

Parliament of Victoria

Public Accounts and Estimates Committee

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

Conducted by Mr John Phillips

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1. Executive Summary

1.1 Introduction

The Public Accounts and Estimates Committee (PAEC) has, as required by Section 19 of the Audit Act 1994 (the Act), requested that a Performance Audit of the Victorian Auditor-General's Office (VAGO) be undertaken. The review is to determine “whether the Auditor-General (AG) and the Victorian Auditor-General's Office are achieving their objectives effectively and doing so economically and efficiently and in compliance with the Audit Act 1994”.

John Phillips of Acumen Alliance, the consulting division of the Oakton Group, has been appointed in accordance with the Act to undertake the review. John Phillips (and Acumen Alliance) have by virtue of Sub-Section 19 of the Act the same powers of access given to the Auditor-General under sections 11, 12 and 14 of the Act.

1.2 Objectives

The review was directed towards answering the following question:

Is the Auditor-General of Victoria and VAGO achieving their objectives effectively, economically and efficiently and in compliance with the Audit Act 1994 (as amended)?

1.3 Scope

The review was conducted in accordance with the requirements of the Audit Act 1994 and Statement of Auditing Standard AUS 806 “Performance Auditing” and other relevant Auditing Standards and professional statements. The review was wide ranging, covering a number of aspects of VAGO's processes and outputs. The terms of reference are included in Appendix 1 to this report.

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1.4 Approach to the Review

Our approach to the review included the following:

- Detailed review of VAGO files, documents and records;
- Interviews with key VAGO staff and senior officers of various public sector agencies;
- Survey data completed by members of Parliament and senior officers of public sector agencies;
- Interviews with representatives of other Australian based Auditor-Generals; and
- Review of relevant research materials from overseas jurisdictions.

1.5 Acknowledgments

Acumen Alliance would like to thank the Auditor-General and all VAGO personnel who participated in the review, the members and Secretariat of the PAEC who provided timely assistance to us, the members of the Legislative Assembly and Council who responded to our survey, and senior staff of public sector agencies who provided valuable input to the review.

In particular, the co-operative and positive attitude towards the review from all VAGO staff was very encouraging.

1.6 Overall Conclusion

The Audit Act outlines 3 clear objectives for the Auditor-General. These are:

1. *To determine whether financial statements prepared by the Victorian Public Sector present fairly the financial position and financial results of operations of authorities and the State.*
2. *To determine whether:*
 - i. *Authorities are achieving their objectives effectively and doing so economically and efficiently and in compliance with all relevant Acts.*
 - ii. *Victorian public sector operations and activities are being performed effectively, economically and efficiently and in compliance with all Acts.*
3. *To determine whether financial benefits given by the State or an authority to non-government bodies are being applied economically, efficiently and effectively and for the purposes for which they were given.*

In pursuing these objectives, it is the Parliament's intention that regard is had as to whether there had been any wastage of public resources or any lack of probity or financial prudence in the management of public resources.¹

1. Source: Audit Act 1994 (as amended)

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Mr. Des Pearson took office as Victoria's Auditor-General (the AG) in October 2006 immediately following the conclusion of Wayne Cameron's 7 year term in office.

From the time the Premier announced in March 2006 that Mr. Cameron would not seek re-appointment, VAGO went through a difficult transitional period commencing with a time of management uncertainty and continuing through a series of organisational and operational changes. It is pleasing to note that these transitional issues did not materially impinge on the satisfactory discharge of VAGO's statutory obligations, notably in connection with the financial audits of agencies with years ended 30 June and 31 December 2006.

We note however that the transition did have some impact on the timely completion of the program of Performance Audits. Following the progressive establishment of a new Senior Management Group (SMG), the AG set about clearing the backlog of performance audits scheduled for completion by 30 June 2007 before reviewing all of the administrative and operational issues which had come to his attention during the transitional period. He is now introducing a broad range of initiatives designed to bring about permanent improvement in the quality of VAGO's service to the State in accordance with his statutory objectives.

The following positive new initiatives are now substantially in place:

- A more transparent approach to strategic planning incorporating extensive agency consultation;
- A sound financial audit methodology IPSAM;
- A complete performance audit methodology;
- A detailed self-assessment governance and review process; and
- A more sophisticated topic selection framework geared towards risk and materiality.

These following new initiatives are in progress:

- A comprehensive management reporting framework; and
- An all-embracing fully tested business continuity plan.

Our stakeholder survey and our interviews with senior agency executives indicate strong support for these initiatives.

In accordance with his resolve to promote greater transparency in his dealings with key stakeholders as well as to ensure that appropriate auditing standards are applied to all of VAGO's investigations, the AG has decided to discontinue the former "special reviews" in favour of "limited scope performance audits".

While we understand and support this decision, we note that the development of "limited scope performance audits" necessitates broader and more frequent interaction with the Public Accounts and Estimates Committee (PAEC).

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The development of formally defined “limited scope performance audits” also draws to attention the proper interpretation of Section 15(3) of the Act which requires the AG to nominate well in advance the number of “performance audits” to be conducted in any one year.

In consultation with the PAEC, the AG has recently developed a revised draft set of protocols to facilitate appropriate consultative arrangements. We suggest that the PAEC formally consider the meaning and intent of s.15(3) of the Act to ensure that it does not create any misunderstandings in the future.

All Audit Offices face challenges in the recruitment and retention of quality professional staff. VAGO’s turnover in the past twelve months has been abnormally high in relation to generally accepted benchmarks even though the raw statistics have been inflated by deliberate changes in the management structure. Notwithstanding the impact of market pressures, we believe there is scope for VAGO to improve its approach to workforce planning and people management generally.

The AG is aware of this and is reviewing all facets of the challenge in an attempt to find the most sustainable long-term solution. Our main recommendations in relation to HR management are:

- The issue of a staff survey designed to ensure that new management fully understand the perspective of the present workforce;
- The development of a comprehensive HR Strategic Plan to include 3-5 year staff projections and coordinated recruitment and training programs;
- To reflect the AG’s resolve to promote VAGO as an “Employer of Choice” undertake a targeted marketing program and implement a comprehensive HR information management system; and
- To attempt to offset adverse salary differentials, broaden the offering of additional staff benefits, including the provision of mobile phones, financial support for fee-paying courses and sponsored travel for training and development.

We note that the majority of recommendations contained in our 2004 Performance Audit were satisfactorily addressed in 2005 and 2006. Except for finalisation of an up-to-date HR strategic plan, all of the necessary action plans are now well advanced if not fully complete.

The approach to auditing in the public sector is continuing to evolve – and VAGO is making a concerted effort to establish a culture which will ensure that it continues to develop and improve as this evolution continues.

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Our overall conclusion is as follows:

<i>Terms of Reference</i>	<i>Conclusion</i>
Is the Victorian Auditor-General and VAGO operating in compliance with the Audit Act 1994 (as amended) and achieving their objectives?	We have found that the Victorian Auditor-General and VAGO is complying with the legislative objectives, undertaking the audit mandate in accordance with the Act and Australian Auditing Standards and achieving their corporate objectives. VAGO is operating in compliance with the Audit Act 1994 (as amended).
Is the Victorian Auditor-General and VAGO operating effectively, economically and efficiently.	<p>We believe that the Victorian Auditor-General and VAGO is operating effectively, economically and efficiently by reference to Audit Offices in other Australian jurisdictions.</p> <p>We noted that some of the performance audits and special reviews undertaken during the review period were not completed as efficiently and effectively as the Victorian Auditor-General and VAGO would normally expect. Some internal routines also lapsed during the transition to the new administration. Our opinion is that these were transitional issues and not systemic problems.</p> <p>In this report we comment on a number of new initiatives which will secure continuous improvement provided the office is able to attract and retain quality staff.</p>

Response by Des Pearson, Auditor-General of Victoria.

I have considered your report and am encouraged by the overall positive conclusions reached. I am also pleased by your recognition of the progress made on many issues since the last performance audit.

I view the recommendations made as constructive input to the Office's operations. Your feedback, together with the objectives and key result areas established in the 2007-2010 Strategic Plan, provide a sound blueprint to guide and improve my Office's services to Parliament, and for addressing the challenges ahead.

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1.7 Summary of Recommendations

The following are summarised recommendations in relation to our review. Our overall conclusions have been formed after consideration of all the issues and recommendations set out in the table below. Each area is cross-referenced to the specific terms of reference to which it relates:

Objectives and Governance

<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
<i>1 - Assess the appropriateness of the purpose and objectives set by the Auditor-General in his annual plan and determine the extent to which they are being achieved.</i>	2.2	<ol style="list-style-type: none"> 1. The decision to replace “Special Reviews” with limited scope performance audits requiring PAEC consultation should be kept under review depending on the nature and extent of Ministerial requests for investigations of improper conduct, procedural irregularity and/or waste. 2. The PAEC should formally consider the meaning and significance of s.15(3) of the Act to ensure that use of the all-embracing term “performance audit” does not create any misunderstandings in the future. 3. VAGO’s policies and procedures should be updated to reflect the decision to introduce limited scope performance audits and discontinue “Special Reviews”. 	<p>Agreed.</p> <p>For PAEC consideration.</p> <p>Agreed.</p>
<i>2(g) - Review the culture of management and its effect on performance.</i>		There are no recommendations for this ToR.	
<i>2(b) – Review the adequacy of VAGO’s corporate and business plans in promoting internal effectiveness and efficiency, including future plans for the next three to five years.</i>		There are no recommendations for this ToR.	

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<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
<i>2(j) - Review the appropriateness of performance measures and benchmarks against which the Auditor-General's Office measures its performance both internally and externally.</i>	2.8	4. VAGO should continue to refine the Senior Management Group (SMG) reporting framework to ensure the future KPIs are identified and reported to senior management on a timely basis.	Agreed.
<i>2(i) - Review the extent to which best practice in public sector management and auditing has been adopted in the Office.</i>		There are no recommendations for this ToR.	
<i>8 - Determine the scope, quality and effectiveness of the internal audit function within the Auditor-General's Office.</i>		There are no recommendations for this ToR.	
<i>7 - Ascertain whether the existing processes for evaluating tenders from private audit contractors and consultancies are conducted with due regard to probity.</i>		There are no recommendations for this ToR.	

Stakeholder Relationships

<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
<i>2(h) - Review the effectiveness of the relationship between the Office and its clients (particularly the Public Accounts</i>	3.1	5. The revised draft set of protocols for VAGO-PAEC liaison should be carefully applied and subject to regular review and/or update.	Agreed (subject to PAEC consultation).

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<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
<i>and Estimates Committee and the Parliament) and any factors influencing that relationship.</i>			
<i>4 - Determine whether it is appropriate for the Auditor-General to extend his activities to actively assist public sector agencies in enhancing accountability and resource management through publication of good practice guides.</i>		There are no recommendations for this ToR.	
<i>2(c) - Review the adequacy and effectiveness of VAGO's audits in promoting improved performance and accountability as well as productivity in the Victorian public sector.</i>		There are no recommendations for this ToR.	
<i>5 - Survey a representative example of users of the Auditor-General's reports to the Parliament (Members of Parliament, Public Accounts and Estimates Committee, representatives of Executive Government and selected others) including key interest groups to determine whether the Auditor-General is meeting his objectives, particularly delivering value-added recommendations to agencies</i>	3.6	6. In the face of resistance from some Community Health Services (CHSs) during 2006-07, the Minister was forced to issue a directive confirming that the AG has a mandate to conduct their financial audit. To ensure that there is no misunderstanding about the breadth of VAGO's mandate in the future, we suggest that the term "authority" be clearly and consistently defined in the relevant legislation.	For PAEC consideration

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<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
<i>and providing value for money to the Parliament and the Victorian community.</i>			

Strategic Audit Planning

<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
<i>2(a) - Review the adequacy and effectiveness of the annual planning process, having regard to risk factors and governance arrangements within agencies.</i>	4.3	7. Recent efforts to ensure that statewide IT issues are given appropriate attention should be enhanced by reference to the expert knowledge of suitable IT strategists.	Agreed.
<i>3(b) - Review the adequacy of the rationale supporting the selection of potential performance audit topics.</i>	4.4	8. The present topic selection framework ought to be summarised in a clear statement which clearly describes VAGO's selection policy.	Agreed.
<i>3(a) - Review the extent to which the selection criteria for performance audits ensures key risk areas and major programs within the public sector receive adequate coverage.</i>	4.5	9. VAGO's topic selection process should continue to evolve to ensure areas of greatest risk receive adequate coverage.	Agreed.

Financial Audit

<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
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<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
<i>2(f) - Review the adequacy and appropriateness of all audit methodologies, practices and procedures.</i>	5.2	10. VAGO should continue considering other computer interrogation packages to enhance its existing suite of products.	Agreed.
<i>2(k) - Review whether the Victorian Auditor-General's Office complies with Australian auditing standards, including the quality control process associated with contracted audits.</i>		There are no recommendations for this ToR.	
<i>2(l) - Review whether audits are supported by adequate plans and work papers, appropriate audit evidence and appropriate quality control procedures.</i>		There are no recommendations for this ToR.	

Performance Audit

<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
<i>3(g) - Review compliance with statutory requirements for the conduct and reporting of performance audits.</i>		There are no recommendations for this ToR.	
<i>3(f) - Review whether the existing practice of tabling a considerable number of performance audit reports</i>		There are no recommendations for this ToR.	

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<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
<i>should be varied to include large performance audit projects addressing significant issues of public interest.</i>			
3(i) - Review the appropriateness of criteria against which the efficiency and effectiveness of performance audits and special reviews conducted by the Office are measured.	6.3	11. VAGO should ensure that its future performance audit KPIs appropriately address efficiency and effectiveness and are clearly communicated and properly understood.	Agreed.
2(f) - Review the adequacy and appropriateness of all audit methodologies, practices and procedures.	6.4	12. The present resolve to roll out a comprehensive performance audit training program supporting the introduction of the new performance audit method must be sustained as methods evolve and staff change.	Agreed.
3(c) - Review the effectiveness of the planning and management of performance audits.	6.5	13. On occasions VAGO has experienced considerable delays in obtaining access to relevant Cabinet-in-confidence documents. Revised Cabinet-in-confidence protocols currently in development should be finalised and put into place as soon as possible to expedite access to all relevant information.	Agreed (subject to consultation with the Department of Premier and Cabinet).
3(d) - Review the adequacy of the investigative process and quality control procedures to support conclusions arising from the performance audits.		There are no recommendations for this ToR.	
3(h) - Review the appropriateness of the mix between specialist expertise, contractors and suitably qualified in-house staff in undertaking particular		There are no recommendations for this ToR.	

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<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
<i>performance audits.</i>			
<i>3(e) - Review whether significant issues that arise during the course of a performance audit that were not identified in audit plans, are addressed.</i>		There are no recommendations for this ToR.	

Business Management

<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
<i>2(d) - Review the adequacy and effectiveness of internal systems to measure and improve productivity.</i>	7.2	14. VAGO should fully test its newly approved business continuity plan (BCP) and develop a regular testing program as soon as possible.	Agreed.
<i>2(e) - Review the adequacy of the existing time recording and costing systems to ensure all recoverable costs are collected for government and that there is no cross-subsidisation between chargeable and non-chargeable functions of the Office; or between performance and financial audits, and special reviews.</i>	7.3	15. Although there is no evidence of material cross-subsidisation, VAGO follows the normal commercial practice of offsetting small budget overruns against small budget savings. The PAEC should review the intention of Section 10(1) of the Audit Act in consultation with VAGO to ensure VAGO is given reasonable flexibility in respect of the application of financial audit fees across agencies.	For PAEC consideration.

Human Resources

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<i>Terms of Reference (ToR)</i>	<i>Doc Ref #</i>	<i>Recommendations</i>	<i>VAGO Response</i>
<i>6 - Determine the adequacy of existing strategies within the Auditor-General's Office to recruit, train, adequately remunerate and retain suitably qualified and skilled staff to achieve its objectives.</i>	8.1	16. VAGO should conduct a full staff survey across the office as soon as possible and report the results back to staff without delay.	Agreed.
	8.2	17. As recommended in 2004, VAGO should develop a comprehensive HR strategic plan that links to and supports the achievement of all of VAGO's strategic plans.	Agreed.
	8.3	18. The HR Strategic plan should incorporate specific forward projections of future staff profiles linked to innovative recruitment strategies and synchronised training programs.	Agreed.
	8.4	19. To help ensure that it recruits and retains quality staff, VAGO needs to support its desire to become an "employer of choice" by marketing itself aggressively across the tertiary sector and across the market generally.	Agreed.
	8.5	20. To help offset its relative salary disadvantage, VAGO should broaden its offering of additional staff benefits, including the provision of mobile phones, financial support for fee-paying courses and sponsored travel for training and development.	Agreed.
	8.6	21. In accordance with its desire to be recognised as an "employer of choice" VAGO should carefully consider the benefits of implementing an integrated HR Management Information system.	Agreed.

