltd (Deloitte) and reported on here, focused on the role of the Auditor-General and VAGO to provide independent assurance to Parliament on the state's use of public money. The performance audit also identified opportunities, and provided recommendations, to improve the efficiency and effectiveness of the services that VAGO provides to the Victorian public service.

### Performance audit objective and scope

Deloitte's performance audit examined whether the Auditor-General and VAGO are achieving their objectives effectively, economically and efficiently, and in compliance with the *Audit Act 1994* (Vic).

In accordance with the terms of reference provided by PAEC, the performance audit included assessing and recommending improvements relating, but not limited, to:

- Governance structure and planning activities.
- Key performance management systems and measures.
- Human resource management systems, policies and practices.
- Management and conduct of financial, performance, and information and communication technology (ICT) audits.

To facilitate the conduct of the performance audit, an evaluation framework was developed for each of the above areas. The evaluation framework and supporting criteria were agreed with PAEC, the then Acting Auditor-General and VAGO, and are included in Appendix A.

### Methodology and approach

The role of an Auditor-General and its office is complex and difficult. As an independent officer of Parliament, an Auditor-General needs to be free from political bias and must be viewed as independent and competent. The Auditor-General and the office must however also work collaboratively with the public service to deliver on its mandate in a manner that does not impede independence and objectivity.

An important part of this performance audit's methodology was to consider the complexity and the difficulty of this role, and to determine the characteristics of an effective audit office. The development of these characteristics (or success factors) were informed by discussions with other Auditor-Generals and were discussed and agreed with PAEC and VAGO.

Accordingly, we have presented our findings against each of these success factors as follows:



More detail regarding the characteristic of an effective audit office has been set out in Appendix B. Our detailed methodology for this performance audit is set out in Appendix C.

In conducting this performance audit we reviewed and analysed documents provided by VAGO, and also reviewed a number of performance and financial audit working paper files. We extended our analysis to include consultations and interviews with more than 70 VAGO staff and external stakeholders.

## Key observations

The Victorian Auditor-General and the Office plays a critical role in the Victorian public service. The last 18 months has been a difficult period for the Office. The machinery of government changes in December 2014 significantly impacted the timely finalisation of financial statements and the expression of financial audit opinions. The sudden resignation of the then Auditor-General, John Doyle, and the circumstances regarding his resignation, strongly impacted staff morale.

Despite these challenges, the Office has continued to deliver on its mandate, under the guidance of an Acting Auditor-General, Dr Peter Frost. In the last financial year, the Office expressed 539 audit opinions on financial statements, 108 audit opinions on non-financial performance indicators and conducted 29 performance audits.

The commencement of the new Auditor-General, Andrew Greaves, on 19 September 2016, has been positively received by staff and stakeholders, with many saying that this represents an opportunity for a fresh start to VAGO's relationship with the Victorian public service.

The matters raised in this report present opportunities to build on VAGO's strong foundations around capabilities, methodologies and processes to support the way the Auditor-General and VAGO deliver its mandate. In particular:

- Establish stronger, respectful **relationships** with stakeholders to allow the Office to engage with the Victorian public service in a fair, collaborative and productive manner.
- Consider in the context of VAGO's mandate, how it can increase its **impact** through earlier engagement with stakeholders on complex matters.
- Enhance the workplace **culture** to foster a positive environment that acknowledges and respects the individual contribution of staff to collectively deliver on VAGO's mandate.
- Enhance the **leadership** capability to ensure the Auditor-General has a strong leadership team that collectively drive the vision and values of the organisation.

The next section of our report provides more detail regarding our key observations, including recommendations to be considered by the Auditor-General and the Office.

## Conclusion

Based on the evaluation framework and the assessment criteria noted above, the Auditor-General and VAGO are, in all material respects, achieving its objectives effectively, economically and efficiently and in compliance with the *Audit Act 1994* (Vic).

## Acknowledgements

We would like to extend our gratitude to the Acting Auditor-General at the time of this performance audit, Dr Peter Frost, his executive leadership group and the broader VAGO team for their assistance. We appreciate the collaborative manner in which VAGO approached this performance audit.

We would also like to thank the senior representatives of the agencies and authorities who participated in stakeholders interviews conducted.







# Success factors



# Independence and objectivity

An Auditor-General plays an important role providing independent and objective assurance on financial reporting and the efficient and effective management of public resources.

# Observations

## Maintaining objectivity for performance audits

An Auditor-General's objectivity often comes under most scrutiny and criticism in the conduct of performance audits. VAGO has well established processes to ensure it maintains its objectivity throughout the conduct of its activities. Clear and effective communication throughout the lifecycle of a performance audit forms a key part of VAGO's processes. This is essential to ensure stakeholders have a shared understanding of the reasons audits are selected and what outcomes the audits intend to achieve.

However, our consultation with stakeholders and review of selected performance audit files noted instances where VAGO's objectivity had been criticised, which potentially could have been addressed through more effective communication. These instances related to:

- **Transparency of audit scope** - The objective and scope for one performance audit was published in June 2014 in the FY2014-15 VAGO Annual Plan. All of the preliminary consultations with agencies and with PAEC were based on this published scope.

Internal planning records indicate that the focus of this audit changed significantly in March 2015. However, there was insufficient documentation on file to adequately justify the shift in focus of audit resources into a clearly controversial area where the Government had already announced a Parliamentary inquiry.

When first consulted, PAEC raised concerns that the performance audit was conducted at the same time as the announced inquiry. Ultimately, the then Auditor-General's motivations, including his objectivity in conducting this audit, were questioned in the final inquiry report.

- **The public service's role regarding government decisions** – Some stakeholders raised concerns regarding instances where the then Auditor-General had been perceived as straying into questioning Government policy and why agencies or authorities had proceeded with the implementation thereof.

In a public disagreement between the Auditor-General and the Secretary for the Department of Premier and Cabinet regarding a particular report, the Secretary stated the following in his response:

*"Being a public servant is more than a job; we have an essential public function to influence Government decision-making through professional, frank and apolitical advice."*

*However, the role and duties of the public service do not extend to prosecuting its own agenda by repeatedly advising of other options it may prefer, but that run counter to the Government's settled and stated decisions."*

*If the draft report's implications were followed to their logical conclusion, it would appear to permit public servants to refuse to enact lawful government decisions on the premise that the public service is the best judge of what is in the public interest."*

- **Perception around pre-determined audit outcomes** – Interviews conducted with stakeholders identified a strong perception that performance auditors often conducted audits with pre-determined outcomes. Further, the auditors often requested large volumes of data that were perceived to be unnecessary to validate their views. Stakeholders also sometimes saw the auditors as inflexible during consultation and when receiving feedback on draft findings, but added that most of their concerns could be addressed through more effective engagement and communication with VAGO.

## Recommendations

1. **Stakeholder engagement strategy.** The Auditor-General and VAGO should develop a stakeholder engagement strategy in consultation with the Victorian public service. A key focus of the strategy should be to ensure consistency and transparency of VAGO's communication with stakeholders. Effective communication can resolve a number of concerns raised by the Victorian public service, including those relating to objectivity.
2. **Documented evidence.** Justification in the change of performance audit scope should be clearly documented in performance audit working papers.
3. **Conduct and communication.** The learning and development program of the Performance Audit team should incorporate communication strategies the team can use in the conduct of audits to deal with perceptions regarding objectivity.

## VAGO Response

1. Stakeholder engagement strategy. Agreed.  
The development of a stakeholder engagement strategy is a logical progression from and extension to our Stakeholder Engagement Framework.
2. Documented evidence. Agreed.  
This reflects current policy and expected practice.  
Our internal quality assurance reviews will specifically consider whether this requirement has been complied with.
3. Conduct and communication. Agreed.  
A capability and competency framework is being developed for performance auditors, to complement the equivalent financial audit framework.  
Effective client communication will be incorporated into the framework and into associated staff training.



# Contribution to an effective and efficient public service

An effective and respected audit office works collaboratively with agencies and authorities to deliver its mandate in a way that engages productively and supports the public service's ability to operate in a more effective and efficient manner.



# Observations

## Making a proactive contribution to an effective and efficient public service

VAGO's vision is to be a "catalyst for continuous improvement in the accountability and performance of the public service". The recent annual report for FY2015-16 included extensive details on how the Office measures its impact to deliver against this vision.

This vision clearly resonated with stakeholders, but they felt the primary mechanisms for VAGO to deliver on it were through the conduct of financial and performance audits, which typically have a historical focus. Stakeholders raised two specific areas where they felt that VAGO could be more effective and influential:

- For performance audits, stakeholders felt that it would be beneficial to have VAGO review projects and programs earlier whilst "in flight". They felt that receiving VAGO's views on risks and key audit considerations earlier in the process would be beneficial to facilitate the delivery phases of these projects and programs. They also expressed a desire to engage in discussions with VAGO around some of the complex issues they may be dealing with. They also saw VAGO as a valuable resource that potentially could connect them to other parts of the Victorian public service that may be experiencing similar issues.
- For financial audits, some stakeholders expressed frustration regarding the Office's perceived reluctance to be engaged in discussions regarding the development of accounting treatments. They understood that VAGO's independence could not be compromised, but they found it frustrating and problematic that VAGO was reluctant to engage in conversation especially when a particular accounting treatment may have a significant impact on the financial accounts.

## Right balance of performance audits

Determining the level of performance audit effort required to provide parliament with relevant assurance is a critical strategic aspect for an audit office.

VAGO follows a comprehensive selection process for its performance audits. It also regularly reassesses and revises its selection criteria to ensure its selections remain relevant in the face of changing circumstances.

However, VAGO was unable to provide any analysis to support its current performance audit effort in terms of the total number and mix of the performance audits it conducts.

When compared to other audit offices, VAGO conducts significantly more full scope performance audits than any other state or territory audit office. Only the Australian National Audit Office conducted more performance audits.

The following table shows performance audit data across Australia for FY2014-15 per audit office.

Audit Office	Full scope	Narrow scope*
Australian National Audit Office	49	1
Australian Capital Territory Audit Office	7	0
Audit Office of New South Wales	11	3
Northern Territory Auditor-General's Office	0	0
Queensland Audit Office	13	0
Auditor-General's Office South Australia	0	6
Tasmanian Audit Office	6	4
Victorian Auditor-General's Office	25	1
Office of the Auditor General Western Australia	5	13

\* Compliance audits, special investigations, other.

Source: Australasian Council of Auditor's General (ACAG) Macro benchmarking report FY2014-15

With the large number of performance audits conducted across a concentrated number of large and complex agencies in Victoria, agencies and authorities often participate in multiple audits in a given year which can place a strain on their resources. One agency was involved in 10 performance audits during the last financial year while another had been involved in 19 performance audits over the past two years.

## Recommendations

4. **Audit effort.** VAGO should conduct sufficient analysis to determine whether the total number and mix of performance audits is still appropriate to deliver on VAGO's mandate. It should also consider whether the Office should engage earlier with agencies and authorities on complex programs and projects. Consultation with PAEC and stakeholders should form part of this analysis to ensure that performance audit efforts align with the needs of Parliament and the Victorian public service.
5. **Financial accounting treatment.** VAGO should reconsider their perspective that it would impede their independence if they engaged earlier in discussions with agencies and authorities regarding financial accounting treatment. Where partaking in such activities may impact its independence, sufficient consultation should be held with stakeholders to explain the Office's position.

## VAGO Response

4. Audit effort. Agreed.

As part of our planning for FY2017-18 and in each subsequent year we will reconsider the number and size of audits planned against our assessment of risks and exposures.

Recent revisions to our annual planning methodology also mean that the Office will be engaging earlier on potential audit topics and through this we will deepen our general sector engagement, to better understand major projects and complex programs.

5. Financial accounting treatment. Agreed.

Our aim is always to engage with agencies and resolve accounting issues as early as possible. This requires agencies to proactively notify us of proposed changes to their accounting policies, and to provide us with sufficient details on which to make our assessments.



# Professional and respectful relationships

Open, honest and effective consultation with stakeholders is fundamental to an effective audit office. At the same time, audit offices must maintain the right balance between consultation and preserving their independence and objectivity.



# Observations

## Engaging in a meaningful way with the Victorian public service

External stakeholders interviewed expressed a genuine appreciation for the role that VAGO plays in the Victorian public service. They acknowledged the reciprocal nature of the relationship and expressed a desire to work more closely and collaboratively with the Auditor-General and the Office.

However, some found the manner in which the Office engaged with them and their teams frustrating at times. Specific areas of concern included:

- The tone of VAGO's correspondence and communication was sometimes felt to be dismissive, with some stakeholders reluctant to raise issues for fear of a negative response.
- While all stakeholders agreed that there were regular touch points with VAGO, many felt the Office did not demonstrate that it was listening or responding to their issues or concerns.
- Timeframes to respond to large data requests were considered to be unreasonable with some information being requested multiple times. Some stakeholders felt comfortable to ask for extensions, but others were reluctant stating that it was more important to "stay on the right side" of the auditors.
- Performance audit reports often lacked context that stakeholders felt would provide readers a more balanced perspective.
- In the case of financial audits, some stakeholders questioned the additional value they gained from the process and commented that the audits sometimes "feel generic".
- Recommendations, especially those that relate to audits that are conducted across the Victorian public service, were often considered high level. Some also indicated that whilst they generally accept all recommendations (as reflected in the 96% acceptance rate of recommendations), they often found these to be very difficult to implement.

## Recommendation

6. **Stakeholder engagement strategy.** In developing VAGO's engagement strategy, as per Recommendation 1, the Office should be clear on how it plans to engage with stakeholders in a reciprocal manner. Socialising this engagement strategy with stakeholders prior to its implementation is essential. Assessment of the performance of VAGO and its stakeholders against this engagement strategy should also be a regular agenda point for discussion with stakeholders.

### VAGO Response

6. Stakeholder engagement strategy. Agreed.



# Contemporary methodology, tools and techniques

An audit office must ensure that it has access to methodologies that comply with relevant standards and legislation, supported by tools and techniques that assist the teams in the conduct of their audits.