2. Objectives and Governance – Detailed Findings and Recommendations

Terms of Reference

1. Assess the appropriateness of the purpose and objectives set by the Auditor-General in his Annual Plan and determine the extent to which they are being achieved.

2.1 VAGO Objectives and the Annual Plan

Facts/Observations

The Audit Act outlines 3 clear objectives for the AG. These are:

1. *To determine whether financial statements prepared in the Victorian Public Sector present fairly the financial position and financial results of operations of authorities and the State;*
2. *To determine whether:*
 - i) *Authorities are achieving their objectives effectively and doing so economically and efficiently and in compliance with all relevant Acts;*
 - ii) *Victorian public sector operations and activities are being performed effectively, economically and efficiently and in compliance with all relevant Acts;*
3. *To determine whether financial benefits given by the State or an authority to non-government bodies are being applied economically, efficiently and effectively and for the purposes for which they were given.*

VAGO produces a triennial Strategic Plan (formally known as the Corporate Plan) that outlines purposes, objectives, outcomes, and key strategies to achieve.

The 2004-05 to 2006-07 Strategic Plan states that the purpose of VAGO is to improve “*performance and accountability in the Victorian Public Sector*” and that the outcome of its efforts will be “*that parliament, executive government and agencies have greater confidence in the accountability and performance of public sector agencies*”.

It identifies five key objectives, namely:

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- Improved reporting;
- Delivering an effective product mix;
- Shaping awareness and direction in the public sector;
- Working with agencies and direction in the public sector; and
- Strengthening the business processes and organisational capability.

In the 2007-08 to 2009-2010 Strategic Plan, the AG has restated the purpose of the office to “*providing assurance to Parliament on the accountability and performance of the Victorian Public Sector*”.

The objectives identified in the 2007-08 to 2009-2010 Strategic Plan have been revised to the following:

- Being authoritative and relevant;
- Being highly regarded by Parliament;
- Fostering productive relationships with audit clients;
- Being an employer of choice; and
- Being innovative and cost effective.

These objectives are reflected in an amended statement of corporate values which are:

- Impartial;
- Professional;
- Engaging;
- Respectful; and
- Collaborative.

The document identifies six indicators which will be used to measure success in attaining the corporate objectives. These are as follows:

- Feedback from stakeholders
- Performance compared with peers
- Achievement against Annual Plans and Business Plans
- Level of acceptance of recommendations
- Timeliness of audits
- Feedback from employees

Each year the office produces an Annual Plan which outlines its intended work program for the year, including proposed performance audit topics. The plan is tabled in Parliament by June 30 of each year, as required by section 7A of the Act. The Plan identifies two Output Groups, namely:

- Output 1 : Parliamentary reports and services, including:
 - the program of performance audits;
 - advice and assistance to Parliament including submissions to parliamentary committees;
 - advice and guidance to agencies;
 - advice to external bodies on emerging developments in the public sector, including draft accounting and auditing pronouncements;
 - liaison with international delegations and interstate organisations; and
 - certification of expenditure warrants.
- Output 2: Audit opinions on financial statements and non-financial performance indicators, including management letters conveying audit findings to audited agencies.

Each year these output targets have been achieved.

In prior years, the Annual Plan has listed the ‘Areas of Audit Interest’ earmarked for attention over the next twelve months. For the first time, the 2007-8 Annual Plan includes a prospective schedule of performance audits for four years through to 2010-2011.

As well as the 3 year Strategic Plan and the statutory Annual Plan, VAGO develops a Business Plan setting out the operating plans for the office. This plan is an aggregation of detailed plans for each section of the office. The Business Plan is discussed in more detail in section 2.6 below.

In accordance with our 2004 recommendation, these group business plans are prepared in a standard format to facilitate interpretation and consolidation.

Comments

We draw attention to the fact that the AG has specifically excluded “responsibility for improving public sector performance” from the statement of purpose contained in VAGO’s Strategic Plan. This indicates that the AG is focused squarely on the core responsibility of an auditor to “provide assurance”. This flows logically from the view that management is responsible for performance and that the role of the auditor is to provide independent assurance on that performance. By way of illustration we note that even the most constructive recommendation will not improve performance if management choose to ignore it.

This view is consistent with the views expressed by those who responded to our surveys (See Section 3.4).

As has been the case throughout the review period, the AG’s latest Annual Plan has been properly prepared in compliance with the Audit Act.

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Similarly, the 2007-08 Business Plan is a comprehensive document prepared in the context of the new Strategic Plan and in accordance with the AG's objectives under the Act.

The AG has revised the strategic objectives of VAGO to address not only its external stakeholders, but also its internal stakeholders who are so vital to the efficient and effective discharge of its objectives under the Act. We believe that the revisions are well-based.

We comment further on the planning process in section 4 below.

Recommendations

There are no recommendations from this area.

2.2 Limited Scope Performance Audits

Facts/Observations

To discharge the objectives set out in section 3A of the Audit Act, the AG has wide-reaching powers to review the activities of the State. In the past, VAGO has undertaken numerous investigations / examinations under these general powers, which have been neither financial audits or performance audits under section 15.

These investigations/examinations have come to be termed “Special Reviews”. Special Reviews conducted in 2005 and 2006 included:

- Review of Major Public Cemeteries (2006:5);
- Public Hospital Financial Performance and Sustainability (2007:8);
- East Gippsland Shire Council: Proposed sale of Lakes Entrance Property (2005:10);
- Community Planning Services in Glenelg Shire Council (2005:14);
- Delivering Regional Fast Rail Services;
- Rail Gauge Standardisation Project;
- Docklands Film and Television Studios – Status of State’s Interest;
- Westernport Region Water Authority – Investigation of Aspects of the Authority’s Management;
- Accountability for Public Funds Provided to a Non-Government Organisation;
- Operation of the Regional Infrastructure Development Fund;
- Strategic Purchasing and Barwon Region Water Authority: Contract for the Supply of Water Treatment Chemicals;
- Kangan-Batman Institute of TAFE: Adequacy of Processes to Outsource its Printing Functions;
- Geelong Magistrate’s Court: Investigation Into Alleged Misuse of Court Funds; and
- Administration of Grants by Local Governments.

“Special reviews” may be less structured than “performance audits” in a number of areas:

- As special reviews do not fall under the provisions of s.15 of the Act, their scope statements are not subject to PAEC consultation;
- As they are not classified as performance audits they do not “strictly” follow performance auditing standards and are also not subject to the application of VAGO’s performance audit methodology.

Consequently, their scope, execution and reporting is more susceptible to misunderstanding and/or misinterpretation than they are in the case of performance audits.

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On certain occasions during the review period, agencies sought to defer and/or avoid special reviews on the basis that they had not been subject to the disciplines described in s.15. This leads directly to unproductive and time-consuming debate between the AG, VAGO and agencies.

In keeping with his resolve to improve accountability through greater transparency in dealings with all branches of government, the AG has decided to cease conducting special reviews in favour of small “limited scope” performance audits. Under this policy, the scope of all of VAGO’s examinations – other than its financial audits – is now exposed to PAEC consultation under s.15. Moreover all of its investigations are now subject to the rigours of auditing standards. VAGO’s new performance audit methodology (as discussed in section 6.4 below) applies equally to limited scope and broad scope audits.

We note that the Audit Act uses the generic term “performance audit” throughout. In the 2007-08 Annual Plan, the AG has met his obligation under s.15 to nominate the number of performance audits to be conducted during the year by indicating that he proposes to issue 13 performance audit reports comprising 10 “broad scope” audit reports and 3 “omnibus reports”, each containing several “limited scope” audit reports. All of the proposed audits are then itemised in an appendix to the plan.

Traditionally, special reviews have investigated suggestions of waste and/or impropriety. They have arisen out of:

- Ministerial or Parliamentary requests and/or enquiries;
- References from the Ombudsman;
- References from whistleblowers; and
- Public and/or press enquiries and/or references.

In developing the concept of special reviews, previous Auditors-General took the view that:

- Some investigations were not ideally suited to the performance audit process;
- Confidentiality is sometimes fundamental – and the open sharing of scopes and plans may be inappropriate; and
- Timeliness is of the essence and the process of PAEC consultation may restrict VAGO’s ability to complete these audits in a timely manner.

To reflect his concern to respond quickly to relevant requests, the previous AG established a small “Rapid Response Unit” comprising people with experience in financial investigations to coordinate work on Special Reviews requiring a quick turnaround. This unit has now been disbanded.

The AG has indicated that while he reserves the right to initiate any “special investigation” at any time, he believes that at this time, the most efficient and effective means of meeting his objectives is to concentrate his resources on performance and financial audits.

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He believes that the Parliament and other stakeholders have additional avenues for dealing with the sort of matters that have necessitated Special Reviews in the past e.g. the Police and the Ombudsman.

He also believes that financial controls reviews conducted under the “financial audit banner” are an effective way of assisting agencies to identify and prevent the misappropriation of funds.

Comments

We understand and support the AG’s desire to promote transparency through the conduct of pre-planned limited scope performance audits and have sympathy with his view that the rigour associated with this approach will assist VAGO achieve its objectives.

Although, the AG has clearly applied this policy he has not yet formally documented the move away from Special Reviews. We are recommending this be done as soon as possible.

Our main concern with this policy is that it significantly increases the need for regular interaction with the PAEC. The AG may face a delay if, for any reason, PAEC members are not available for consultation when an important performance audit is scoped and ready to commence. The relationship between VAGO and the PAEC is discussed in detail in section 3.1.

We believe that the AG has taken a reasonable approach to his statutory obligation to nominate in advance the number of performance audits to be conducted in 2007-08. However we believe that the PAEC should note this carefully and consider amending the Act to ensure that the generic term “performance audit” is interpreted consistently from year to year..

Recommendations

The decision to replace “Special Reviews” with limited scope performance audits requiring PAEC consultation should be monitored to ensure that Ministerial and other requests for investigations of improper conduct, procedural irregularity and/or waste are being properly dealt with. **[Recommendation #1]**

The PAEC should formally consider the meaning and significance of s.15(3) of the Act to ensure that use of the all-embracing term “performance audit” does not create any misunderstandings in the future. **[Recommendation #2]**

VAGO’s policies and procedures should be updated to reflect the decision to introduce limited scope performance audits and discontinue “Special Reviews”. **[Recommendation #3]**

2.3 *Approach to 2004 Performance Audit Recommendations*

Facts/Observations

In regards to recommendations made in our 2004 performance audit, VAGO have addressed each recommendation in a systematic fashion. Senior management have collated responses to the recommendations in a central document. We note there were comprehensive responses in all areas with the majority being substantially completed in 2005-06. As well, the follow-up to recommendations are published in the Annual Plan, Corporate Business Plan and Annual Report.

Comments

It is part of good governance to address recommendations systematically. We are satisfied that all recommendations for action by VAGO except for the finalisation of an up-to-date workforce plan, are now well advanced, if not fully complete. Refer to Appendix 3 for a summary of responses to recommendations as well as references throughout the report as required.

Recommendations

There are no recommendations from this area.

Terms of Reference

- 2(g) Review the culture of management and its effect on performance.

2.4 Management and Culture

Facts/Observations

The culture of management is fundamental to governance and performance.

From the time the Premier announced in March 2006 that Wayne Cameron's 7 year term as AG would conclude in September, VAGO went through a period of management uncertainty followed by change.

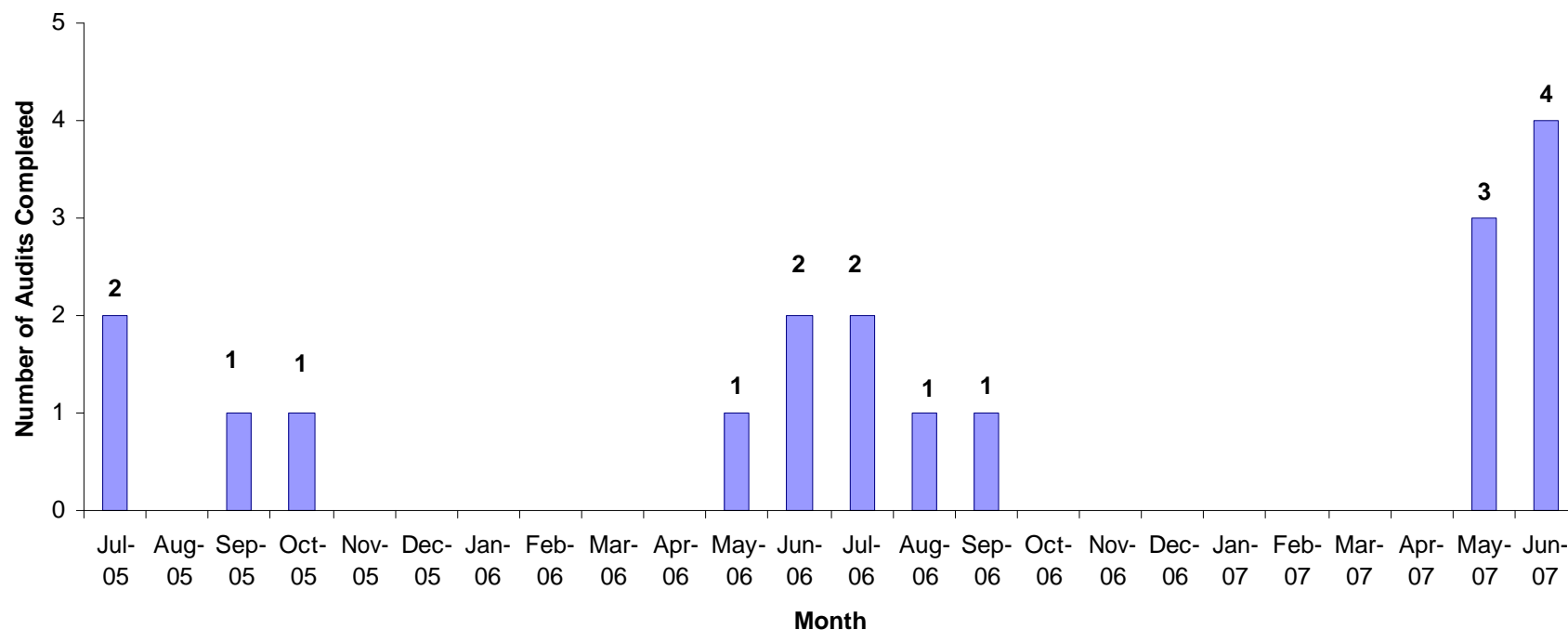
The 2006 staff survey conducted in May 2006 indicated broad pockets of anxiety and discontent across the office. When Des Pearson took office in October 2006, he set about restructuring the organisation. Senior positions were re-defined and a new senior management group ("SMG") was formed.

It is clear from our reviews of working papers and correspondence that there was some inefficiency during the transition period. Changes in staff inevitably slowed the progress of a number of broad scope performance audits. One major audit that had been underway for some time was re-scoped. Some investigations-in-progress were re-shaped in consultation with the PAEC and "replaced" by limited scope performance audits. Parliament went into recess in late 2006 pending the State election. For some months therefore the AG was not in a position to table any reports.

After an initial settling in period, the AG focussed on ensuring the backlog in VAGO's 2006-07 audit program performance audit program was cleared. In May-June 2007, he tabled in Parliament the bulk (seven) of the year's reports as demonstrated in the graph below.

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Number of Performance Audit Completed except Follow-up 2005/06 to 2006/07



As this backlog of audits was cleared, several administrative matters were noted for future consideration including the nature and content of monthly management reports, the IT strategic plan and the staff survey.

Immediately prior to the commencement of our performance audit, the AG commissioned an independent review of his operation from Len Scanlan, the former Auditor-General of Queensland as part of the Australian Council of Auditors General (ACAG) self-assessment framework discussed below in section 2.5. We have considered all of his findings and recommendations in this report. He drew particular attention to the HR issues confronting the AG.

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Comments

It is clear from our reviews of working papers and correspondence during that VAGO was not wholly efficient and effective during the transition period. We see this as inevitable during an internal re-organisation.

However we are satisfied that VAGO's quality control systems operated effectively during this time and that all of the reports issued by the office were properly prepared in accordance with the Audit Act.

The commissioning of the independent review under the ACAG review framework reflects the AG's determination to critically re-evaluate every aspect of VAGO's operation.

As evident from the 2007-08 Business Plan below (see section 2.6) the new management team is attempting to build a culture of continuous improvement into VAGO's governance framework in the future.

Recommendations

There are no recommendations from this area.

2.5 ACAG Self Assessment and External Review Framework

Facts/Observations

VAGO is a member of the Australian Council of Auditors General (ACAG) which has developed a framework to allow Audit Offices to clearly demonstrate that they are operating effectively and efficiently to internal and external stakeholders. The framework sets out to meet legal and legislative requirements as a minimum in addition to providing assurance that there are adequate systems of quality control over assurance and non-assurance engagements and corporate governance. 7 key functional areas were identified for continuous improvement which were:

- Corporate relationships;
- Governance;
- Human resources management;
- Records management;
- Information management;
- Work environment; and
- Audit and performance examination.