# Observations

## Performance audit

The Office's performance audit methodology is sound. It is subject to regular internal and external reviews to ensure it is robust and meets the needs of the Victorian public service. Even so, there are opportunities to improve how the methodology is applied:

- In some instances, document and data requests made during the planning phase for an audit appear to be excessive, rather than clearly targeted to scope and risk. In one example, we noted that the initial VAGO document request was in 20 parts and resulted in the agency having to produce more than 1,500 documents in 10 days.
- Improving stakeholder engagement during all stages of the performance audit lifecycle, including better engagement to inform areas of risk and potential audit focus during annual planning.

## Financial audit

VAGO's financial audit methodology is sound and enables VAGO to comply with the Australian Auditing and Accounting standards and all relevant legislative requirements.

However, there are opportunities to improve how the methodology is applied by the financial audit team:

- The audit strategy prepared for each financial audit articulates the direction for the audit and includes audit risks, which are identified during the planning process. These risks are sometimes defined too broadly and have resulted in some instances where the audit testing has not been appropriately targeted.
- There are inconsistencies in how financial controls are documented. Further, it is not clear from the documentation maintained how the auditors have reached their conclusion on the adequacy of the design of controls and whether the controls adequately mitigate the audit risks identified. From the files we reviewed it would appear that controls are tested, even if they do not mitigate a risk.

Over the past decade, financial auditors have faced greater scrutiny from regulators. The Australian Securities and Investments Commission (ASIC) has significantly increased its activity with respect to its audit inspection and surveillance program of registered company auditors and audit firms. The audit profession has responded by investing significantly in systems, methodology and training.

Given VAGO has not been subject to the same level of scrutiny as the wider audit profession in general, it should consider exploring how it could leverage the learnings and improvements that have been gained and implemented across the audit profession.

## ICT Audit

The Information Systems Audit team was formed as a separate business unit in 2014 as a result of a recommendation from the 2013 Triennial Performance Audit. This team applies the performance audit or financial audit methodologies when conducting ICT audits. The components of the methodologies that are relevant to ICT auditing are sound and generally aligned with better practices.

The improvement opportunities identified during this performance audit relate to how the performance audit and financial audit methodologies could be applied more consistently by the Information Systems Audit team. In particular:

- The ICT audits conducted as part of the financial audits cover a broad spectrum of risks including security, change and operations management. We noted inconsistencies in how the team documents judgements in relation to what impact an identified lack of control may have on the financial audit approach. Discussions with the team indicated that this concept was clearly understood, yet evidence of their considerations was not consistently included in the relevant audit file.
- In the conduct of financial audits, there were instances where the mitigating controls identified by the Information Systems Audit team did not adequately mitigate the audit risks identified, yet the auditors accepted the controls as adequate.
- For one of the audit files reviewed we noted that VAGO requested and retained approximately 50 ICT policies, standards and procedures from a client, but only used five of these to deliver against the scope of the review.

The Information Systems Audit team has undertaken significant work to increase the Office's data analytics capability through a three phased plan. The last phase of this plan will commence in January 2018. VAGO's stakeholders have acknowledged the value of the insights offered by data analytics. However, the timeline for the data analytics plan is conservative and it could be expedited to ensure the Office and the Victorian public service benefit from this important initiative.

## Recommendations

7. **Documentation requests.** The Performance Audit team, as part of their performance audit methodology project, should consider their approach in relation to data requests and whether the teams are asking for more data than what is really required, or whether agencies and authorities are perhaps providing unnecessary documentation that may not be reviewed by the team.
8. **Stakeholder engagement.** The Performance Audit team currently has a project underway in relation to improving their stakeholder engagement across the lifecycle of performance audit. The stakeholder engagement strategies that are being developed as part of this project should align with VAGO's overall engagement strategy (as per Recommendation 1).
9. **Risk and control capability.** A skills assessment should be undertaken across the Financial Audit and Information System Audit teams to determine their development needs in relation to risk and control identification. This assessment should inform the development of a targeted training program to lift the team's risk and control capabilities. Additional risk and control guidelines may need to be developed to support the teams.
10. **Documentation.** The Financial Audit and Information Systems Audit teams should consistently document the evaluation of the impact of ICT audit findings on financial audit approaches.
11. **Data analytics.** As the data analytics project nears the end of Phase One (in December 2016), VAGO should consider what would be required to accelerate the subsequent phases. VAGO may wish to consult other audit offices and data analytics specialists.
12. **Alliances.** VAGO should explore forming strategic alliances with one or more professional audit firms to determine whether VAGO can leverage the significant global investments those firms are making in financial audit methodologies and systems.



## VAGO Response

7. Documentation requests. Agreed.

More emphasis will be given in the preliminary planning phase of an audit to identify possible datasets and then requesting access to those that are relevant.

Notwithstanding this, it is incumbent on all agencies to understand the scope and objectives of the audit and to identify all data they hold that is relevant to the audit and facilitate access to it.

8. Stakeholder engagement. Agreed.

9. Risk and control capability. Agreed.

This will be undertaken as part of a broader, comprehensive review of the design and implementation of our financial audit methodology, our auditor competency framework and training program.

10. Documentation. Agreed.

In addition to the above review, our audit quality assurance program will specifically consider the extent to which this is being done effectively.

11. Data analytics. Agreed.

The Office plans to increase its data analytics capability into the future and will continue to share experiences with other Offices.


12. Alliances. Not agreed.

Alliances with one firm create a dependency risk and limit our ability to control our own methodology. In other jurisdictions this has had adverse consequences.

This is why we established a joint venture with the Queensland Audit Office to develop a fit for purpose public sector financial audit methodology. We also note that firms do not invest in performance audit, and this limits the strength of any strategic alliance.

We intend therefore to continue to utilise and redevelop our own methodologies for Financial Audit and Information Systems Audit.

We do however routinely interact with all major firms on their new methods / technologies and will continue to do so. This occurs where it is relevant and to the extent the firms are willing to share.



# Focus on quality and continuous improvement

To maintain relevance and credibility, effective audit offices continually strive to produce high-quality outputs as efficiently as possible. Their internal processes are geared towards achieving quality outcomes, which they drive through cultures that encourage innovation and continuous improvement.

# Observations

## Setting the Office's improvement priorities

To maintain relevance and credibility, VAGO has a strong commitment and focus on achieving quality outcomes, and have a number of initiatives underway to improve the way it manages the Office.

As part of the annual business planning process, a number of projects are identified for each of the business units. 15 projects were identified for FY2015-16. We noted that only five of these projects were reported as completed or on track. Seven projects were reported as "not proceeding as intended – circumstances are beyond the business unit's control". Such a large number of projects running behind schedule suggests a lack of accountability, or business planning that is unrealistic.

## Collaboration between the Standards & Quality and Financial Audit teams

The separation of the Standards & Quality team into a standalone business unit was another initiative implemented based on a recommendation from the 2013 Triennial Performance Audit. The team has since undertaken several successful projects to improve the quality of outcomes for all the audit teams. However, there were two specific opportunities for improvement identified in relation to the work relationship between the Standards & Quality and Financial Audit teams:

- The Standards & Quality team provides feedback on the quality of audits to the Financial Audit team after audits are completed through the PAQR process. Leading audit practices have introduced coaching programs and automated monitoring to detect potential quality issues earlier. A coaching program allows technical resources to provide 'real-time' learnings to audit teams that can be applied immediately to other audits that may be underway. Automated monitoring can also be used to detect non-compliance within the audit file while an audit is in progress instead of retrospectively. Examples of monitoring may include whether working papers are signed off as reviewed without opening; testing conducted without planning documents reviewed and signed off; and reminders for when files have not been archived with the 60 day statutory period.
- Some stakeholders and VAGO employees raised concerns regarding the Office's capacity to resolve technical accounting matters in a timely manner, especially during peak periods. Many of the matters raised related to financial audits which were often complex and required significant time to resolve.

## Recommendations

13. **Project delivery.** Realistic deadlines should be set for business improvement projects and leaders should be held accountable to deliver against these. These projects should be clearly linked to the strategy of the Office.
14. **Monitoring.** Continue with the recently implemented formal measurement of the turnaround time for the Standards & Quality team. This will allow for greater transparency over the capacity of this team, especially during peak periods.
15. **Coaching.** Consider whether the Standards & Quality team can play a more proactive role in the quality of financial audits through the introduction of a coaching program and amendments to Integrated Public Sector Audit Methodology (IPSAM) system that will allow for real-time quality monitoring.

## VAGO Response

13. Project delivery. Agreed.  
The Business Plan for FY2017-18 will be driven from the new Strategic Plan and its objectives, this plan will be developed early in 2017.
14. Monitoring. Agreed.  
Work is underway to develop service catalogues and set service levels standards across the Office. These will be linked to a new balanced scorecard to be developed for FY2017-18 that will track key operational metrics including timeliness.
14. Coaching. Agreed.  
A system of 'hot' quality reviews by Standards & Quality will be implemented for the next audit cycle to complement their 'cold' (after the event) quality assurance review process.  
These hot reviews will have coaching as one major focus.



# Strong practice management

Effective audit offices employ appropriate tools, systems and processes to support the operational aspects of their offices.



# Observations

## New Auditor-General to set strategic direction

VAGO has not undertaken a significant update or refresh of its organisational strategy since 2013. With the resignation of the former Auditor-General in 2015, a deliberate decision was made to not develop a new strategy until a new Auditor-General was appointed.

An interim strategic plan was developed for FY2015-16 and FY2016-17. The FY2015-16 strategic plan included VAGO's key objectives, the strategies to achieve these objectives and the indicators to measure the successful achievement thereof. However, there was no clear linkage between the objectives, strategies and indicators. As an example, VAGO's people objective was defined as follows:

Objectives	Strategies	Indicators	Target
Fostering a stimulating working environment	Rigorous performance planning and management	Number of Occupational Health and Safety committee meetings	4
	Supporting a safe and healthy workplace	Average number of days staff spent in training	8
	Develop skill mix of employees through best practice training		

It is unclear how the two indicators can measure the successful achievement of this objective. Moreover, there is no reference to establishing the right culture, which has been an important issue for the Office.

## Emphasise the importance of good practice management

Two recent reviews by VAGO's internal auditors around management reporting and practice management (for financial audit) found the organisation could improve in a number of areas. These issues remained relevant as this performance audit was conducted and included:

- The charge out and productivity rates for FY2015-16 and the operational budget for FY2015-16 were approved almost five months after the commencement of the financial year. These delays were due to ongoing internal consultation and organisation changes, but impacted VAGO's ability to adequately manage, track and monitor its financial performance for the first half of FY2015-16.

- There are inconsistencies in how financial audit budgets are managed. Financial audit budgets are captured at a high level in the Management Analysis and Reporting System (MARS), a web-based system that is used for practice and management reporting purposes.

Due to system limitations, detailed budgets cannot be captured in MARS. Further, detailed budgets were not consistently completed for all financial audits, which may have limited the various teams' ability to manage the costs associated with the delivery of their audits.

In some instances, there were significant delays in closing engagement codes for financial audits. These delays could potentially impact the recoverability of fees that should be recovered in accordance with section 10 of the *Audit Act 1994* (Vic).

- Management reporting processes are extremely manual with various teams having to analyse information from various disparate systems. Teams' understanding of MARS' capability also varied resulting in inconsistencies in monthly business unit monitoring and reporting.

## ICT strategic direction to be determined

VAGO relies on seven core systems to support it in its practice management activities. However, whilst VAGO has an approved interim ICT strategy for FY2016-17, it needs a longer term strategy that reflects VAGO's future requirements. This should be a high priority activity as systems are aging and, as mentioned above, not integrated.

## Consider the balance of financial audits conducted in-house vs contracted

The 2013 Triennial Performance Audit report recommended that VAGO consider a different service model for financial audits and for a larger proportion of audits to be conducted in-house. The premise for this recommendation was a greater level of control and potential cost savings for its clients. VAGO has critically reviewed its portfolio of audits and a new strategy and transition plan was adopted. The timing of the transition plan allowed for the incoming Auditor-General to make changes. This transition plan needs to be critically re-assessed as any changes will have a significant bearing on the Office's resourcing.

## Recommendations

- 16. Strategy.** VAGO's strategy should be reconsidered following the appointment of the new Auditor-General. Particular focus should be on how VAGO can drive a more inclusive culture through its strategy (also refer recommendation 1). The strategy should also consider and reflect the needs of the Victorian public service and recommendations from this report.
- 17. Measurement.** VAGO should establish clear measurements to assess its performance against its new strategy and ensure there is a clear linkage between the annual business plan and the strategy.
- 18. Financial audit budgets.** Detailed financial audit budgets must be maintained for all audits despite the system limitations, and comparisons against actuals should be performed, not only from a recovery perspective, but also to understand the cost of delivery and how this may influence the budgets for the following years.
- 19. ICT strategy.** VAGO has a project underway to develop its ICT strategy which includes considering the replacement of its core practice management systems. This project should continue as a priority as more contemporary and integrated systems will greatly enhance the efficiencies of the organisation's various teams.
- 20. Resourcing financial audits.** Any decision regarding the future sourcing model for financial audits should consider the impact on team morale and workload, especially as finding the right qualified resources is a challenge in a competitive talent market.

## VAGO Response

### 16. Strategy. Agreed.

As we develop our new Strategic Plan the external context in which the Office will operate will be considered as will the recommendations in this report. A key component of the strategy will be the culture program/plan.

### 17. Measurement. Agreed.

The FY2017-18 business plan will flow from the new strategic plan. Both of these will link to measures to assess our performance against plans - work is underway on our internal performance measures and revisions to our BP3 measures.

### 18. Financial audit budgets. Agreed.

This is policy and expected practice.

The methodology review will provide the opportunity for teams to progressively 'zero base' their financial audits to build realistic resource and cost budgets.

### 19. ICT strategy. Agreed.

VAGO is currently implementing an interim ICT strategy, the focus of which is on facilitating activity based working and encouraging remote work for our highly mobile auditor workforce.

In addition to replacing our legacy practice management system, regard is being given also to modernising our administrative software applications, with a view to facilitating greater collaboration and streamlining processes.

A longer term ICT strategy will be in place from FY2017-18.