The assessment against the standards can be performed internally, externally or a combination of both using a 5 level assessment rating scale.

The “Independent Report on the Self Assessment Review” of VAGO benchmarked VAGO to other audit offices (namely NSW, WA, QLD and Tasmania). The exercise showed that relative to these offices, VAGO could improve in the areas of promptly informing clients of significant issues and having senior staff more involved in the audit process. Our subsequent survey of agencies performed following the 30 June 2007 round of financial audits suggests that VAGO has already taken appropriate remedial action.

Comments

The ACAG self-assessment process is a positive governance initiative. There is evidence that it is being effectively applied to improve the efficiency and effectiveness of the office.

Recommendations

There are no recommendations.

Terms of Reference

- 2(b) Review the adequacy of VAGO's corporate and business plans in promoting internal effectiveness and efficiency, including future plans for the next three to five years.

2.6 Business Plan

Facts/Observations

The Business Plan has been revised in both form and content.

The 2007-08 Business Plan picks up the restated purpose of the office as set out in the 2007-10 Strategic Plan and the five objectives and strategies listed in the three year plan.

The five objectives map to five key result areas designed to assist the office achieve its purpose. The Business Plan sets out improvement strategies/deliverables, accountabilities, target dates and success/effectiveness measures for each key result area. Set out below is a summary of the main business improvement strategies incorporated into the plan:

Key Result Area	Improvement Strategy/Deliverable
Reports and Advice: Being Authoritative and Relevant	<ul style="list-style-type: none"> Increasing Transparency in Performance Audit Topic selection Demonstrably Applying Materiality and Risk Criteria in Performance Audit Topic Selection Emphasising the Evidence and the Application of Authoritative Criteria Reporting Clearly and Unequivocally
Parliament: Being Highly Regarded by Parliament	<ul style="list-style-type: none"> Engaging with Parliamentary Committees and Parliamentarians to Ensure the Relevance and Appropriateness of Audits Strengthening Relationships with the Public Accounts and Estimates Committee and Other Parliamentary Committees
Clients: Fostering Productive relationships with audit Clients	<ul style="list-style-type: none"> Better Informing Our Clients About Our Audit Activities Engaging Early and Consistently on Audit Issues and Findings
People : Being an Employer of Choice	<ul style="list-style-type: none"> Developing framework for enhancing the capabilities of all staff. Specific attributes of this project are: <ul style="list-style-type: none"> Identifying the core capabilities required for our staff

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Key Result Area	Improvement Strategy/Deliverable
	<ul style="list-style-type: none"> ○ Embedding the capability framework into HR systems and “on the job” performance ○ Developing an assessment methodology or set of tools to test external job applicants’ personal qualities and behaviours ○ Reviewing performance evaluation framework including the introduction of a 360-degree development feedback tool at the executive officer level <p>This project will be developed and implemented in close cooperation with Financial Audit Group, PPTG and Performance Audit Group, as part of a coordinated VAGO approach to capability development.</p> <ul style="list-style-type: none"> ▪ Updating the VAGO learning and development framework ▪ Reviewing the existing succession planning framework with a view to implementing a more formal process
Organisation: Being Innovative and Cost Effective	<ul style="list-style-type: none"> ▪ Continuously improving our systems, methodologies and processes ▪ Valuing ideas and knowledge sharing ▪ Aligning tasks with office-wide objectives

The Plan also includes a performance scorecard and performance measures along the lines of the external performance measures described in section 2.7 below.

Comments

In our view, the Business Plan contains a comprehensive and balanced summary of actions geared to the achievement of VAGO’s corporate objectives.

To be fully effective in the future it will need to contain details of all the KPIs in order to assess performance. This is further discussed section 2.8 below.

Recommendations

There are no recommendations from this area.

Terms of Reference

- 2(j) Review the appropriateness of performance measures and benchmarks against which the Auditor-General's Office measures its performance both internally and externally.

2.7 External Performance Measurement

Facts/Observations

The budget papers set the high-level performance measures for VAGO.

The 2 key outputs for VAGO are:

- Parliamentary reports & services, and
- Audit reports on financial statements.

There are 4 key measures attributed to each of the 2 outputs, these being:

- Quantity (number);
- Quality (percent);
- Timelines (percent); and
- Cost (\$ million).

VAGO reports against these measures annually to the Department of Treasury and Finance (DTF) and quarterly to the PAEC. These performance results are also included in the Annual Report

Performance reporting is sourced from the VAGO internal reporting systems based on the practice management system known as "MARS". This is discussed in the section 2.8 below

VAGO also uses a benchmarking framework to measure its performance developed in association with the "Australasian Council of Auditors General" (ACAG). This is discussed in section 2.5 above.

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Comments

As discussed elsewhere in this report, the quantity (number) of performance audit reports issued during a period is not an ideal performance measure because it does not clearly identify the number of limited scope performance audit undertaken..

Except for this anomaly, VAGO external performance indicators are not unreasonable.

Recommendations

There are no recommendations from this area.

2.8 Internal Performance Measurement

Facts/Observations

The SMG review the performance data monthly and consider recommendations for improvement at the monthly SMG meetings.

VAGO has developed a set of performance indicators and targets which are outlined in its Annual and Business Plans and reported in its Annual Report. These are used to assess the degree to which VAGO meet 4 key areas of performance in respect of each output class. The key areas of measurement are cost, quantity, timeliness and quality.

We reviewed in detail VAGO's financial report at 30 June 2007 as presented to the SMG in July 2007 and agreed all the key indicators to MARS reports. Our review revealed the following:

- There was an Internal Scorecard on a combined VAGO basis directly referable to the aggregate KPIs contained in the Business Plan; and
- Reporting formats varied between the groups (e.g. Financial Audit, Performance Audit, PPTG, BSG).

New enhanced SMG reports are currently being developed. The formal SMG reports under the previous format have not been prepared for August and September 2007 as the new format is being constructed and trialled. We note from a review of the initial templates that reporting from each group has been standardised with a VAGO consolidated summary. Among other things, there is detailed information on the status of assignments and space for analysis of variances.

Comments

The proposed SMG reporting templates contain large amounts of information. We believe that it is important that Senior Management reports filter the key variables to drive appropriate management actions.

Recommendations

VAGO should continue to refine the Senior Management Group (SMG) reporting framework to ensure that future KPIs are identified and reported to senior management on a timely basis. **[Recommendation #4]**

Terms of Reference

- 2(i) Review the extent to which best practice in public sector management and auditing has been adopted in the Office.

2.9 Efforts to Maintain Best Practice

Facts/Observations

Through its active role in ACAG, VAGO is making a concerted effort to identify and at least match best practice in public sector auditing. This is discussed in Section 2.5 above.

In the course of our examination, we visited and held discussions with the Commonwealth and NSW Auditors General . Our discussion focussed on:

- Mandate/Responsibilities;
- Reporting/Accountabilities;
- Organisational Structure/Internal Communications
- Planning;
- Management Reporting;
- Financial Audit;
- Performance Audit;
- Technology;
- Human Resources; and
- Quality Control.

In relation to resourcing, all Audit Offices are experiencing difficulties attracting and retaining staff. In NSW, the Audit Office operates under its own award. Although this award is higher than the general State award its lags behind the market as a whole.

VAGO's efforts to ensure that it remains in touch with emerging best practices in public sector auditing include the following:

- The AG is a member of the Australian Accounting Standards Board;
- It is not uncommon for AG's from overseas to visit Victoria to discuss best practices. Similarly the representatives from VAGO visit other jurisdictions as and when opportunities arise; and
- Staff are encouraged to attend conferences and presentations as a means of keeping up to date with public sector issues.

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Comments

It is inherently difficult to benchmark VAGO with other audit offices as the mandate of the AG differs across Australian jurisdictions. The consultation process required by section 15 adds a significant extra layer of discipline to the operations of VAGO in Victoria.

Though comparisons are constrained by different reporting relationships with the Parliament and/or its committees, VAGO compares well to Audit Offices in a number of respects including strategic planning, audit methodology and reporting.

Recommendations

There are no recommendations from this area.

Terms of Reference

8. Determine the scope, quality and effectiveness of the internal audit function within the Auditor-General's Office.

2.10 Internal Audit Function

Facts/Observations

We reviewed various aspects of the VAGO Audit Committee and internal audit function including:

- The Audit Committee Charter;
- The Internal Audit Charter and scope of work;
- The Internal Audit annual program and 3-year forward program; and
- A sample of internal audit reports.

We noted that VAGO have appointed new internal audit providers in June 2007. Up to that time the Internal Audit function had been in-sourced. The appointment was made through tender invitation to a selected number of firms and was endorsed by the SMG and audit committee. The draft internal audit plan is currently being discussed with the Audit Committee to ensure it is adequate on a go-forward basis.

Comments

Overall, the Audit Committee Charter and Internal Audit Charter are adequate. The draft Strategic IA Plan for the next 3 years appears to be appropriately risk based.

In regards to specific recommendations made in the 2004 VAGO performance audits:

2004 Recommendation	Comment
The Audit Committee's current charter requires revision to better reflect its responsibilities. We understand a revised draft is being considered	An Audit Committee Charter was approved on 1 August 2005. This was updated in October 2007
We noted the Audit Committee self-assessment process could be more comprehensive	A self-assessment is performed on an annual basis. We obtained and reviewed the Audit Committee self-assessments for 2004/05 and 2005/06 as part of the Financial Management Compliance Framework. VAGO has outlined its duties according to the charter, actual performance and comments as appropriate.

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2004 Recommendation	Comment
We noted a draft Internal Audit charter has yet to be adopted	The Internal Audit Charter was approved on 1 August 2005. In minutes of the 27 th February 2006 AC Meeting, it did not propose any changes to the charter.
The current internal audit program is solely focussed on business support areas. We note the VAGO risk management plan identifies a number high risk areas in operational groups	We reviewed the Strategic Internal Audit Plan for 2007-2010 provided by the new internal auditors. It appears the plan is based on a holistic risk assessment performed with VAGO management through various workshops.
We noted no formal process exists whereby the Audit Committee monitor and ensure previous internal audit recommendations are being implemented.	Previously, the Audit Committee would request updates on previous internal audit recommendations on an ad hoc basis. Going forward with the new internal auditors, there will be a more formalised process.
Internal audit reports do not clearly identify the objectives of the audit, scope, conclusions and clear identification of recommendations, agreed management plans, timelines and responsibilities, and	As the new internal audit service provider has been recently appointed, we are not able to comment on the comprehensiveness of their reports. It is hoped that this will be rectified to provide more comprehensive and clear audit reports.
The composition of the Audit Committee may require revision to ensure it is seen to be fully independent of line management functions.	Since February 2007, the composition of the Audit Committee has changed to comprise of 4 independent members.

Recommendations

There are no new recommendations in this area.

Terms of Reference

7. Ascertain whether the existing processes for evaluating tenders from private audit contractors and consultancies are conducted with due regard to probity.

2.11 Contracting of Private Audit Firms

Facts/Observations

The process for contracting of private audit firms is documented in the “Contract Manual” (the Manual) which is available on the VAGO Intranet. The Manual has sufficient information to outline the requirements for engaging private firms.

It is noted that under the Victorian Government Purchasing Board (VGPB) procurement policy, VAGO is exempt from public tender for purchases greater than \$100,000. However, the VAGO has chosen to adopt the VGPB’s Procurement Policies as their standard for contracting to all private audit firms.

Financial audits of government agencies represent the most significant use of private audit firms by VAGO. Approximately 35% of the over 650 financial statement audits are to be resourced internally, leaving 65% to be resourced by external audit service providers.

A 2-stage process exists for the contracting of audit work:

1. **Registration of Interest (ROI)** - VAGO advertise a list of audits for tender on a sector by sector basis. Firms are asked to “Express an Interest” in some or all of the audits listed.
2. **Request for Tenders (RFT)** - At least 3 firms invited from the ROI process.

Special circumstances may arise which justifies exemption from the process. These circumstances may include:

- The acquisition by an authority of a new controlled entity;
- The financial accounting function of an authority is operated by another authority;
- The existing provider may no longer provide audit services; and
- The appointment of a specialist(s) to assist on performance audits or special reviews from an area of specialisation not previously covered by the Expression of Interest process.

Tenders for contracted audits have been in place since 1999. The VAGO stagger the audit rounds by government sector to reduce the financial risk to firms that

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have a number of audits as well as to avoid the administrative burden of having all audits come up for tender at the same stage. Some small audits or regional based audits are grouped and tendered out as a package.

An evaluation panel is used to evaluate each tender. The Assistant Auditor-General of Financial Audit chairs and appoints the panel which would normally consist of at least one Director from Financial Audit, usually from the sector under tender.

We reviewed the Contracts Manual and the processes used by the VAGO for the contracting of audits. We found that the Manual complies with the VGPB procurement guidelines however there has not been an update to the document since August 2004. We have been advised it is currently under review. From our sample testing of files, we found that VAGO complied with their Contract Manual in all material respects.

In accordance with our 2004 recommendation, VAGO have combined the ROI and RFT and removed the selective tender process for large public tenders. VAGO have also considered our second recommendation, ie to establish a panel of service providers, but have been concerned that tender information will be out of date if the “life” of the panel extends beyond one year. This problem could be overcome through the use of annual certification and/or change notifications.

Comments

The processes for evaluating tenders from private audit firms are being conducted with due regard to probity. We continue to support continuous improvement in the process of contracting private firms.

Recommendations

There are no new recommendations in this area.

3. Stakeholder Relationships – Detailed Findings and Recommendations

Terms of Reference

- 2(h) Review the effectiveness of the relationship between the Office and its clients (particularly the Public Accounts and Estimates Committee and the Parliament) and any factors influencing that relationship.

3.1 PAEC and Parliament Relationship

Facts/Observations

The Victorian Constitution Act 1975 provides that the AG is an independent officer of the Parliament. The Audit Act further prescribes the precise nature of the relationship between the AG, the PAEC and the Parliament. This encompasses the requirement to prepare and table in both Houses an annual plan through to the requirement that the AG to account annually to the Parliament on his/her activities via an Annual Report.

In our 2004 report, we commented favourably on the “Statement of Protocols” signed by the Auditor-General and the Chair of the PAEC in June 2003. This set out the consultation and communication process between VAGO and the PAEC to both enshrine the independence of the AG and the accountability of the office to the Parliament. However we drew attention to the problems involved in synchronising the planning process with the budget cycle and recommended that there be greater consultation on the development and status of the annual work program and the results of audits tabled in Parliament. VAGO and the PAEC are now working on a revised set of protocols.

As noted in section 2.2 above, the AG is required to consult with the PAEC on the specifications of each performance audit. This is a more stringent requirement than other jurisdictions. The fact that a properly constituted PAEC was not available for consultation immediately prior to, and immediately following, the 2006 Victorian Election contributed to the backlog of work which accumulated during the transition period.

Now that special reviews have put aside in favour of limited scope performance audits, the PAEC has to be consulted on the scope of many more individual examinations in any one year than was previously the case. The 2007-08 Annual Plan lists 28 performance audits in total.

The sub-committee of the PAEC which has been specially formed to consider VAGO performance audit specifications generally meets with VAGO every month.

Comments

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The efficient operation of the office is heavily dependent on regular PAEC consultation.

It is important that the Chair of the PAEC and the AG develop and maintain a close working relationship and that the term “consultation” is clearly understood. On occasion, the term will have to be applied pragmatically to ensure that both VAGO and the PAEC are able to manage its work flows efficiently and effectively as, and when circumstances (including agency timelines) permit.

Recommendations

The revised draft set of protocols for VAGO-PAEC liaison should be carefully applied and subject to regular review and/or update. **[Recommendation #5]**

3.2 Agency Relationships

Facts/Observations

One of the AG’s major strategic objectives is to “foster productive relationships with audit clients”. On the basis of our stakeholder interviews we believe that he is beginning to do this effectively.

In September 2007, the Policy Planning and Technical Group (PPTG) submitted a paper to SMG describing the engagement process for key clients and stakeholders including parliamentarians, secretaries, central agencies and key operational executives. The paper outlines contact programs for key positions in the office as shown in the following table:

Client/stakeholder contact	Position	Frequency per annum	Purpose
Auditor-General	AASB	Monthly	Endorse Australian accounting standards.
	ACAG	Tri-annual	Knowledge sharing / Opportunities for joined up technical responses / Office enhancement initiatives/ Other.
	Audit Committees	As required	Audit outcomes and Office strategic directions.
		Bi-annual (Chairs of AC)	Departmental/Health Sector
	Conferences/Seminars	As required	Reputation building and relationship management.
	Departmental Secretaries	Annual (as required)	Current and proposed audit program/other.
	Deputy Secretaries Forum	Bi-annual	Current and proposed audit program/other.
	Key agency CEOs	Annual (as required)	Current and proposed audit program/other.
	Ministers	As required	Frequent meetings held with Minister for Finance.
	Mr Bob Stensholt MP, PAEC Chair	Monthly (as required)	Forthcoming matters.
	PAEC/Parliamentary Committees	As required	Inquiries mainly attended for Annual Plan development purposes/other
	Peak bodies	As required	Current and proposed audit program/other.