### 20. Resourcing financial audits. Agreed.

The strategy is to be reviewed annually and the impact on staff development, workload and morale is a key determinant of the strategy.



# Participative leadership and an inclusive culture

An Auditor-General, due to the independent nature of the position as articulated in relevant audit acts, has significant influence to set and enforce the direction and culture of an audit office. An effective Auditor-General drives a culture that makes stakeholders, clients and staff feel included and respected.

# Observations

## Building a united and cohesive leadership team

The staff survey conducted by Quantum Management Indicators in December 2015 indicated five areas where VAGO's results were below the average scores of the professional services sector. These areas are:

- Organisation vision.
- Bureaucracy.
- Corporate leadership.
- Knowledge sharing.
- Organisation cohesion.

The leadership and organisation cohesion results were particularly low. Favourable (agree or strongly agree) scores varied between 4% and 19% for the following questions:

- The leadership group model acceptable and positive behaviours.
- The leadership group is honest and straight forward in their dealings with staff.
- The leadership group is motivating and inspiring.
- The leadership group sets clear plans and directions.
- There are effective lines of communication between work areas within VAGO.
- VAGO works as one organisation.

The leadership team took prompt action in response to the survey results, and from feedback from staff focus groups, by initiating a comprehensive cultural program, comprising 23 projects, which was approved on 11 April 2016.

The leadership and organisation cohesion areas remain a focus for VAGO and while staff interviewed spoke positively about the program, they expressed frustration with the pace of change and the lack of cohesion amongst the leadership group during the interviews, in particular they noted:

- They need clear direction and guidance from their leadership group regarding VAGO's vision.
- They want to see a change in values and behaviours and expect the leadership group to be role models thereof.
- They want to see VAGO working as one organisation and not in silos where each business area has their own culture and with limited communication between teams.
- They currently see the People & Culture team as the owners of the organisation's cultural change program and not the leadership group.

## Supporting an inclusive culture

The expected culture at the Office is derived from the following VAGO values that were introduced more than 10 years ago:

- Integrity.
- Personal accountability.
- Teamwork.
- Learning.
- Outcome focussed.

These values appear to be in need of a review and refresh as they no longer resonated with staff. In interviews VAGO staff mentioned 'integrity' and 'outcome focused' as values but were not clear on the others even though these are visibly displayed throughout the Office and often referenced in various internal and external publications. The update of these values have also been identified as part of VAGO's broader cultural program.

While the cultural program referred to above aims to address some of the pertinent cultural issues, it is reactive and tactical rather than informed by strategy and vision.

The cultural issues identified above in relation to organisation vision, bureaucracy, corporate leadership, knowledge sharing and organisation cohesion, are significant. They will take more than 12 months to remedy. The success in addressing these is dependent on having a clear vision, strategy and values that resonate with VAGO employees, and then building a long term plan on how to build a strong inclusive culture.

## Recommendations

- 21. Leadership principles.** The leadership team should formally agree, in the context of 'one VAGO', the key attributes and expected behaviours from a leader in the Office. They need to agree on what they want to be known for, how they connect with one another, how they engage with staff and stakeholders, and how they keep themselves accountable. Like other Victorian public service agencies and authorities, these principles should be documented in a Leadership Charter. It is important that these leadership principles resonate with staff and must be seen as complementary to VAGO's values and behaviours.
- 22. Leadership training.** The importance of training for the leadership group has been recognised in the cultural program, but action has yet to be taken. This initiative needs to be accelerated to address concerns raised by staff. VAGO should also consider whether participation in the newly launched Victorian Leadership Academy will be complementary to its other leadership development initiatives.
- 23. Cultural plan.** As part of its strategic planning process, VAGO should define its vision, strategy, organisational goals and the culture it needs to achieve them. A long-term cultural plan that articulates how the organisation intends to shape its culture as it moves towards 2020 is essential. The plan should be developed with consideration of VAGO's vision, strategic plan and values. A key component of this plan should be a focus on how VAGO intends to drive diversity and inclusion as part of its cultural agenda.



## VAGO Response

### 21. Leadership principles. Agreed.

While the new Leadership team is being formed work is underway on defining the required leadership competencies and the executive performance management system. This work will build on the Leadership Academy.

On appointment of the Leadership team in early 2017 work will commence on the new strategic plan, vision and values can be decided (may not be until FY2017-18), and a formal Leadership Charter developed and leadership training can commence.

This work will be supported by longer term culture program/plan incorporating diversity and inclusion.

### 22. Leadership training. Agreed.

As above.

### 23. Cultural plan. Agreed.

As above.



# Engaged staff and a focus on wellbeing

An effective audit office needs high performing employees that are able to deliver quality outcomes often under pressure, under potentially difficult circumstances and with time constraints. An effective audit office focuses their staff engagement strategies around maintaining healthy and positive workplaces that support employees to be high performing, self-motivated and resilient.

# Observations

## Engaged workforce

As previously mentioned the Office undertook a staff survey in December 2015, which was conducted shortly after the resignation of the then Auditor-General and during a period of significant change for VAGO.

From an engagement perspective only 35% of staff responded favourably (agree or strongly agree) to the questions around "engagement". In terms of the specific questions asked they responded as follows :

Question	2015	2013
"Would I recommend VAGO to my friends or family?"	22%	62%
"I expect to be working at VAGO in 12 months' time"	47%	N/A
"I feel motivated beyond what is normally required to get my work done"	37%	59%

As previously mentioned, VAGO introduced a series of initiatives as part of its cultural program, and staff spoke optimistically about this program. They recognised that the Office is at the start of its cultural journey and that it would take time to embed changes, but noted general positivity regarding the direction of the Office, including:

- They appreciate the current opportunities to more openly discuss issues.
- They generally like their work and cared about each other.
- Formal learning and development was spoken of favourably, with staff at all levels saying they believed what was offered was adequate to meet their current and future needs.

From a staff survey perspective, 76% responded favourably to a work-life balance environment, and 73% responded favourably about their relationship with colleagues.

However, staff still raised concerns that more can be done:

- Many described the organisation as "operating in a period of limbo".
- A general feeling of exhaustion was often referenced and several staff mentioned that they were concerned about their own mental health, and that of their colleagues, from operating in such a stressful environment for long periods.

While VAGO has introduced a number of feedback mechanisms to measure staff satisfaction and wellbeing, including focus groups and the Staff Consultative Committee, there are no other formal mechanisms with the exception of the current staff survey, to assess the engagement of the team.

## Recognition and retention

VAGO's staff turnover for FY15-16 was 15.4%. The cohort mostly impacted is staff that have worked at VAGO for two to five years. No retention plan exists for this particular cohort, and it is generally accepted that this cohort is more difficult to retain due to the competitive talent market.

In addition, VAGO does not have a formalised approach to succession planning for critical roles. Succession planning has been on the list of improvement projects for some years but is yet to be actioned.


VAGO's current recognition program is process orientated and laborious. Recognition is not timely and staff must submit a nomination form that is then considered by a formal committee, before a person can be recognised for positive behaviour or excellent service.

Results of a staff survey identified that the recognition process was too onerous, and responded as follows on questions relating to the current recognition program:

- "Our organisation has effective forums for recognising and rewarding achievements of its people" – 19% responded favourably.
- "My work group recognises, encourages and rewards good behaviour" 38% responded favourably.

## Recommendations

24. **Feedback mechanisms.** VAGO should consider what additional formal mechanisms it could use to seek feedback on staff satisfaction and wellbeing throughout the year. Engagement strategies can then be informed by the more regular feedback.
25. **Retention strategy.** Develop a specific retention strategy for the staff cohort where VAGO is experiencing the most significant turnover.
26. **Succession planning.** VAGO needs to develop a formalised success planning approach. As a first step, this should be introduced for the most critical roles.
27. **Recognition.** Streamline the existing recognition process to make it easier for staff to be recognised for their performance.



## VAGO Response

### 24. Feedback mechanisms. Agreed.

We will carry out regular pulse surveys of our staff - with targeted questions.

The Staff Consultation Committee also plays a key role in this regard and the Auditor-General now has a standing invitation to this Committee.

### 25. Retention strategy. Agreed.

An organisational review is currently underway which will lead to a new organisational structure.

The retention strategy and succession planning to support this new structure will be implemented in FY2017-18. Tools will be developed in this financial year.

### 26. Succession planning. Agreed.

As above.

### 27. Recognition. Agreed.

We will investigate developing a more agile process, linked to renewed values and suited to the operations of the Office.







# Appendices

# Appendix A

## Evaluation Framework

The performance audit was undertaken in line with PAEC's terms of reference. The Audit Plan was agreed to by PAEC and VAGO at the commencement of this performance audit. We have developed criteria to assess each of the points in the terms of reference as follows:

Terms of Reference	Assessment Criteria
Stream 1 - Governance, Planning, Monitoring and Measurement of Performance	
Review the governance structure and planning activities of VAGO with particular attention to:	
1 (a) The adequacy and appropriateness of the organisational and management structures in place to promote the effective governance of VAGO activities and operations (e.g. the organisational structure facilitates the achievement of VAGO strategic goals and objectives; the roles and responsibilities of groups and sections are clearly defined; roles and responsibilities of steering/management committees are clearly defined and relevant; committees meet regularly and actions are identified and implemented in a timely manner.	<p>The alignment of VAGO's organisational structure with the strategic objectives outlined in the Strategic Plan.</p> <p>The roles and responsibilities of groups and sections are clearly defined and understood.</p> <p>Membership, roles and responsibilities of steering/management committees are defined and relevant, and the business these committees undertakes is consistent with their role.</p> <p>Committees meet regularly to fulfil their responsibilities in a timely manner. There is a high attendance rate and members are provided timely with the information needed to make decisions and take action promptly.</p>
1(b) The quality of Strategic Planning undertaken by VAGO in terms of its comprehensiveness, relevance and clarity of direction.	<p>VAGO has an up to date Strategic Plan that:</p> <ul style="list-style-type: none"> <li>Aligns with legislative responsibilities.</li> <li>Provides relevant context in defining vision, mission purpose etc.</li> <li>Considers organisational SWOT analysis.</li> <li>Has been developed in an inclusive manner through engaging relevant stakeholders and staff.</li> </ul> <p>VAGO has clear indicators to measure the successful achievement of the Strategic Plan.</p> <p>VAGO has a process to measure and assess progress against the Plan and re-evaluates it on a regularly basis.</p>
1 (c) The adequacy and effectiveness of VAGO's annual planning processes including intelligence gathering and stakeholder consultation in relation to the identification of areas of audit focus, having regard to risk factors and other relevant considerations across the Victorian public sector.	<p>VAGO has robust processes and open unbiased channels for capturing topic suggestions.</p> <p>Internal liaison is encouraged and proactively managed (eg using financial audit intelligence).</p> <p>VAGO engages and has discussions with relevant external stakeholders, including audit offices in other jurisdictions, independent advisors, think tanks, etc.</p> <p>VAGO has logical criteria for selection including materiality, risk, extent of coverage, value-add, public interest and data available from other jurisdiction.</p> <p>VAGO has documented processes for selecting topics.</p> <p>VAGO has processes in place to manage potential conflict of interest.</p> <p>Refer to 4 (e) for financial audit planning.</p> <p>Refer to 6 (e) for ICT audit planning.</p>
1 (d) The relevance and appropriateness of VAGO's Annual Plans for 2013-14, 2014-15 and 2015-16, to VAGO's legislative mandate and Strategic Plan, and the extent to which the activities identified in the Annual Plans have been, and are being, achieved.	<p>Audits included in the Annual plans are in accordance with VAGO's legislative mandate and in line with Strategic Plan.</p> <p>VAGO has processes in place to monitor and report progress and to address any reasons for deviation from the plans.</p>
1 (e) The extent and quality of internal planning directed at the efficient and effective management of VAGO resources (e.g. workforce management; business continuity planning; fee setting and cost recovery; and budget and expenditure control).	<p>VAGO has in place processes that demonstrate consideration of the following key aspects:</p> <ul style="list-style-type: none"> <li>Planning (identify goals, targets, issues, risks, and plans to address).</li> <li>Implementation.</li> <li>Monitoring.</li> <li>Evaluation.</li> <li>Review.</li> </ul> <p>Note that resources devoted to oversight should reflect risk appetite.</p>

Terms of Reference	Assessment Criteria
1 (f) Any new audit topics identified during the audit cycle, which were not included in VAGO's Annual Plan, are advised to the Public Accounts and Estimates Committee and the relevant audited agency/ies in a timely manner and prior to the commencement of the audit.	<p>There are documented processes for revising and updating the work program, including the provision of transparent reasoning for decisions to include or exclude audits from the Plan.</p> <p>VAGO has clear documented processes and practice for engaging with Committees and members of Parliament relating to performance audits (and more generally).</p>
1 (g) The effectiveness of the Audit Committee in overseeing the scope, quality and effectiveness of the internal audit function within VAGO and in highlighting any risk management issues pertinent to the operations of VAGO.	<p>The roles and responsibilities of Audit Committee are defined, relevant and the business the Committee undertakes is consistent with its role.</p> <p>An up-to-date Internal Audit Plan has been developed in consultation with business areas to address identified risks.</p> <p>Reports are effectively communicated to executive, acted upon and followed up.</p>
1 (h) The extent of progress made and the effectiveness of actions and measures implemented by VAGO to address the recommendations made in the 2013 Performance Audit Report. Consider the ongoing validity and application of any recommendations made to VAGO in the 2013 report which have not been implemented.	Recommendations have been implemented or given due consideration and appropriate actions have been taken with documented reasoning.
Stream 1 (continued) - Monitoring and measuring performance and effectiveness	
Review and provide an assessment of key performance management systems and measures together with any identified recommendations for improvement, including but not limited to the following areas:	
2 (a) The adequacy and effectiveness of management information systems in place to measure and improve productivity including cost effectiveness and human resource management within VAGO.	<p>Information systems are relevant and appropriate for the needs of VAGO.</p> <p>Relevant, accurate and timely information is being provided to executive that is used in decision-making.</p>
2 (b) The appropriateness and veracity of the performance indicators and benchmarks which VAGO uses to measure its performance in relation to the achievement of its strategic objectives.	<p>VAGO has performance indicators and benchmarks in place to measure its performance and achievement of strategic objectives.</p> <p>Performance measures are re-assessed on a regular basis for appropriateness and relevance.</p> <p>Performance indicators have been established around timelines.</p>
2 (c) Any initiatives and/or improvements which have flowed from VAGO's evaluation of its own performance over the past three years.	VAGO has an established internal program whereby a review of performance is undertaken.
2 (d) The extent to which VAGO has reviewed and considered best practice public sector management and auditing in other relevant national and international jurisdictions over the past three years to benchmark and evaluate its own performance and practices.	VAGO has an established internal program whereby a review of performance is undertaken. This program considers the work of other audit offices both locally and internationally.
2 (e) VAGO's use of the results of independent assessments undertaken by the Australasian Council of Auditors General (ACAG) over the past three years, of the quality of performance audits undertaken by VAGO.	VAGO participates in the independent assessments undertaken by ACAG, which are used to inform its improvement program.
2 (f) VAGO's use of the results of peer reviews to assess the quality of financial audits over the past three years.	VAGO participates in peer reviews which are used to inform its improvement program.