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Client/stakeholder contact	Position	Frequency per annum	Purpose
	State Co-ordination and Management Council	Bi-annual	Presentation on VAGO strategic directions.
	Subject matter experts	As required	Subject to AG approval – discussion with experts as part of the development of the development of the Annual Plan.
Chief Operating Officer	Central agency contacts	As required	Regular contact to ensure central agency leadership is cognisant of key Office developments.
	Departmental Secretaries	Annual (as required)	Current and proposed audit program/Other.
	Ministers	As required	Frequent meetings held with Minister for Finance.
	PAEC/Parliamentary Committees	As required	Inquiries mainly attended for Annual Plan development purposes/other
	Peak bodies	As required	Current and proposed audit program/other.
	Subject matter experts	As required	Subject to AG approval – discussion with experts as part of the development of the development of the Annual Plan.
Financial audit	Audit Committees	Bi-annual	Brief on audit plan and outcomes
	Audit service providers forums	Bi-annual	Held separately for June and December year end audits.
	Business Manager Forums	Annual	Update on issues to receive audit attention.
	CFO Forum	Monthly	Financial audit emphasis.
	DTF – Financial issues/ Legislative issues	Fortnightly (peak financial audit period)	Regular session with DTF during peak financial audit period on technical issues.
	Financial audit entry and exit meeting	Per audit	Normally held with nominated audit contact or audit “gatekeeper.”
	IPSAM Joint Project Steering Committee	Monthly	Common maintenance of methodology
	Ministers/Parliamentarian/Secretaries briefings	Per audit	Briefing on tabled performance audit reports.
Performance audit	PAEC/PAEC Sub-Committee	Monthly (as required)	Annual Plan and Performance audit specification consultation.
	ACAG	Annual	Knowledge exchange.
	Audit Committees	As required	To discuss performance audit program or performance audit outcomes.
	Milestone reporting	25%, 50% and 75% milestone completion	Following feedback to AG and COO, nominated audit contact is briefed on audit completion at each milestone stage of completion.
	Ministers/Parliamentarian/Secretaries briefings	Per audit	Briefing on tabled reports.
	PAEC/PAEC Sub-Committee	Monthly (as required)	Annual Plan and Performance audit specification consultation.
	Performance audit entry and exit meeting	Per audit	Normally held with nominated audit contact or audit “gatekeeper.”
Policy, Planning and Technical	AuASB working party (with PPTG)	Quarterly	Consultation/Professional development
	AASB & AuASB	Quarterly	Financial reporting and auditing standard consultation.
	ACAG	Quarterly	Financial Reporting and Auditing Committee attendance etc.

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Client/stakeholder contact	Position	Frequency per annum	Purpose
	Audit service providers forums	Bi-annual	Policy issues.
	CFO Forum	Monthly	Financial audit emphasis.
	Departmental representatives	Bi-annual (as required)	Environmental scanning for the development of sector and annual plans.
	DTF – Financial issues/ Legislative issues	Fortnightly (peak financial audit period)	Regular session with DTF during peak financial audit period on technical issues / Review of the public finance bill.
	IPSAM Joint Project Steering Committee	Monthly	Common maintenance of methodology
	Ms Valerie Cheong, PAEC Executive Officer	Fortnightly	Matters associated with PAEC.
	PAEC/PAEC Sub-Committee	Monthly (as required)	Annual Plan and Performance audit specification consultation.
	Peak bodies	As required	Current and proposed audit program/other.
	Victorian Government Solicitors Office	As required	Legal advice and seminar attendance.

Comments

High level contact with agencies promotes a deeper understanding of risks and risk mitigation strategies across the public sector. This can facilitate better topic selection and more effective scoping. It can also lead to more constructive audit recommendations.

Auditors have a fundamental obligation to apply independent judgment to audit issues. To be fully efficient and effective however they must have sufficient understanding of the activities under review to be able to make properly balanced judgments. Strong professional relationships of the type envisaged in the contact plan do not compromise audit independence.

We support the AG's endeavours to strengthen agency relationships.

Recommendations

There are no recommendations from this area.

Terms of Reference

4. Determine whether it is appropriate for the Auditor-General to extend his activities to actively assist public sector agencies in enhancing accountability and resource management through publication of good practice guides.

3.3 Good Practice Guides

Facts/Observations

In the review period, VAGO has published two Good Practice guides as follows:

- April 2005 – Guidance on determining whether a government entity is not-for-profit or for-profit;
- July 2005 – Internal financial reporting in local government and checklist; and

Further, a guide on procurement practices based on the previous performance audits has just been released.

From the results of our survey, 96% of Departmental Secretary/CEO survey respondents felt that it was appropriate that VAGO publish good practice guides from time to time.

Comments

The view of the AG is that the generation of good practice guides will be a by-product of findings from audit activities rather than a specific focus of the Office. As a result, Office resources are dedicated to performing audit activities rather than specifically focussing on finding areas for producing good practice guides. This is the main reason for very few Good Practice Guides being issued during the period.

Furthermore, VAGO has noted the previous 2004 performance audit recommendation that prior to developing any further “occasional papers” VAGO will ensure that sufficient stakeholder interest exists to provide a degree of comfort that investment in such a paper will provide value to the public sector. No “occasional papers” have been published during the period.

In addressing the other recommendation in the 2004 performance audit, VAGO included questions regarding the value of good practice guides in providing useful advice in their June 2006 financial audit survey. The survey results indicated 65% agreed or strongly agreed that they did with another 26% indifferent. Good Practice Guides are common in other jurisdictions.

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As a matter of principle, we believe that the efficient and effective distribution and sharing of intellectual capital gained from audit activity undertaken by VAGO is appropriate, where such information is applicable to the wider public sector.

However principal responsibility for government policies and procedures rests with the central agencies and we do not believe that VAGO should distribute any general guidance material except in consultation with them. The AG believes that his main role is to provide assurance on accountability in the public sector and that he should allocate his resources accordingly.

We support this view.

Recommendations

There are no recommendations for this area.

Terms of Reference

- 2(c) Review the adequacy and effectiveness of VAGO's audits in promoting improved performance and accountability as well as productivity in the Victorian public sector.

3.4 *Performance, Accountability and Productivity in the Victorian Public Sector*

Facts/Observations

As a general finding, the stakeholders who responded to our survey (refer to results in Appendix 2) agreed that VAGO promoted public sector accountability in the State. However the survey was inconclusive in relation to performance and productivity.

Most of the agency executives we interviewed felt that there was little scope for financial audits to promote improved performance and/or productivity. Views on the potential of performance audits to tangibly improve performance and/or productivity varied.

Comments

Numerous factors affect accountability, performance and productivity across the Victorian public sector.

It is difficult to assess the effects of any one of these factors independent of the others. There is little doubt that the very existence of VAGO is fundamental to public sector accountability in this State, but it is almost impossible to determine with any certainty whether or not its audits actually promote improved performance and productivity.

It might be said that the time and effort involved in dealing with routine audit questions and/or requests actually impinges on effort to improve productivity. This should not be seen as a negative however, but rather as a necessary cost of a sound governance framework. The community expects VAGO to promote strong control procedures even if these procedures do not necessarily reflect optimal workflows and reduce potential productivity gains.

We tend to the view that accountability promotes improved performance, and that, by making agencies accountable for the performance, VAGO therefore indirectly promotes improved performance.

Recommendations

There are no recommendations for this area.

Terms of Reference

5. Survey a representative example of users of the Auditor-General's reports to the Parliament (Members of Parliament, Public Accounts and Estimates Committee, representatives of Executive Government and selected others) including key interest groups to determine whether the Auditor-General is meeting his objectives, particularly delivering value-added recommendations to agencies and providing value for money to the Parliament and the Victorian community.

3.5 Stakeholder Survey

Facts/Observations

As part of our review, we conducted surveys to obtain feedback from key stakeholders about the VAGO's performance between 2005 and 2007. Four separate surveys were designed to specifically gauge the opinions of Chief Financial Officers (CFOs), Departmental Secretaries/Chief Executive Officers (CEOs), Audit Committee Chairs (AC Chairs) and Parliamentarians.

Full details of the survey are contained in Appendix 2. The overall results can be summarised as follow:

- Based on over 300 responses, CFOs, CEOs and AC Chairs are satisfied (or very satisfied) with the financial audits being performed by VAGO and private sector firms (agents) appointed by VAGO.
- 24 of the respondents indicated that they had been subjected to performance audit in the last three years. As a general rule, they were less satisfied with the quality of service by VAGO in performance audit than with financial audit. On investigation we ascertained that significant number of the less favourable responses related to their experiences with special reviews/investigations and not with performance audits.
- The 18 parliamentarians who responded to the survey were satisfied and had strong confidence in the A-G services. Only 56% of them had attended the AG's Parliamentary briefings with half of this group feeling that these briefings provided them with useful advice.

The Departmental Secretaries and agency CEOs and CFOs we interviewed supported the new initiatives being put in place by the AG. The general tone of survey responses was similarly positive.

Comments

The survey results support the conclusion that as a general rule VAGO is operating efficiently and effectively.

Recommendations

There are no new recommendations from this area.

3.6 The Victorian Public Sector

Facts/Observations

VAGO's database which we used for the purpose of our survey covers entities in "the Victorian Public Sector" as used in the Audit Act. This is a broad term comprising numerous entities of different sizes and types. According to the State Services Authority:

"public entities are organisations established and owned by the government to undertake a range of administrative, service delivery and/or regulatory functions outside government Departments. Whereas Departments are the home of functions desirably 'close' to the executive government, public entities perform functions that warrant a degree of independence and distance. This might be because an entity performs operational functions that do not require routine control of the Department. Or it might be that the entity requires formal independence because the entity performs functions (such as regulatory and quasi-judicial functions) over which day-to-day government control would not be appropriate."

The Victorian public sector includes more than 1600 school councils as well as professional registration Boards, advisory organisations, service providers such as hospitals and industry regulators. In Victoria, public entities deliver services while some perform regulatory functions such as the Essential Services Commission and the Victorian WorkCover Authority. Some public entities are run along business lines, as government business enterprises (GBEs) with corporate-style structures and reporting.

With a diversity of entities that can be funded from various government sources (state, municipal, federal), this can lead to ambiguity in the terms "Victorian public sector" and "authority" as used in the relevant legislation.

For example, in response to a request from the Department of Human Services (DHS), VAGO advised Community Health Services (CHSs) that the AG would undertake the audit of their 2006-07 financial statements. Several CHSs responded by raising a number of concerns. We received several queries questioning the AG's mandate in respect of CHS's.

These CHSs received confirmation of the original advice from the Minister for Health in August. By this time, they had already submitted their accounts to their incumbent private sector auditors for review. These organisations have been included in the list of delegated audits in the VAGO Annual Report. In explaining changes in the number of entities listed in the prior year, VAGO specifically referred to all the CHSs.

Comments

Conducted by Mr John Phillips

We understand the confusion over financial audit obligations in the Victorian Public Sector as they are not always clear and subject to interpretation. We realise that the timing of producing the Annual Report may require the preparation of information well in advance of completion.

In future we suggest that in the case of new audit clients , VAGO take care to distinguish between entities earmarked for audit in accordance with the AG's mandate from those who retain their incumbent auditor until the end of the year of change.

Recommendations

In the face of resistance from some Community Health Services (CHSs) during 2006-07, the Minister was forced to issue a directive confirming that the AG has a mandate to conduct their financial audit. To ensure that there is no misunderstanding about the financial audit obligations of VAGO in the future, we suggest that the term “authority” be clearly and consistently defined in the relevant legislation. **[Recommendation #6]**

4. Strategic Audit Planning – Detailed Findings and Recommendations

Terms of Reference

- | | |
|------|--|
| 2(a) | Review the adequacy and effectiveness of the annual planning process, having regard to risk factors and governance arrangements within agencies. |
|------|--|

4.1 Integration of the Strategic Planning Function

Facts/Observations

During the time of the previous AG, the critical functions of strategic audit planning, sector leadership and tactical support were undertaken by “Sector Directors”. Sector Directors were responsible for developing and maintaining relationships with agencies free of the responsibilities of audit. The role was designed to facilitate open two-way communication between the various arms of government and VAGO as a whole. In 2004 we saw this initiative as a positive attempt to enhance stakeholder relationships and to assist in improved identification of “potential areas of audit interest”. Although at the time we did caution that the role of “Sector Director” would not be effective without a diverse range of skills.

In restructuring the office, the AG has established a PPTG with individual Sector Directors replaced by a Planning Director who prepares all the sector plans and coordinates the development of a recommended set of audit topics for consideration by the AG.

In preparing the sector plans and audit topics the Planning Director liaised with all the lead agencies in drawing together the 2007-08 Annual Plan. We sighted correspondence which indicated that these discussions were held at an executive level. Several executives commented on this during our stakeholder interviews. They also confirmed that VAGO representatives regularly attended Audit Committee meetings.

Comments

The integration of the planning function has been sharpened by an increasing focus on consultation with senior executives. This is a positive development geared to achieving a better understanding of the strategic risks facing agencies.

Recommendations

There are no recommendations from this area.

4.2 Sector Plans

Facts/Observations

The 2007-08 Annual Plan is underpinned by the following sector plans:

- Infrastructure;
- Justice;
- Education;
- Human Service;
- Local Government;
- Innovation, Industry and Rural Development;
- Statewide and Central Agencies;
- Sustainability and Environment;
- Primary Industries;
- Victorian Communities;
- Information Technology.

The sector plans contain detailed environmental scans including summaries of key initiatives as follows:

- Strategic influences or factors impacting on the performance and accountability of public sector agencies now and in the future, and action being taken by these agencies to mitigate these influences or factors;
- Emerging issues for the public sector, including any anticipated changes in service delivery methods into the future;
- International and national trends in public sector practice;
- Results of current and previous audit work; and
- Concerns raised by Parliament, agencies and the community regarding the performance of public sector agencies.

For purposes of topic selection, the main issues arising out each sector plan are input into the analytical framework described in section 4.4 below.

Comments

In its recent performance audit entitled “Managing Risk in the Public Sector”, VAGO identified three types of risk:

- Agency Risks;
- Inter-Agency Risks; and
- Statewide Risks.

Conducted by Mr John Phillips

The danger in a sector-by-sector approach to audit planning is that inter-agency and/or statewide risks will be overlooked notwithstanding the fact that a sector plan is prepared for the State-wide and Central Agencies.

The topic selection process, however, does draw the sector plans together into a cohesive framework.

VAGO is conscious of the importance of tracking issues that permeate across and through departments. In keeping with the State's express intention to generate savings through the development of shared services, the 2008-09 planning process will include a "Resources (IT and Shared Services) Sector".

Recommendations

There are no recommendations from this area.

4.3 Planning for Potential IT Exposures

Facts/Observations

In accordance with our 2004 recommendation, VAGO prepares a separate plan on the “IT Sector”. The plan makes reference to a number of key IT initiative including:

- HealthSMART – a 4 year program to modernise and replace systems throughout the Victorian public health care sector
- Victorian Government Gateway Initiative – to improve infrastructure and ICT project development and delivery across government
- Project Rosetta – to develop and introduce technologies that will provide an online service which will connect directories across government
- Data centre consolidation project – amalgamation of numerous government departments and agencies data centres

We understand that this plan was developed by aggregating key IT issues/applications across Victorian government agencies and sectors. As there are many common IT requirements across government agencies and sectors as well as specific needs of individual sectors, there does not appear to be an over-arching strategy to ensure that VAGO has the necessary IT expertise and is in a position to ensure IT initiatives are achieving the maximum benefit to the Whole-of-Government (e.g. checking to see that an IT initiative includes all possible agencies that can benefit from it or the development of a new system is compatible to existing systems in other sectors).

Comments

In many respects the IT sector plan is an aggregation of key IT applications identified at the sector level.

Technology will almost certainly be at the forefront of any major changes in the management of the State in the medium to long-term. Whether or not many future government initiatives are efficient or effective will almost certainly depend upon the State’s ability to march in tandem with national and international trends in the use of technology.

We would encourage VAGO to consult closely with IT experts in developing its Annual Plan so as to ensure that it is in a position to monitor risks associated with the development of incompatible systems across and between sectors.

Recommendations

Recent efforts to ensure that statewide IT issues are given appropriate attention should be enhanced by reference to the expert knowledge of suitable IT strategists. [Recommendation #7]

Terms of Reference

3(b) Review the adequacy of the rationale supporting the selection of potential performance audit topics.

4.4 Selection of Audit Topics

Facts/Observations

In our 2004 report, we observed that VAGO's topic selection criteria represented "a thorough collation of the selection criteria applied in similar jurisdictions" as follows:

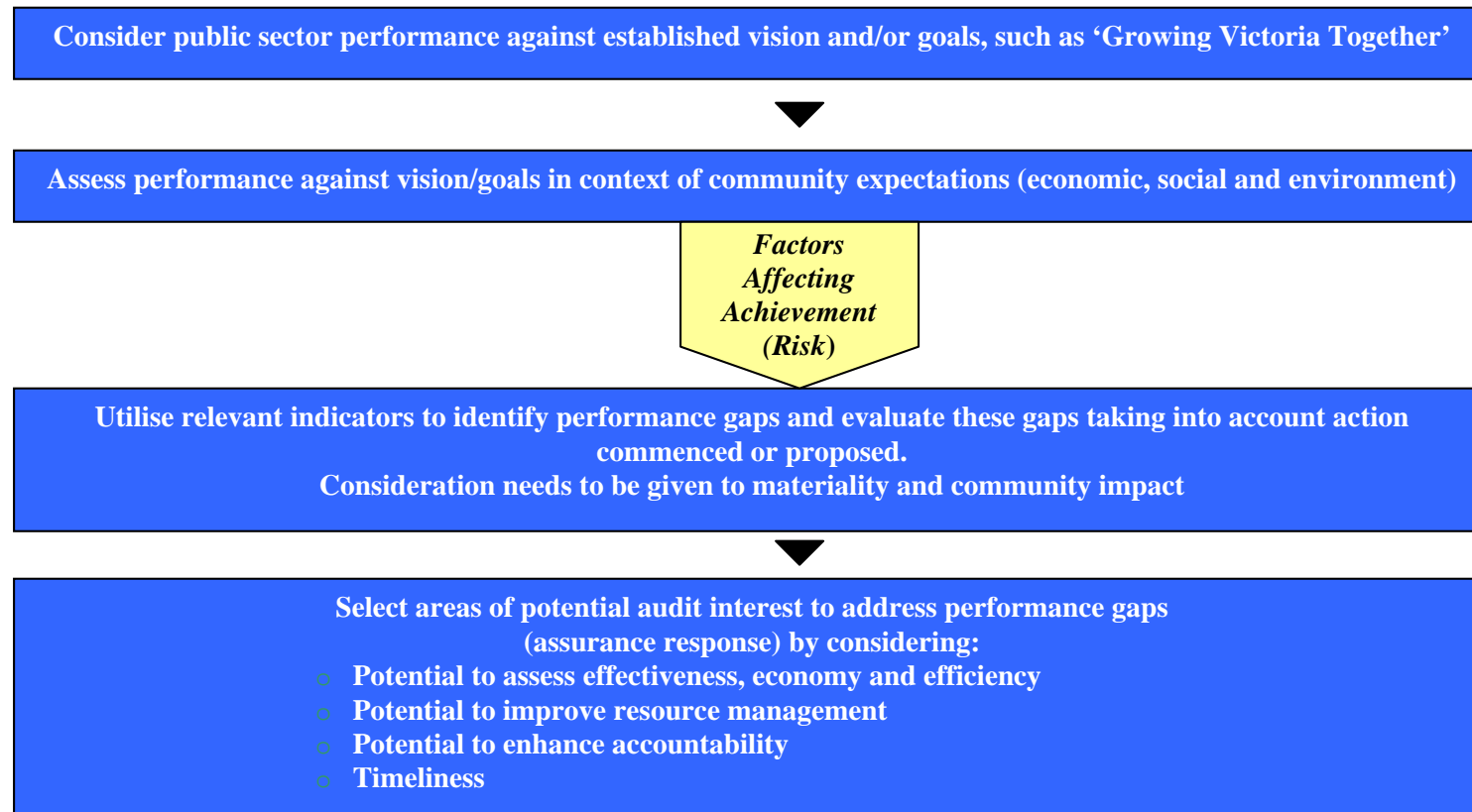
- *Potential social, environmental and financial risks to the community;*
- *High public interest and / or materiality of public resources;*
- *Potential for improved resource / financial management; and*
- *Potential for enhanced accountability.*

We expressed some concern that the formal process did not rank areas of potential audit interest by reference to any of these criteria and that it did not give priority to areas deemed to carry the greatest risk. The process has evolved since that time.

The topics listed for audit coverage in the 2007-08 Annual Plan were selected through the application of a new planning framework as follows:

Performance Audits

Overview of the process to select and prioritise performance audits



Whether or not there is a gap or potential gap between the goals of the State and the achievement of those goals will depend on a range of factors. The uncertainties surrounding these factors effectively describe the relevant “risks”. The selection process includes a comprehensive analysis of these risks, termed “Factors Affecting Achievement”.

Conducted by Mr John Phillips

The framework is designed to draw out the major potential performance gaps and the factors most likely to affect those performance gaps. It therefore biases the final selection towards material high risk areas.

The final selection is tied back to the objectives of the VAGO and the scope of the AG's mandate. It is based on consideration of:

- Potential to assess effectiveness, economy and efficiency;
- Potential to improve resource management;
- Potential to enhance accountability; and
- Timeliness.

Following our recommendation from 2004, VAGO have constructed a detailed *Areas of Audit Interest Prioritisation Matrix*, which systematically ensures that the framework is properly applied.

Using the information contained in the sector plans, we performed a comprehensive review of the selection of topics for the years 2007-10. We are satisfied that the process described above was logically and consistently applied and that all the areas selected for audit were selected in accordance with the stated criteria.

Comments

By addressing the factors most likely to affect achievement of the State's goals, the current selection process does consider the main sources of "risk" to the State. The process does not however involve a formal ranking of "Whole of Government" risks in the sense of the Australian/New Zealand Risk Management Standard 4630:2004.

VAGO topic selection framework is subject to continuous review and is expected to move closer to a formal risk-based model. As noted in its performance audit report on risk management, it is looking to the Central Agencies to develop a statewide risk management framework.

The first step in assessing risk is to enunciate the focus of the assessment, or the "risk context". VAGO has adopted the goals set out in the government's 2005 policy statement: "Growing Victoria Together: A Vision for 2010 and Beyond" (GVT). We believe that this is thoroughly appropriate.

The AG is careful to avoid use of the term "risk". The phrase "Factors Affecting Achievement" which he uses instead conveys a similar meaning.

As things stand, VAGO has not translated the operation of this framework into a simple statement of the selection policy.

Conducted by Mr John Phillips

Recommendations

The present topic selection framework ought to be summarised in a clear statement which clearly describes VAGO's selection policy. **[Recommendation #8]**

Terms of Reference

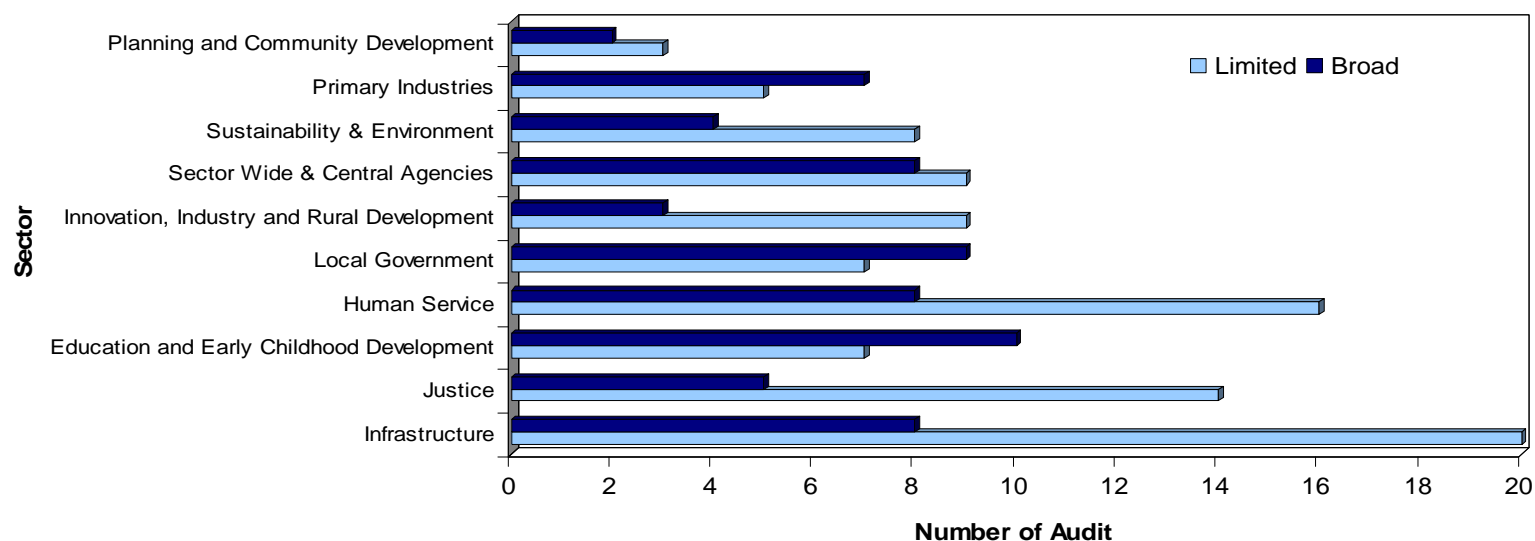
3(a) Review the extent to which the selection criteria for performance audits ensures key risk areas and major programs within the public sector receive adequate coverage.

4.5 Audit Coverage

Facts/Observations

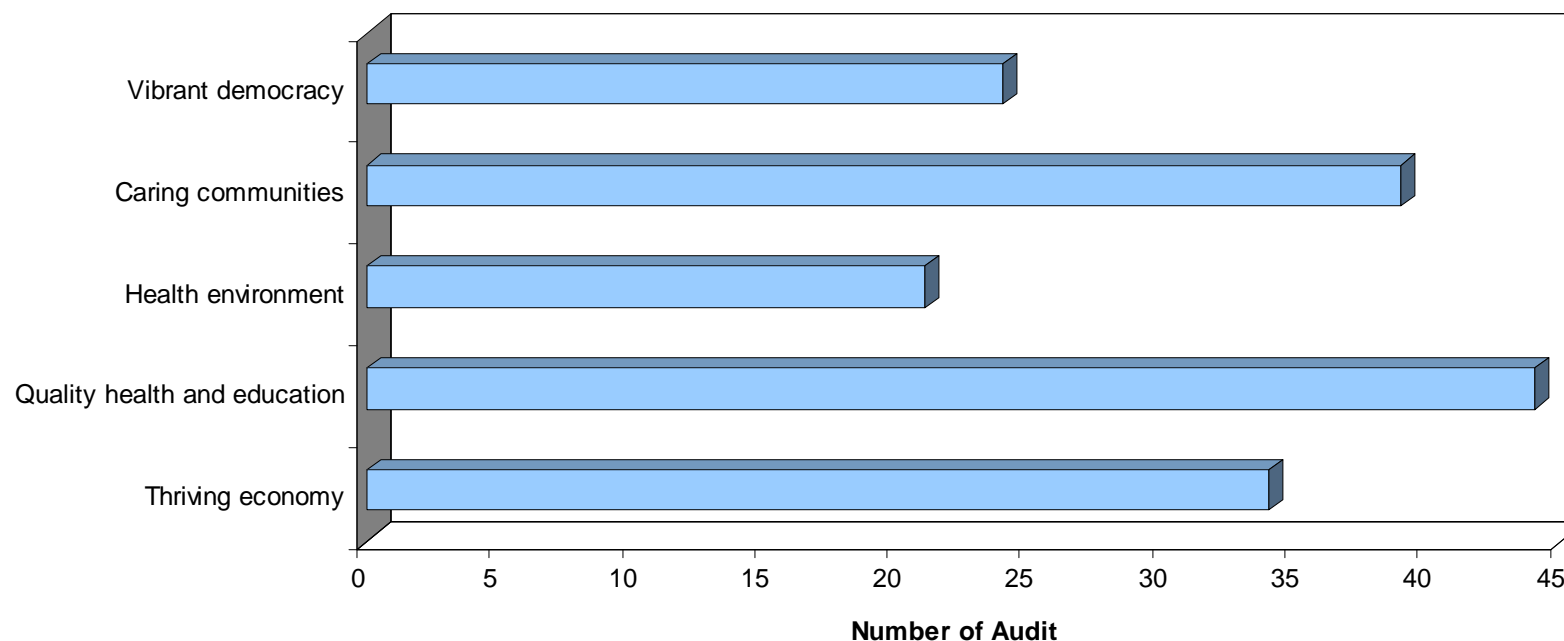
The spread of planned broad and limited scope audits over the various planning sectors for the next 3 years is as follows:

Scope of Audit by Sector 2007-08 to 2010-11



Furthermore, in relation to the goals set out in the GVT policy, the pattern is:

The Number of Audit by GVT Vision 2007-08 to 2010-11



Comments

We believe that the planned allocation of performance audits across the sectors as shown above is reasonable in relation to their relative sizes and profiles.

We note that the Department of Infrastructure is to be subject to an unusually high number of limited scope audits during the planning period but this reflects community interest in high profile projects such as the Port of Melbourne Channel Deepening, the Melbourne Convention Centre, Southern Cross Station and the West Gate Monash Freeway corridor. Each of these projects is unique and carries with it financial, social and economic risks.

The spread of audits across the GVT supports the view that the program gives properly balanced coverage to the public sector in relation to risk and materiality.

Conducted by Mr John Phillips

However we believe that VAGO should continue to strive to ensure that the selection process produces a clear ranking of extreme, high and moderate risk “areas of potential audit interest”.

Recommendations

VAGO’s topic selection process should continue to evolve to ensure areas of greatest risk receive adequate coverage. [**Recommendation #9**]

5. Financial Audit – Detailed Findings and Recommendations

Terms of Reference

- 2(f) Review the adequacy and appropriateness of all audit methodologies, practices and procedures.

5.1 Financial Audit Methodology

Facts/Observations

Under the Audit Act 1994 the Victorian Auditor General is responsible for the provision of an independent opinion on the prescribed (under Section 3 of the Act) Victorian Government Authorities financial reports.

Under Section 13 of the Act “Standards made by the Auditing and Assurance Standards Board under section 336 of the Corporation Act or formulated by that Board under Section 227B of the ASIC Act, as in the force from time to time, must be applied, as appropriate, in the performance of functions and exercise of powers in relation to audits or performance audits under this Act”

Accordingly the AG has applied all Australian Auditing and Assurance Standards as issued by the Auditing and Assurance Standards Board as its methodology. ASA 200 “Objectives and general principles governing an audit of a financial report” states:

“the objective of an audit of a financial report is to enable the auditor to express an opinion as to whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework.”

AUS 106 “Explanatory framework for standards on Audit and Audit related services” states that an audit:

“is designed to provide a high but not absolute level of assurance on an accountability matter. The auditor expresses this as reasonable assurance in recognition of the fact that absolute assurance is rarely attainable due to such factors as the need for judgement, the use of testing, the inherent limitations on internal control and the fact that much of the evidence available to the auditor is persuasive rather than conclusive in nature.”

With this in mind, the aim of the modern financial auditor is to concentrate on areas where the fair presentation of the financial statements are most at risk.

Following the recommendation of developing financial audit methods, guidance material and training programs in the previous Performance Audit report, an in-house audit toolset called IPSAM (Integrated Public Sector Audit Methodology) was developed in conjunction with the Queensland Audit Office (QAO). This replaced the previous in-house financial audit package EFINA and represented a major overhaul of VAGO’s financial audit methodology. IPSAM is an

Conducted by Mr John Phillips

integrated financial audit toolset that embeds the Office's methodology in an electronic medium and provides easy access to policy, guidance procedures and work papers.

VAGO developed a business case in conjunction with the QAO to consider all options for a replacement including evaluation of existing packages in the private sector and joint development with other Audit Offices. The business case had a clear statement of project scope, deliverables and timelines, together with identification of capital and recurrent funding requirements.

IPSAM was formally launched in November 2005 with pilot testing by VAGO on a few audits for December 2005 with a full rollout for June 2006 audits.

Based on our review, IPSAM appears to be adequately facilitating the execution of financial audits. From our sample testing of IPSAM audit files (refer to Terms of Reference 21), it appears that the methodology is being followed.

Policy and guidance material is readily available on the Intranet as well as in the Lotus Notes IPSAM databases which are linked to client files. Training has been extensive with a four year technical training curriculum implemented for financial audit staff. Refresher training was provided to all staff in November 2006 following the 30 June 2006 full rollout to discuss issues with IPSAM and to ensure the application of the methodology was consistent amongst staff. It is further noted that Financial Audit group exceeded its KPI for training in 2006 which demonstrates the commitment to supporting IPSAM.

Financial audit have also introduced "smoothing" initiatives to attempt to lessen the staff workload around balance dates. Examples are performing planning earlier, dedicating staff to jobs early on, and bringing forward the timing of the work (performing a pre balance date hard close) on audits of financial statements with 30 June 2007 balance dates, compared with previous years.