Terms of Reference	Assessment Criteria
2 (g) The processes implemented by VAGO to optimise the quality and relevance of periodic "client" surveys undertaken (including those of Members of Parliament and audited agencies) and the use made of the survey results to improve business processes and outputs. Consider whether any additional independent surveys of the effectiveness of VAGO should be conducted.	<p>VAGO considers the results from client surveys and implements action plans to address recurring themes or areas of continued under-performance. This may include actions to address ineffective relationships with particular clients/auditees.</p> <p>VAGO has a robust process in place to seek feedback from its clients and various stakeholders.</p>
2 (h) The extent and usefulness of processes and/or measures used by VAGO to assess the impact of its audit activities on the operations and management practices of across the Victorian public sector.	VAGO generates impact measures consistent with (or better than) those used in other audit jurisdictions. It uses them in an appropriate way, given audits are only one element in identifying changes needed in the Victorian public sector's operation and management practices.
2 (i) The adequacy of time recording and costing systems in place to identify all recoverable costs and to ensure the appropriate allocation of costs to prevent any cross subsidisation between chargeable and non-chargeable activities or between performance and financial audits.	<p>Time recording and costing systems are in place, and are regularly reviewed to assess completeness, appropriateness and accuracy.</p> <p>VAGO can provide reasonable assurance around the effectiveness and appropriateness of the time recording and costing systems.</p>
2 (j) The adequacy of systems and processes in place to: determine appropriate budgets across VAGO's operations; monitor costs against budget; and explain variances against budgets.	<p>VAGO is effectively managing costs against budget.</p> <p>Budget processes and decisions are timely, well documented and logically justified, based on accurate information.</p> <p>Refer to 4 (c) for financial audit budgeting.</p> <p>Refer to 5 (d) for performance audit budgeting.</p> <p>Refer to 6 (f) for ICT audit budgeting.</p>
<b>Stream 2 - Conduct and Management of Performance Audits</b>	
Review the efficiency and effectiveness of the management and conduct of performance audits (both broad scope and limited scope) undertaken by the Victorian Auditor-General's Office, considering but not limited to:	
5 (a) Whether VAGO's performance audit methodology provides comprehensive guidance for the conduct of performance audits and is regularly reviewed and updated to ensure it remains robust and relevant.	<p>VAGO has a methodology and associated guidance that demonstrates compliance with relevant standards. All performance audit staff are trained in its use.</p> <p>VAGO has established quality control procedures to measure compliance with the methodology.</p> <p>VAGO's methodology addresses the minimum requirements to support findings and conclusions reached in audits.</p> <p>VAGO regularly reviews and updates the performance audit methodology to ensure it remains fit for purpose.</p> <p>The methodology is agile to accommodate differing needs of various performance audits, including the extent of consultation that may be required.</p>
5 (b) Compliance with the relevant provisions of the Audit Act 1994 and Australian Auditing Standards for the conduct and reporting of performance audits.	The methodology and associated control procedures have been designed around the statutory requirements and the Australian Auditing Standards.
5 (c) Whether the selection of audit topics and agencies for review is supported by appropriate planning including: an assessment of risk; materiality; preliminary evidence/findings; and/or geographical/character representation.	VAGO has transparent and consultative processes in place throughout the audit program planning lifecycle.
5 (d) The adequacy and effectiveness of processes in place for the development of appropriate budgets (cost and time) for the conduct of performance audits, to allow sufficient time to ensure a comprehensive assessment of all potentially significant issues for reporting to the Parliament.	<p>There are logical processes in place for developing and approving audit budgets that:</p> <ul style="list-style-type: none"> <li>Consider all relevant aspects of the audit.</li> <li>Are informed by past performance and analysis.</li> <li>Are challenged to ensure efficiency.</li> </ul> <p>VAGO can justify the budgets, staffing and timeframes for completing full scope and limited scope reviews.</p>

Terms of Reference	Assessment Criteria
5 (e) Regular monitoring and oversight of performance audit budgets from the planning phase through to report tabling.	Budget and time recording processes have been established to measure the costs of each performance audit.
5 (f) Whether processes are in place to ensure the timely and appropriate consideration of significant issues arising during the course of a performance audit that were not identified in initial audit plans.	Processes are in place to deal with changes to audit scope, objectives and criteria. This includes timely communication to the VAGO leadership group, clients and other relevant stakeholders.
5 (g) The appropriateness of the mix between specialist expertise, contractors and suitably qualified in-house staff in undertaking particular performance audits.	VAGO determines the mix of staff required as part of its annual planning process and prior to commencing each audit.
5 (h) Whether processes for the engagement of specialist services and/or consultants comply with relevant government procurement policies and procedures and are conducted with due regard to probity and value-for-money.	VAGO has a transparent process in place as to how it contracts with specialist services and/or consultants.
5 (i) Whether specialist skills engaged in relation to performance audits are evaluated in terms of the quality of the expertise and value they have added to the conduct of the audit.	Measurement criteria established to monitor the performance of specialist services and/or consultants.
<b>Stream 3 - Conduct and Management of Financial Audits</b>	
Review the efficiency and effectiveness of the management and conduct of financial audits undertaken by the Victorian Auditor-General's Office, considering but not limited to the following:	
4 (a) The adequacy of the audit methodology and quality control procedures in place to assist in the identification of any material or significant risks and to ensure that findings and conclusions arising from the financial audits are adequately supported.	<p>VAGO has a methodology and associated guidance in place that demonstrates compliance with the relevant standards.</p> <p>VAGO has established quality control procedures in place to measure compliance with the methodology.</p> <p>VAGO's methodology addresses the minimum requirements in place to support findings and conclusions reached in audits.</p>
4 (b) Compliance of VAGO with all relevant statutory requirements and Australian Auditing Standards for the conduct and reporting of financial audits.	The methodology and associated control procedures have been designed around the statutory requirements and the Australian Auditing Standards.
4 (c) Completion of financial audits on time and within budget.	Budget and time recording processes have been established to measure the costs of each financial audit.
4 (d) Whether audit sampling, selection and testing methodologies employed by VAGO to gather audit evidence comply with all relevant Australian Auditing Standards.	VAGO's sampling methodology to comply with the Australian Auditing Standards.
4 (e) The adequacy and appropriateness of the methodology used to determine focus areas for detailed internal control assessment in each of the financial audit sectors, consistent with a risk-based approach to financial audit.	VAGO has included logical criteria in its methodology for selecting internal control assessment focus areas.
4 (f) Whether any risks identified during the course of a financial audit, which were not originally anticipated in audit plans, are adequately and effectively considered and addressed in a timely manner.	VAGO has established quality control and review processes, and has mechanisms in place to ensure risks are identified in a timely manner.