Comments

Annually, the Australasian Council of Auditors-General (ACAG) summarise the financial attest audit methodologies in use for each office. Other jurisdictions have inquired about the use of IPSAM software which is encouraging evidence that it is a useful tool for public sector auditing. The Tasmanian audit office and the ACT audit office have already implemented IPSAM. Interest has been expressed domestically in Western Australia and South Australia as well as overseas - British Columbia, Canada and New Zealand.

Financial audit recognise that inefficiencies can arise in performing hard closes as the client may not normally report on earlier balance dates or perform certain tasks only at year end. Financial audit is working in close consultation with clients to assess the viability of performing a hard close. This process will take time to achieve the desired benefits. However, we support the "smoothing" initiatives in attempting to increase the efficiency and effectiveness of the office.

Recommendations

There are no new recommendations for this area.

5.2 IT Audit

Facts/Observations

The increasing sophistication of information systems across the public sector represents both a Whole of Government risk and a financial audit risk. It is important that VAGO has sufficient skilled resources, if not to perform the necessary IT environment and application reviews themselves, then to ensure that appropriate IT professionals are engaged to do so.

Comments

It was recommended in the previous performance audit that VAGO's Computer Risk Management group (CRM) implement a formal human resources strategy that addresses the areas of IT audit risk identified across client agencies given that the recruitment and retention of appropriate IT skills is difficult.

VAGO has developed a CRM strategy which includes addressing resourcing issues. The CRM unit will be structured to better deliver on its 3 key functions of strategic planning, sector liaison, and financial and performance audits. As part of the overall financial audit "smoothing" initiative, the IT work is being spread more throughout the year with work being performed further in advance of reporting dates (e.g. completing IT work in February for 30 June audits). As the CRM strategy is currently being implemented, we cannot currently comment on its adequacy and effectiveness.

In 2004, we also recommended that VAGO consider expanding its suite of computer interrogation packages. Although they have acquired more ACL licenses since then, they have not yet acquired any other audit interrogation software.

Recommendations

VAGO should continue considering other computer interrogation packages to enhance its existing suite of products. **[Recommendation #10]**

Terms of Reference

- | | |
|------|---|
| 2(k) | Review whether the Victorian Auditor-General's Office complies with Australian auditing standards, including the quality control process associated with contracted audits. |
|------|---|

5.3 Compliance with Australian auditing standards

Facts/Observations

Australian auditing standards are the basis of which financial audits are performed. Compliance with these standards would improve the quality and credibility of audited financial reports in Australia and stakeholder confidence in them.

As auditing standards are incorporated into IPSAM, it is critical that there are sufficient and timely reviews for updating the policy and guidance. The Policy, Planning and Technical Group is responsible for updating standards into IPSAM as follows:

- Independent review of the revised auditing standards by VAGO and QAO;
- Mapping of revised requirements to existing IPSAM policy and guidance, with required changes highlighted;
- Updating of policy and guidance to incorporate mandatory black letter requirements;
- Review of revised policy and guidance by VAGO and QAO technical areas; and
- Joint Project Steering Committee approval of final draft policy and guidance.

We reviewed the latest round of policy and guidance updates in June 2007. It was sufficiently performed with a proper trail of changes made and appropriate approvals by the AG. It was noted that for quality assurance, an independent review of changes were done by a contracted party. Changes were appropriately updated in IPSAM with communication of changes done via newsletters on the Noticeboard (on VAGO's intranet) and quarterly Financial Audit forums.

Compliance with the auditing standards comes from various levels from financial audit field staff performing audits, managers reviewing the work of staff, directors/AG reviewing files and signing off on audit opinions as well as the quality assurance process. We tested compliance through our work on audit evidence and workpapers in the 21) Terms of Reference (see below). Based on our sample testing, we did not come across any instances of non-compliance with Australian audit standards.

Comments

We have noted a distinct improvement in the depth and focus in complying with Australian Audit standards. This has been facilitated by the implementation of IPSAM and an improved quality assurance process.

Conducted by Mr John Phillips

Recommendations

There are no recommendations for this area.

5.4 Contracted Audits

Facts/Observations

The Financial Audit Policy Manual (FAPM) sets out VAGO's requirements when it contracts out financial audits. It requires contractors to comply with Australian auditing standards. VAGO relies on reviews of client financial statements and contractor audit clearance reports to satisfy itself that it could rely on the work of contracted auditors. Furthermore, depending on the risk and size of the client, VAGO Directors are involved in the audit process through attendance at Audit Committees, participation in the development of the plan and regular contact during the audit examination itself supplemented by pre-signing reviews of financial statements.

As part of VAGO's overall quality assurance program, post-audit ("cold") reviews are performed twice a year subsequent to the December and June round of audits. A sample of audit files are chosen for review that consists of all new service provider, all service providers with an unsatisfactory prior post audit quality assurance review, and regular rotational audits of providers. VAGO also conducts follow up reviews of service providers who are deemed to be satisfactory but had deficiencies that needed to be addressed.

The review of contracted audits involves examining working papers of selected providers, using a VAGO issued post audit quality review assurance checklist. We reviewed several reviews performed by VAGO's third-party assessor. We did not find any instances of non-compliance with auditing standards from our sample testing.

Comments

We reviewed the latest post audit quality review assurance checklist which was more detailed and covered more aspects than the previous checklist we reviewed in 2004. It appeared to allow the reviewer to perform a thorough examination of audit service provider working papers.

We have found that VAGO's independent quality review program is being strongly managed and systematically co-ordinated.

Recommendations

There are no new recommendations for this area.

Terms of Reference

- | | |
|-----|---|
| 21) | Review whether audits are supported by adequate plans and work papers, appropriate audit evidence and appropriate quality control procedures. |
|-----|---|

5.5 Financial Audit Evidence and Workpapers

Facts/Observations

VAGO's approach to each audit is set out in an Audit Strategy Memorandum (ASM). This standard form makes provision for all the broad matters we would expect to see covered in a "risk based" audit strategic plan including the overall approach (eg, compliance / substantive / systems testing), background on the auditee (or client), assessment and identification of inherent / control / audit risk key deliverables, extent of reliance on internal audit and emerging issues. The ASM leads to a work program setting out the level and type of audit work to be undertaken (i.e., audit steps) including sample sizes and on to the detailed workpapers.

As noted above, audits are managed through the IPSAM database supported by a hard copy executive file (containing core administrative and strategic documentation) and working paper files where appropriate. Evidence is documented electronically in IPSAM with attached word documents, excel spreadsheet and client prepared schedules as required.

Quality control is generally the responsibility of the Signing Officer authorised to sign the financial statements on the AG's behalf - either a Financial Audit Director or the Assistant Auditor-General of Financial Audit (or on occasion, the AG). An Engagement Quality Control Reviewer (being the Deputy AG or the Assistant AG) is assigned to each high risk audit in an overview role. These roles and other responsibilities including manager responsibilities for the review of detailed schedules are set out in FAPM.

Overlaid over these ongoing processes is VAGO's quality review program conducted by a suitable independent assessor.

We conducted a detailed review of financial audit workpapers covering both large and small agencies across a number of portfolios covering the work of a number of the audit directors and sectors. The audits examined were from the 2006 and 2007 audit rounds, which used the new IPSAM methodology.

In the sample of audit files, we reviewed audit documentation over the Planning, Execution and Finalisation stages as set out in IPSAM. We found that:

Planning

- was sufficiently completed on a timely basis with consideration of client risks;
- evidence that the ASM was communicated to the client on a timely basis;

Conducted by Mr John Phillips

- use of internal audit was considered. Where internal audit was used, there was appropriate documentation on the assessment of the work and conclusions impacting VAGO's audit approach; and
- use of CRM was considered.

Execution

- there were adequate workpapers and references to support audit findings;
- major accounting/audit issues were sufficiently documented and signed off by VAGO's Technical Issues Committee (TIC) where required;
- compliance with VAGO's sampling methodology (as documented in IPSAM guidance); and
- evidence of timely review by appropriate staff levels.

Finalisation

- evidence of client exit and audit committee meetings;
- issuance of management letters on a timely basis; and
- timely sign-off by signing officers.

We did not find major inconsistencies in the workpapers of our sample of audits. We found no evidence that any inappropriate audit opinions had been issued.

Comments

VAGO's overall review and quality control framework is very sound by reference to generally accepted auditing principles. FAPM is an extremely thorough document and the fact that it has been kept up to date through the changes in auditing standards that have taken place over the last few years is commendable.

We are satisfied that financial audits are supported by adequate plans, workpapers and appropriate audit evidence.

Recommendations

There are no new recommendations from this area.

5.6 Quality Reviews of Financial Audits

Facts/Observations

Conducted by Mr John Phillips

Independent quality reviews for in-house and contracted audits are organised semi-annually (for December and June balance dates) by the Policy, Planning and Technical Group. The post audit quality assurance checklist is utilised for all reviews which are conducted by a third party appointed by VAGO.

The current policy for post audit quality reviews is:

- All new service providers; and
- All service providers with an unsatisfactory prior post audit quality assurance review.

As well, follow-up reviews of service providers who were deemed to be satisfactory but had deficiencies that needed to be addressed are performed.

There is also a 2 year cyclical review for:

- Continuing service providers with prior satisfactory results where VAGO is not satisfied with the internal quality assurance processes. These are selected based on audit risk and rotated between sectors
- VAGO financial audit directors (subject to satisfactory prior reviews). Over a 2 year period, directors should be subject to at least 2 post quality assurance reviews including the review of a high risk in-house audit and a contracted audit, rotated between sectors
- A random sample of low/medium risk audits undertaken both internally and by service providers.

Furthermore, the Assistant-Auditor General in Financial Audit performs his own quality review of selected in-house audits.

VAGO's quality reviews are conducted by a third party with appropriate qualifications. The post audit quality assurance checklist used covers an extensive range of areas to allow a thorough examination. We reviewed a sample of in-house post audit quality assurance reviews and did not come across issues with the quality of the review.

The results are communicated to the appropriate Directors and staff and were conducted on a timely basis to ensure recommendations are implemented in the subsequent period audits. A report by the third party reviewer with an action plan is provided to the SMG for endorsement.

Comments

For commentary on quality assurance over contracted audits, refer to Terms of Reference 2k above.

We have found that VAGO's independent quality review program is being strongly managed and systematically co-ordinated.

Recommendations

No new recommendations from this area.

6. Performance Audit – Detailed Findings and Recommendations

Terms of Reference

3(g) Review compliance with statutory requirements for the conduct and reporting of performance audits.

6.1 Performance Audit Statutory Compliance

Facts/Observations

Section 15 of the Act is the principal statutory provision relating to VAGO's performance audits. Subsection (1) states that the Auditor General may conduct any audit he or she considers necessary to determine:

- a) Whether an authority is achieving its objectives effectively and doing so economically and efficiently and in compliance with all relevant Acts, or
- b) Whether the operations or activities of the whole or any part of the Victorian public sector are being performed efficiently economically and effectively in compliance with all relevant Acts.

All of the performance audits we have examined during this review have been designed along one or other or both of these lines. Section 15 does not call for the AG to express an opinion stating whether or not an activity has been efficient effective and economic, but rather empowers the AG to conduct an audit. Section 16(3) states that draft reports for audits conducted under section 15(1) must be copied to appropriate agency heads for comment.

During the reporting period, VAGO has released several special reviews in accordance with the AGs general powers under the Act.

As noted earlier in this report, the AG has now discontinued this practice.

Comments

We believe that VAGO has conducted its performance audits in accordance with all relevant statutory requirements throughout the review period.

In some jurisdictions, it has been standard practice to conclude performance audit reports with a "one line" overall opinion that "the agency(s) has / has not performed efficiently, effectively and economically". As the "three E's" are all subjective and relative terms, they only acquire meaning by reference to specified benchmarks or criteria. Nothing is absolutely efficient or inefficient, except by reference to a valid performance standard. AUS 806 does not call for a singular opinion, nor is there anything in the Act, which suggests otherwise.

Conducted by Mr John Phillips

We believe that VAGO's policy of drawing a conclusion in relation to each objective (by reference to stated criteria) is entirely sound.

Recommendations

There are no recommendations for this area.

Terms of Reference

- 3(f) Review whether the existing practice of tabling a considerable number of performance audit reports should be varied to include large performance audit projects addressing significant issues of public interest.

6.2 Size of Performance Audits

Facts/Observations

Under section 15(3) of the Act, the AG is required to predetermine the interval at which performance audits are to be conducted and the number of audits to be performed in each financial year.

For purposes of the 2007-08 Annual Plan, the new AG has followed that traditional practice of setting a target of 12 (Broad Scope) Performance Audits per financial year. On average these audits are expected to take 7 to 9 months to complete at a cost of between \$500k and \$600k.

Comments

In our view the potential benefits flowing from an audit dissipate over time. There is a very real chance that 6 months after the commencement of an audit some of the underlying facts will be starting to change. Accordingly we believe that a \$500k to \$600k audit taking 7 to 9 months to complete is in fact a large audit, and that the trend should perhaps be to a greater number of smaller audits than are carried out at present.

On the other hand, audits dealing with generic issues common to several departments offer more potential benefit to the community than agency-specific/single issue audits. Because of the amount of consultation involved in these audits, they necessarily consume more time and cost. On occasion therefore audits taking well over 9 months and costing well over \$500k may be entirely appropriate.

During the review period, VAGO broke its examination of “contracting and tendering” into two parts in order to bring its initial findings into the public arena on a timely basis. We encourage this approach to larger-scale audits. The sooner the report, the quicker the recommendation and the faster the corrective action.

We do not believe there is an optimum sized audit, nor therefore do we believe there are an optimum number of audits. In 2004, we expressed the view that “small performance audit” – then described as “Special Reviews” – should be included in the annual work program discussions with the PAEC. The AG has effectively brought this about by introducing the concept of “Limited Scope Performance Audits”, as explained in section 2.2 above.

Recommendations

There is no recommendations for this area.

Terms of Reference

- 3(i) Review the appropriateness of criteria against which the efficiency and effectiveness of performance audits and special reviews conducted by the Office are measured.

6.3 Efficiency and Effectiveness of Performance Audits

Facts/Observations

There are no single generally accepted criteria by which to assess the efficiency and effectiveness of performance audits and special reviews.

Against this background, VAGO has traditionally used three KPIs:

- Cost vs Budget;
- Elapsed time; and
- Quality - “agency satisfaction”.

VAGO is currently reviewing all of its performance measures including its performance measures for the conduct of performance audits.

The AG has indicated that he regards the relative “acceptance” of audit recommendations as a valid performance measure.

Comments

We agree that one of the distinguishing characteristics of a good audit is the extent to which its recommendations are adopted. However some recommendations are more obvious – and more readily actionable - than others. We believe that “cost”, “elapsed time” and “agency satisfaction” are equally valid performance indicators.

We are pleased to note that VAGO is considering a broad range of issues in reviewing its approach to performance measurement.

Recommendations

VAGO should ensure that its future performance audit KPIs appropriately address the efficiency and effectiveness of performance audits and are clearly communicated and properly understood. **[Recommendation #11]**

Terms of Reference

Terms of Reference

- 2(f) Review the adequacy and appropriateness of all audit methodologies, practices and procedures.

6.4 Performance Audit Method and Procedures

Facts/Observations

Under Auditing Standard AUS 806 “Performance Auditing”, performance audits consider any or all of the “three E’s” – economy, efficiency and effectiveness. “Economy” addresses the acquisition of resources at the lowest cost and at the appropriate time; “efficiency” describes the use of resources acquired such that output is maximised for a given input or that inputs are minimised for a given output; and “effectiveness” deals with the achievement of objectives or other intended outcomes. As outputs are influenced by the extent to which guidelines are being followed, performance audits as defined are expected to include an element of compliance work.

The key to a successful performance audit is to establish clear and unambiguous criteria of efficiency, effectiveness and economy in the area of audit interest. It is now generally accepted, that as far as possible, performance audits involve identifying and measuring objectively verifiable performance indicators and comparing those indicators with appropriate standards/targets or benchmarks. In the public sector context, these standards/targets are often problematic.

In some cases over the past three years clients have expressed concern that VAGO has adopted criteria which have entered the grey area between the management of a policy and the appropriateness of that policy. The new management team has flagged the importance of agreeing suitable criteria with agencies in the scoping stage of the audit to ensure these concerns cannot properly be raised in the future.

VAGO is presently phasing-in its new electronic performance audit toolset, known as AmP. AmP which has similar functionality to financial audit’s IPSAM, links all the steps in the performance audit process to a comprehensive database of templates guidelines and checklists.

AmP is designed to ensure that some of the key disciplines introduced by the new AG are strictly applied. These include high level “issues” meetings with agency leaders at the 25%, 50% and 75% stages of the audit process.

VAGO is currently developing detailed training modules to support AmP.

Conducted by Mr John Phillips

Comments

The decision to introduce “limited scope” performance audits and to discontinue “special reviews” ensures that the disciplines surrounding PAEC consultation will apply to all non financial audits. This will help ensure that the AG’s resolve to adopt appropriate audit criteria will be put into effect.

The introduction of AmP represents a significant improvement in VAGO’s performance audit methodologies, policies and procedures.

It is important that it is accompanied by quality training material and a strong program of continuing education.

Recommendations

The present resolve to roll out a comprehensive performance audit training program supporting the introduction of the new performance audit method must be sustained as methods evolve and staff change. **[Recommendation #12]**

Terms of Reference

3(c) Review the effectiveness of the planning and management of performance audits.

6.5 Performance Audit Planning and Management

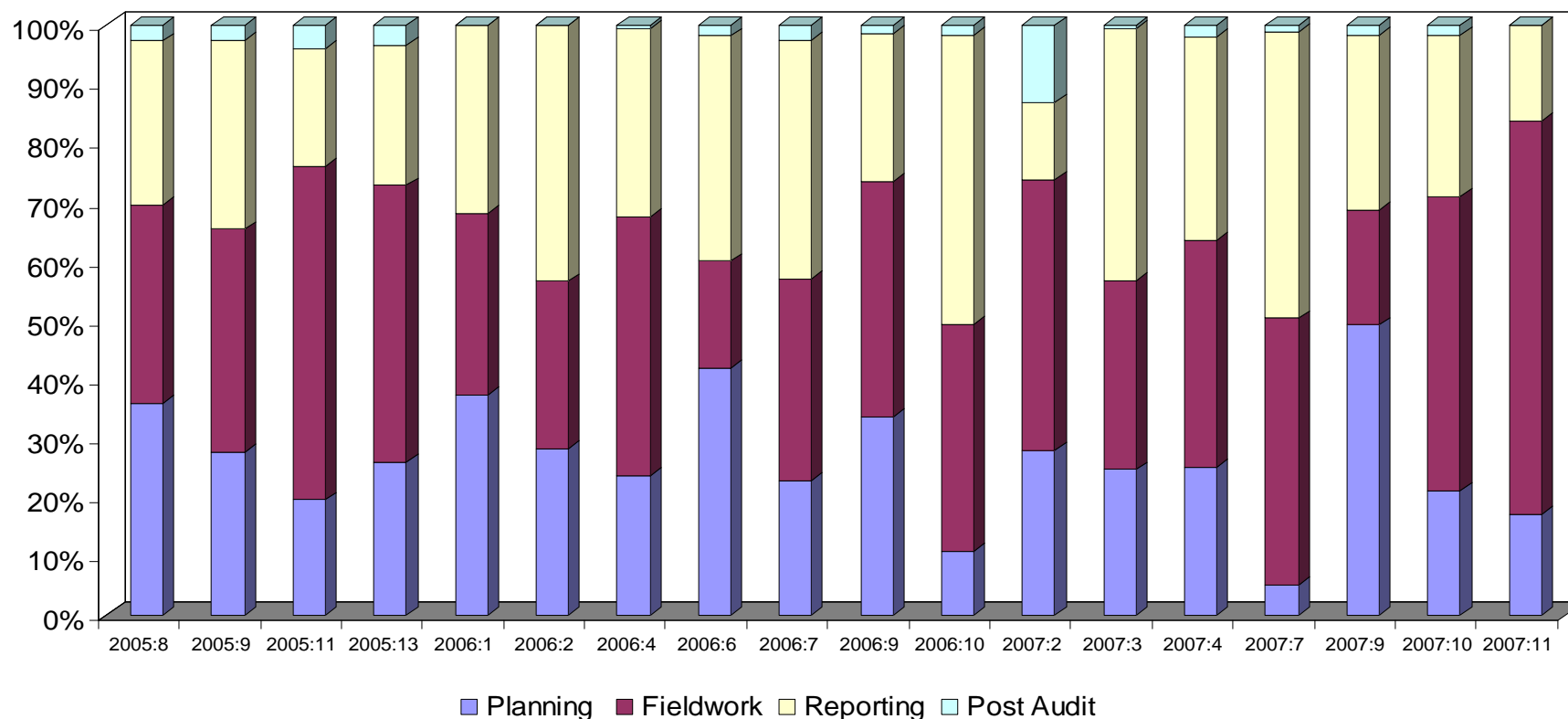
Facts/Observations

During the period of uncertainty that followed the announcements that the previous AG would not seek another term, a number of performance audits were completed later than expected. Some audits were re-scoped and some special reviews were converted to limited scope performance audits. As noted in Section 2.4 above, this represented some inefficiency in audit planning and management.

VAGO's costing system divides audit expenditure between four types of activity being Planning, Fieldwork, Reporting and Post Audit. Set out below is a table showing the relationship between these elements of total audit costs for performance audits tabled in the 18 months up to 30 June 2007.

Conducted by Mr John Phillips

Performance Audit - In House Hours %



As shown above, the amount of time spent in each category varied with each audit. There is no clear industry standard for each of these activities but it is generally accepted that fieldwork should represent no less than 50% of total audit effort. We accept that some of the classifications overlap and the distinctions are arbitrary, but suggest that overall, VAGO's fieldwork, which averages 41% of total costs, represents a smaller proportion of total audit efforts than it should.

Conducted by Mr John Phillips

Elapsed time is another measure of management efficiency. VAGO's internal targets vary from audit to audit but have typically been around 7 months or 210 days. Elapsed times from agreement of the final specifications have varied widely over the last two years as shown below. The average has been 309 days.

Time Taken (days) between Initiation and Completion for Performance Audit except Follow-up 2005/06 to 2006/07



VAGO's client surveys indicated that overall client satisfaction with performance audits during 2006-07 was 71% against a target of 80%.

During the review period at least two performance audits were disrupted by lengthy delays in obtaining access to relevant Cabinet-in-Confidence documents.

Conducted by Mr John Phillips

Comments

We have found that some of the performance audits undertaken during the review period have not been conducted as efficiently and as effectively as VAGO would have liked, particularly in the areas of scope and definition of assessment criteria, control of cost and timelines and management of communications with agencies.

In normal circumstances we take the view that inefficiencies are usually reflected in disproportionately high planning and reporting time, although we are reluctant to criticise heavy planning times per se because thorough planning is critical to a successful audit. The new methodology contains milestones which call for contact with secretaries and senior executives. In tandem with the formal agency contact program discussed above, this should facilitate quicker identification of issues and improved access to appropriate audit evidence.

Under sections 11 and 12 of the Audit Act, the AG is given almost unfettered right of access to information. To ensure these delays do not recur, a set of protocols surrounding access to Cabinet papers is currently being revised.

Recommendations

Revised Cabinet-in-confidence protocols currently in development should be finalised and put into place as soon as possible to expedite access to all relevant information. **[Recommendation #13]**

Terms of Reference

- | | |
|------|---|
| 3(d) | Review the adequacy of the investigative process and quality control procedures to support conclusions arising from the performance audits. |
|------|---|

6.6 Performance Audit Quality Control

Facts/Observations

All performance audit reports are subject to careful scrutiny by the agency being audited. The performance audit process itself therefore includes a discipline to ensure that sufficient evidence is obtained to support conclusions. In this respect, we note that agencies have questioned the facts obtained and the conclusions drawn from some of the audits undertaken during the review period, although this has been the exception rather than the rule. Where this has occurred the report acknowledges the differences.

We have undertaken detailed review of the workpapers supporting 7 randomly selected performance audits conducted during the period. In two instances we were concerned that appropriate criteria were not agreed in advance and that VAGO did not engage with senior agency executives at the audit initiation stage. VAGO has identified these two weaknesses for immediate corrective action. However, all workpapers were subject to appropriate manager/director review and contained documentary support for the assertions contained in the final report.

We note that the AG is committed to personally signing all performance audits issued by the office.

As with financial audits, performance audits are subject to independent quality reviews.

Comments

VAGO has demonstrated a positive attitude to independent quality control procedures and to acting on recommendations arising from these reviews.

Recommendations

There are no recommendations for this area.

Terms of Reference

- 3(h) Review the appropriateness of the mix between specialist expertise, contractors and suitably qualified in-house staff in undertaking particular performance audits.

6.7 Performance Audit Resourcing

Facts/Observations

Following several recent appointments VAGO now has an improved mix of investigatory, project management and traditional auditing skills in the performance audit group than it has had for some time. The group now has staff with strong backgrounds in economics, law and social policy. It also been reinforced by people with experienced in the Central Agencies.

To effectively undertake a performance audit in the Victorian public sector often involves some expert assistance and contractors do have to be introduced from time to time. In some instances, it is difficult to find an expert who has not, through that very expertise, done some work in the past for the agency being audited. VAGO is very conscious of this and does take care to avoid conflicts of interest when tendering for specialist assistance.

In the performance audits selected for testing, VAGO made reasonable efforts to ensure that contractors with appropriate backgrounds were used when needed.

Comments

We have found no reason to suggest that VAGO is placing inappropriate or insufficient reliance on specialist contractors in completing performance audits.

Recommendations

There are no recommendations for this area.

Terms of Reference

- | | |
|------|---|
| 3(e) | Review whether significant issues that arise during the course of a performance audit that were not identified in audit plans, are addressed. |
|------|---|

6.8 Performance Audit Scope Management

Facts/Observations

During our investigations we sighted several file notes memos and minutes of meetings etc, which indicated a high level of awareness of potential downstream issues.

As a formal Performance Audit procedure, audit teams undertake a debriefing at the completion of each audit. The debriefing workpaper provides for details of supplementary issues requiring separate attention. AmPs also requires potential financial audit issues to be brought to the attention of the financial audit director.

Comments

From our file review and our discussions with PPTG we believe that VAGO makes reasonable provision for the identification and follow-up of the potential future audits issues which arise during the conduct of performance audits.

Recommendations

There are no recommendations from this area.

7. Business Management – Detailed Findings and Recommendations

Terms of Reference

- 2(d) Review the adequacy and effectiveness of internal systems to measure and improve productivity.

7.1 IT Strategy

Facts/Observations

The development and maintenance of VAGO's IT infrastructure has been managed through a documented IT Strategic Plan. The most recent IT Strategic Plan covered the period 2004/05 to 2006/07. The IT Strategic Plan consisted of two main sections:

1. The information technology strategies, and
2. Key actions and activities.

The information technology strategies are a collection of actions, strategies and outcomes aligned with the corporate objectives, on which the long and short term plans for the VAGO are based. The second section consists of key actions and activities along with the identification of selected strategic tasks to be included in the current year's IT Business Plan.

The key projects for infrastructure in the past couple of years have been:

1. Telephone system converted to VOIP technology about 2 years ago. This was as a result of a government initiative to decommission the existing telephony infrastructure run by Telstra.
2. Wireless data communications facilities implemented for portable computer users so they can connect to the network from audit client sites.
3. Server and data communications infrastructure upgrade approved in June 2007. Upgrade process is about 70% complete. This project is replacing all the servers for the LAN and the associated switches and firewalls etc. Most of the data communications work was done as part of the move to the new premises.

As the existing IT Strategic Plan has run its course, VAGO is currently drafting another plan. This has involved consultations with all business groups with the view of addressing VAGO's IT needs going forward. The strategic plan will be considered and approved by the SMG and reported on a monthly basis.

Comments

Conducted by Mr John Phillips

We support the process for developing the IT Strategic Plan to ensure that IT needs are adequately met and are effective for improving productivity within VAGO.

Recommendations

There are no recommendations for this area.

7.2 Disaster Recovery Plan and Business Continuity Planning

Facts/Observations

A disaster recovery plan (DRP) identifies critical business IT systems outlining the maximum tolerable outage (timeframe) for such services. A DRP specifically limits the plan's scope to immediate IT requirements and excludes such items as paper-based files, personnel, Wide Area Network (WAN) and remote access data communications.

Version 2.2 of VAGO's DRP was released in May 2007 with minor changes since the 2004 version 2.0. The DRP has been tested on an annual basis with the latest performed in September 2006 with satisfactory results. A copy of the DRP is located off-site containing detailed procedures for the recovery of critical business systems from a disaster.

Business continuity management comprises many elements, which when combined with the DRP, define the approach an organisation will undertake to resume after a break in business continuity. A business continuity plan (BCP) should deal with the maintenance of business operations immediately following a disruption, while a DRP deals with the restoration of infrastructure to its original state after a disruption.

In response to the 2004 performance audit recommendation, VAGO completed a draft BCP for comment in March 2007. The draft BCP has 3 sections to ensure in the event of a disaster, key functions and processes can be resumed without significant delay:

1. Loss of access to all or parts of the office accommodation;
2. Loss of access to key office systems and services; and
3. Loss of key people.

We noted parts of the DRP are referred to in the BCP. VAGO has just finalised a revised BCP and the testing of some sections has already occurred.

Comments

Conducted by Mr John Phillips

We are satisfied that VAGO has an adequate DRP in place and that an adequate BCP has been completed. A comprehensive testing program now needs to be put in place

Recommendations

VAGO should fully test its newly approved business continuity plan (BCP) and develop a regular testing program as soon as possible. [**Recommendation #14**]

Terms of Reference

- 2(e) Review the adequacy of the existing time recording and costing systems to ensure all recoverable costs are collected for government and that there is no cross-subsidisation between chargeable and non-chargeable functions of the Office; or between performance and financial audits, and special reviews.

7.3 Time Recording and Costing Systems

Facts/Observations

Introduced in mid 2003, MARS is the primary time recording and costing system used by VAGO. MARS has been developed to capture all the core information necessary to manage and control audit operations from costs by client to staff utilisation by staff member.

A MARS coding framework was developed to assist in the effective management of in-house staff time. In particular, it has been designed to:

- Facilitate the management of resources on an Office-wide basis (e.g. identify where resources are being allocated; how much time is spent directly on products and how much on overheads; how much time is spent on particular products or other activities);
- Assist groups in managing resources;
- Assist in managing individual audits including any budget/cost overruns or un-recouped costs;
- Assist in assessing activities of individual staff; and
- Facilitate the development of Office charge-out rates to be applied to various products.

The following business rules have also been adopted with regards to MARS:

- Products are to be accurately costed. The costs of reports to Parliament and services to Parliament are borne by Parliament and the costs of attest (financial) audits are recouped from audited agencies;
- All staff time which can be directly attributed to these products are charged to the product irrespective of the area of the Office charging the time;
- All other time which is not directly related to a particular product is treated as an overhead (i.e. an indirect cost of the products or a cost of maintaining the Office's longterm capacity);
- As far as possible, overheads are to be accurately allocated to products in determining charge-out rates e.g. allocation of library services to performance audits, financial audits and other products is to reflect the proportion of time spent by the relevant staff on these tasks;

Conducted by Mr John Phillips

- Time spent on products is to be accurately recorded in MARS, irrespective of the advised audit fee or audit budget. This is to enable identification of the need to adjust fees or charge-out rates in future years or to identify inefficiencies.

MARS is supported by several useful intranet portals as follows:

- Training manuals – project controller, audit project management, reports workshop, timecard, budget maintenance, approvals, purchase orders;
- A series of “how to” - review and approve timecards, run Audit Project Detail reports;
- MARS codes listing; and
- MARS forms – for new audit project approval and new client approval.

We reviewed the system from the development of budgets for assignments through to build up of costs from individual staff timesheets through to the final reports. We also reviewed the development of the Resource Plan which includes the build up of charge out rates on a yearly basis.

Comments

Since the previous performance audit, VAGO has actively improved the MARS system and attempting to maximise its capabilities. In addressing a recommendation from the previous 2004 performance audit, we have noted improved reporting facilities on MARS which allows users to a vast array of information and customised reports.

In regards to audit fees, section 10(1) of the Audit Act 1994 states that:

*“An authority must pay to the Consolidated Fund an amount determined by the Auditor-General to defray the **reasonable costs and expenses** incurred by or on behalf of the Auditor-General in conducting an audit of the financial statements of the authority and expressing an audit opinion on them under section 9”*

Every year, budgeted and actual hours are reviewed in quoting and billing financial audit fees to ensure they are reasonable. We can accept that from a commercial perspective, there will be some variation between actual and budget hours across individual audits. We believe that it is reasonable to “write on” time when financial audit costs are less than budget, and to “write off” time where costs exceed budget (where there is no justification for seeking an increased fee from an agency). In a narrow technical sense this may lead to the appearance of some “cross subsidisation” of financial audit fees between agencies. Financial audit directors are evaluated on their overall recovery across their responsible sector. Government agencies would not likely be receptive to fluctuating fees (based on actual hours) year over year if a literal interpretation of section 10(1) of the Act is applied.

By reference to the audit trails available in MARS for financial and performance audits, we do not believe that there has been any material cross-subsidisation of costs between financial audit, performance audit and special reviews (limited scope reviews).