Terms of Reference	Assessment Criteria
4 (g) Processes for the engagement of contracted financial audit services have considered relevant government purchasing policies and are conducted with due regard to probity and value for money.	VAGO has a transparent process in place as to how it contracts with audit service providers (ASP), including length of terms, regularity of extensions and the criteria for extending ASP and perhaps a maximum period.
4 (h) The effectiveness of quality control and review processes in place to monitor the quality and performance of contracted financial audit service	VAGO has established quality control and review processes, and have mechanisms in place to ensure these processes are operating effectively for ASPs.
<b>Stream 4 - Conduct and Management of ICT Audit Work</b>	
Review the efficiency and effectiveness of the management and conduct of information and communication technology (ICT) audit work undertaken by the Information Systems team within the Victorian Auditor-General's Office, considering but not limited to:	
6 (a) Whether there is an adequate methodology in place for the planning and conduct of information and communication technology (ICT) audits.	VAGO's methodology has been designed around statutory requirements, the Australian Auditing Standards and accepted industry standards such as COBIT.  The ICT audit methodology is integrated into the financial statement approach.
6 (b) Compliance of ICT audit work undertaken with Australian Auditing Standards.	VAGO's methodology has been designed to comply with statutory requirements, the Australian Auditing Standards and accepted industry standards such as COBIT.
6 (c) Review of the effectiveness of collaboration and working relationships between the Information Systems team and financial and performance audit teams.	Joint planning sessions are conducted between the information systems audit, financial audit and performance audit teams.  ICT risks and the impact thereof on the audit, have been identified during the planning stage.
6 (d) Whether technical ICT related advice provided to financial and performance audit teams is both relevant and timely.	The ICT team is regularly consulted by the financial and performance audit teams.
6 (e) Rigorous processes are in place for the identification of emerging ICT issues relevant to the public sector and for input to VAGO's strategic and audit planning processes.	VAGO maintains connections with professional ICT bodies and participates in industry events.  Technical competence of staff an ongoing commitment together with keeping up to date with emerging ICT trends and associated risks.
6 (f) The adequacy and effectiveness of processes in place for the development of appropriate budgets (cost and time) for the conduct of ICT related audit work, to allow sufficient time to ensure a comprehensive assessment of all potentially significant issues for reporting to the Parliament.	There are logical processes in place for developing and approving audit budgets that: <ul style="list-style-type: none"> <li>Consider all relevant aspects of the audit.</li> <li>Are informed by past performance and analysis.</li> <li>Are challenged to ensure efficiency.</li> </ul>
6 (g) Regular monitoring and oversight of ICT audit budgets from the planning phase through to report tabling.	Budget and time recording processes have been established to measure the costs of each ICT audit (or the component of ICT that makes up the financial or performance audit budget).
6 (h) Appropriate quality control and review processes are in place to ensure that the ICT audit methodology has been applied and all relevant issues and findings have been identified and reported.	VAGO has established quality control procedures to measure compliance with the ICT audit methodology.
6 (i) Whether processes for the engagement of ICT specialist services and/or consultants comply with relevant government procurement policies and procedures and are conducted with due regard to probity and value for money.	VAGO has a transparent process in place as to how it contracts with ICT specialist services and/or consultants.
6 (j) Whether specialist skills engaged in relation to ICT audit work are evaluated in terms of the quality of the expertise and value they have added to the conduct of the audit.	VAGO has established measurement criteria for monitoring the performance of ICT specialists.  VAGO has defined requirements for professional qualifications eg CISA, CGEIT, CRISC, etc.



Terms of Reference	Assessment Criteria
<b>Stream 5 - Human Resource Management</b>	
Review and provide an assessment of VAGO's human resource management systems, policies and practices together with any recommendations for improvement, including but not limited to the following areas:	
3 (a) Whether appropriate Occupational Health and Safety (OH&S) and human resource policies are in place to effectively monitor staff wellbeing related to areas such as, staff morale, job satisfaction, and workplace stress, and to take appropriate action where necessary.	<p>VAGO monitors key performance indicators to measure staff wellbeing (eg staff engagement, job satisfaction and workplace stress).</p> <p>VAGO acts in a timely manner to address concerns that are highlighted in relation to staff wellbeing, including bullying, sexual harassment, mental health, fatigue etc.</p> <p>VAGO meets its obligations as an employer through OH&amp;S and human resources policies that align with legislative requirements relating to staff wellbeing.</p>
3 (b) Whether strategies are in place to assess and manage staff motivation across both financial and performance audit work areas.	<p>VAGO monitors staff engagement on a regular basis.</p> <p>VAGO acts in a timely manner to address concerns highlighted in relation to staff engagement.</p> <p>VAGO conducts annual performance assessments and development reviews for all staff. It rewards high performing staff and challenges those who are not performing well to improve.</p>
3 (c) Whether human resource policies and strategies are in place to manage staff retention and minimise significant staff turnover.	<p>VAGO has established retention and turnover indicators and measure performance against these on a regular basis.</p> <p>VAGO acts in a timely manner to implement strategies that address issues highlighted in relation to staff turnover.</p> <p>VAGO meets its obligations as an employer through human resources policies that align with legislative requirements relating to staff retention.</p> <p>VAGO is considered an "employer of choice".</p> <p>VAGO has established programs and processes to encourage and support diversity and inclusion in the workplace.</p> <p>VAGO has established criteria to ensure that remuneration is in line with sector and market data.</p>
3 (d) The adequacy of performance and staff development strategies and succession/business continuity planning in place to recruit and develop staff relevant to VAGO's objectives and operational needs.	Critical roles have been identified as part of succession planning.
3 (e) Whether VAGO's professional development program adequately identifies and targets staff training needs.	VAGO has established a professional development program based on the training needs identified.
3 (f) Whether processes are in place to evaluate the effectiveness of professional development activities undertaken by staff.	VAGO measure the effectiveness of staff members' professional development activities.
3 (g) The appropriateness of the mix between specialist expertise, contractors and suitably qualified in-house staff in undertaking particular financial and performance audits.	VAGO determines the mix of staff required as part of its annual planning process and prior to commencing each audit.

# Appendix B

## Success factor framework

The Office was evaluated against eight success factors to consider whether VAGO is equipped to deliver its mandate and to make an effective and efficient contribution to the Victorian public service.

These characteristics were informed by discussions with other Auditor-Generals and were discussed and agreed with PAEC and VAGO.



# Appendix C

## Methodology

Our methodology for conducting this performance audit is detailed below.



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