Conducted by Mr John Phillips

In order to allocate staff at a more optimum level, VAGO has also acquired an electronic scheduling system called RETAIN. This was implemented in Financial Audit in November 2005 and appears to be an adequate tool for staffing jobs. As well, a change in the way jobs was allocated under the “smoothing” process to allow for more optimal allocation of work.

Recommendations

The PAEC should formally review the intention of Section 10(1) of the Audit Act in consultation with VAGO to ensure VAGO is given reasonable flexibility in respect of the application of financial audit fees across agencies. **[Recommendation #15]**

8. Human Resources – Detailed Findings and Recommendations

Terms of Reference

6. Determine the adequacy of existing strategies within the Auditor-General's Office to recruit, train, adequately remunerate and retain suitably qualified and skilled staff to achieve its objectives.

8.1 2006 Staff Survey

Facts/Observations

In July 2006, VAGO commissioned a group of consultants to conduct an "Organisational Effectiveness and Wellbeing Project". The Project incorporated a sophisticated survey instrument designed to measure the impact of factors known to have an impact on psychological health. The Project had dual aims:

- To meet the obligations to address the psychological health of employees under the Occupational Health and Safety Act 2004; and
- To honour the commitment to staff to undertake an annual staff survey.

Following completion of the survey, the consultants oversaw the creation of a series of "focus groups" convened to analyse the data and develop appropriate strategies to mitigate against the risks to psychological health indicated by the responses.

The project was deferred in October 2006 on the basis that discussions with management in place at that time would not necessarily produce responses appropriate to the culture that would emerge under a new management team.

In mid 2007, the consultants presented their (preliminary) findings to SMG. SMG took the view that these findings were now dated and that the project should cease.

It is difficult to interpret the results of this survey because benchmarks are not readily available. However over 70% of respondents identified issues considered to have "negative (or very negative)" effects on health and well-being.

Conducted by Mr John Phillips

Financial auditors responding to the survey indicated that the single main reason employees stay at VAGO is work/life balance. Performance auditors on the other hand stated that job satisfaction and the challenge and variety inherent in the work kept people at VAGO.

VAGO did not conduct a staff survey in 2005.

Comments

We are not convinced that the decision to attempt to merge a staff survey into a psychological health risk assignment was well conceived from an HR perspective particularly entering a period of change when staff were susceptible to abnormally high levels of stress. We therefore agree with the decision to defer and then discard the project.

However it is generally unwise to ask staff to raise concerns without making an overt effort to deal with those concerns.

To demonstrate to staff that they are actively interested in staff perspectives and concerns, we believe that management should issue a survey of its own as quickly as possible - the best way to put aside the after-taste of an incomplete survey is to issue a new one. We suggest that this survey address the theme of “engagement” now regarded as central to staff retention.

We believe that there is always room for managers to improve their understanding of staff issues. A survey which draws just one new issue pertinent to the staff welfare and retention is a survey worth having.

Recommendations

VAGO should conduct a full staff survey across the office as soon as possible and report the results back to staff without delay. **[Recommendation #16]**

Conducted by Mr John Phillips

8.2 Recent Staff Attrition

Facts/Observations

Of VAGO's total staff of 149 at the start of September 2007, almost half (46%) have been with the office for less than twelve months.

This reflects significant staff turnover over the past eighteen months in both audit groups as follows:

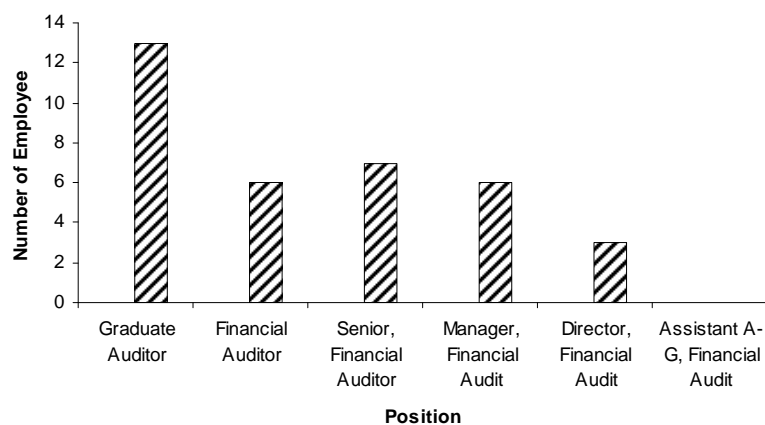
VAGO Audit Staff Attrition 01/01/06 to 30/06/07				
Period	Departure ¹	Total Employee	% of Total	Annual %
Financial Audit				
Jan-Mar 2006	3	78	6%	-
Apr-Jun 2006	4	78	5%	-
Jul-Sep 2006	11	76	14%	-
Oct-Dec 2006	3	76	4%	29%
Jan-Mar 2007	7	75	11%	34%
Apr-Jun 2007	5	75	7%	36%
Total	33	76.3	43%	
Performance Audit				
Jan-Mar 2006	1	34	3%	-
Apr-Jun 2006	4	34	12%	-
Jul-Sep 2006	0	34	0%	-
Oct-Dec 2006	1	34	3%	21%
Jan-Mar 2007	4	34	12%	33%
Apr-Jun 2007	3	33	9%	33%
Total	13	33.8	38%	

¹ Includes termination, retirements, etc.

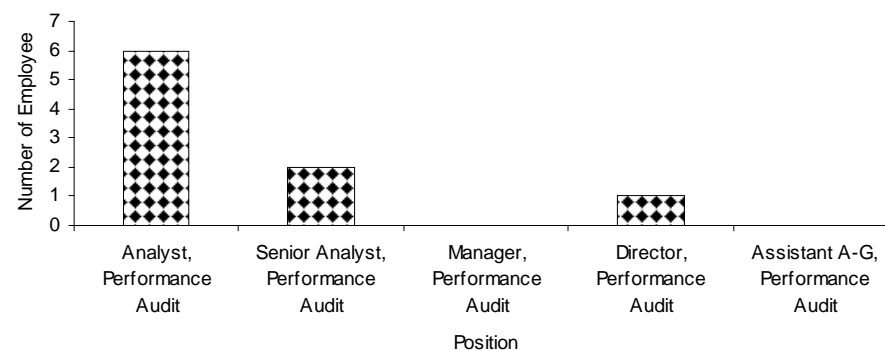
Conducted by Mr John Phillips

Though several resignations/retirements were directly associated with the change in senior management, a significant portion were in the younger age brackets at junior and intermediate levels as shown in the table(s) below:

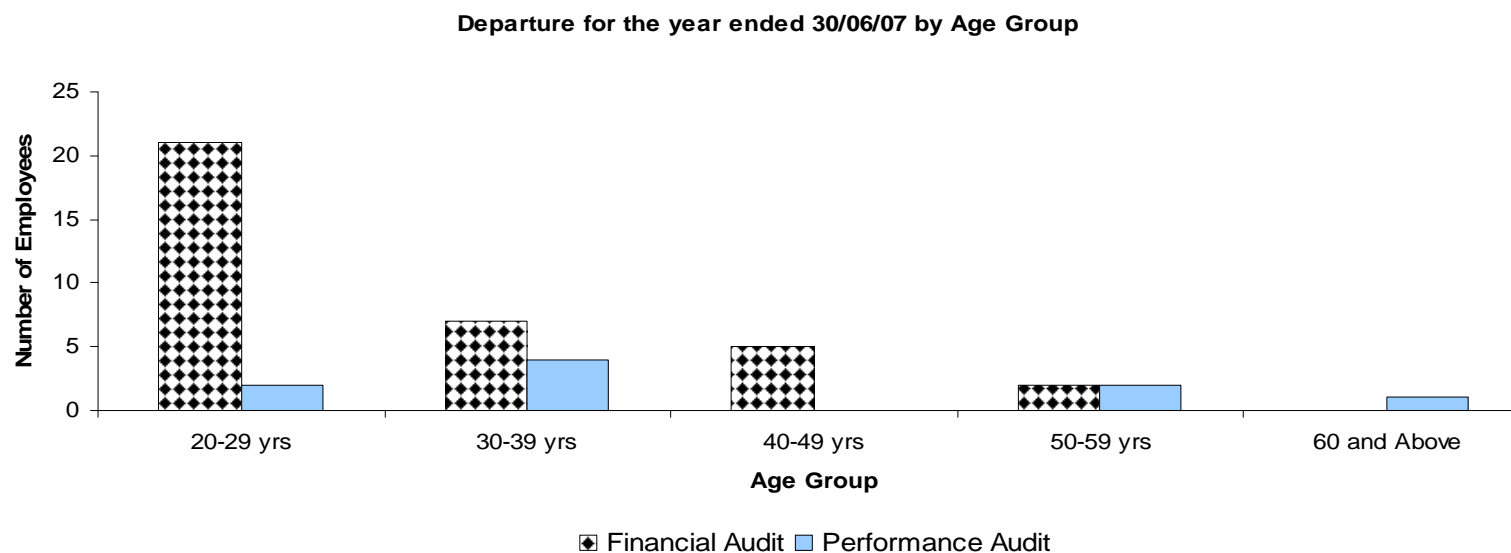
Departure in Financial Audit by Position for the year ended 30/06/07



Departure in Performance Audit by Position for the year ended 30/06/07



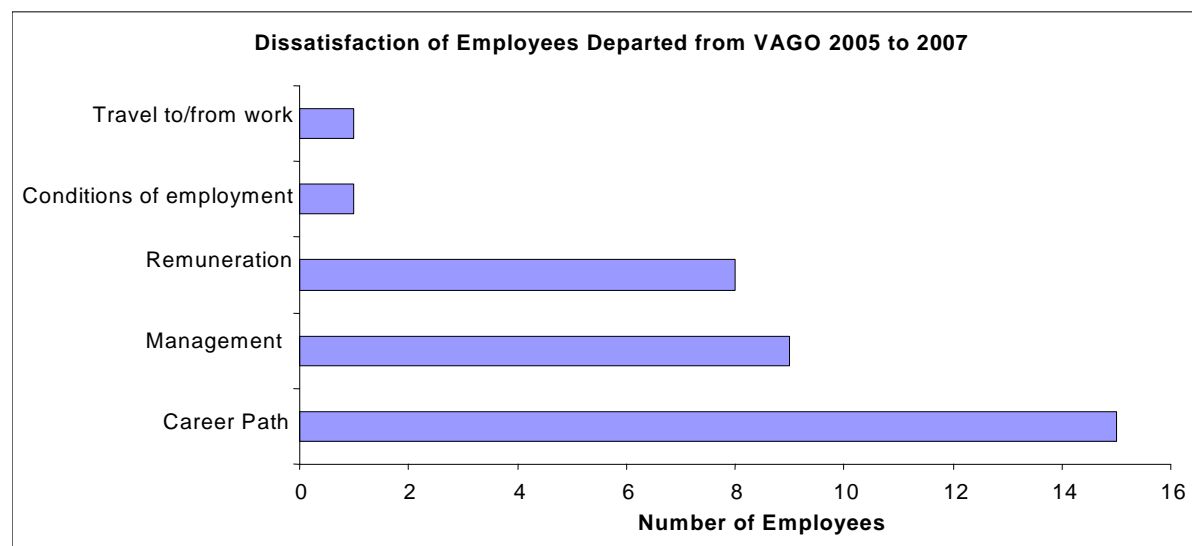
Conducted by Mr John Phillips



In large measure, this experience is a reflection of the market as a whole. For many years private sector audit firms have operated in the knowledge that the majority of new starters see audit as a stepping stone to a career in financial and/or business management. It has not been unusual for audit firms to operate with an annual staff turnover of 20%. With Generations X and Y now entering a buoyant employment market, turnover rates are pushing higher still.

Conducted by Mr John Phillips

We reviewed the exit questionnaires completed by 31 of the staff who left VAGO during the past eighteen months. A large number cited lack of opportunities for career development as their principal reason for moving on. Interestingly, remuneration has not been the main “dissatisfier”.



Since 30 June 2007 the departure rate has not slowed.

Comments

VAGO confronts major challenges in building and maintaining a strong well-balanced workforce. It is a “people organisation”. How far it succeeds in achieving its objectives of promoting accountability and performance across the public sector in the medium to long – term will depend very much on how it approaches this issue.

Significant staff turnover is costly for any business. In an organisation providing audit services it raises major training and quality control issues.

Conducted by Mr John Phillips

Even by the high levels of attrition typically experienced by private sector audit firms, VAGO has suffered a disconcertingly high staff turnover in the past eighteen months. VAGO needs to critically examine the adequacy of its strategies to recruit, train, remunerate and retain suitably qualified and skilled staff to achieve its objectives.

In 2004, we strongly recommended that VAGO develop a detailed HR strategic plan linked to the long-term objectives of the office. Although the new management team have recently developed an Organisational Development Framework, they have not completed an integrated HR strategic plan.

The plan should not only cover the two audit groups but should also include the corporate services and policy, planning and technical groups.

Recommendations

As recommended in 2004, VAGO should develop a comprehensive HR strategic plan that links to and supports the achievement of all of VAGO's strategic plans.

[Recommendation #17]

Conducted by Mr John Phillips

8.3 Workforce Planning

Facts/Observations

To assess the depth of the HR issues confronting the 2 audit delivery groups, we took their staff profiles at 30 June 2006 and undertook 3-year forward projections based on the departure rate for the past twelve months. These projections indicate that without sustained increases in recruiting activity over the next two years, the financial audit group in particular will face an even more acute shortage of experienced mid-level staff in 2010 than it has this year.

VAGO Audit Staff Projection 2007-2010 ¹							
		30/06/08 Projection		30/06/09 Projection		30/06/10 Projection	
Financial Audit	30/06/2007	With No Recruitment	With 06/07 Recruitment	With No Recruitment	With 06/07 Recruitment	With No Recruitment	With 06/07 Recruitment
Graduate Auditor	15	2	15	2	15	2	15
Financial Auditor	15	12	13	10	11	8	9
Senior, Financial Audit	22	14	17	10	13	8	11
Manager, Financial Audit	17	10	11	7	8	5	6
Director, Financial Audit	7	4	6	3	5	2	4
Assistant A-G, Financial Audit	1	1	1	1	1	1	1
Total	77	42	62	33	53	27	47
Performance Audit							
Analyst, Performance Audit	7	4	5	3	4	2	3
Senior Analyst, Performance Audit	5	3	4	2	3	2	3
Manager, Performance Audit	11	11	11	11	11	11	11
Director, Performance Audit	6	5	6	5	6	5	6
Assistant A-G, Performance Audit	1	1	1	1	1	1	1
Total	30	24	27	22	25	21	24

¹ This table excludes trainees, rotation graduates, administrative staff, etc.

Comments

Financial Audit

These projections are based on very broad assumptions. We do not expect VAGO to replicate its 2006-07 recruitment program through the next three years – and do not therefore expect it to operate with the exact staff numbers shown. We note that heavy recruitment in recent months has increased total financial audit staff since 30 June but the rate of attrition has not slowed.

In the absence of a major change in economic conditions and/or HR management policies and procedures, we believe there is good reason to expect financial audit to continue to lose more than 20% of its younger staff each year. As well as working to arrest this trend, VAGO is going to have to devote considerable effort to its recruitment programs.

Notwithstanding the fact that large numbers of graduates leave the profession within three of four years of commencement, private sector firms continue to run substantial graduate recruitment campaigns because:

- they are concerned to “capture” the best talent at the first opportunity; and
- they want to maintain a steady flow of senior auditors and audit managers who have been thoroughly trained in the audit methods and business philosophies of that firm.

Some firms take this philosophy further and operate supplementary undergraduate and/or sandwich year programs. We noted that the NSW Auditor General is now running an undergraduate recruitment program.

The alternative is to rely on the periodic addition of senior auditors, trained elsewhere, has obvious short-term advantages. However:

- it introduces variable methods and approaches into the organisation; and
- serves to exacerbate the rate at which promising juniors depart.

The problems inherent in maintaining a suitably skilled and experienced workforce in financial audit are compounded by the “seasonality” of the work. The group has to manage a significant peak in July-August and also January-February. The injection of experienced senior auditors prior to these periods can be critical to maintaining client service through the peak reporting season(s).

It is foolish to ignore the probability that a large proportion of new graduates do not expect to build a career in VAGO. But equally it is self-defeating to limit the time devoted to graduate career counselling on the basis that “they’ll leave anyway.”

Conducted by Mr John Phillips

In our view graduates should be counselled on the benefits of moving into departments and agencies as chartered accountants or CPA's (i.e. after 3-4 years experience) with VAGO. Some of the graduates who accept that advice can then be enticed through secondments and/or special management training options into remaining longer.

It is to be hoped that all those who ignore this advice and leave within 2-3 years at least spread the word that "VAGO has been a good place to work." A strong network links students to recent graduates.

We recognise that in the current market intensive personal career planning may appear to do little to stem the rate of attrition. But that is only reason to intensify efforts to provide them with the sort of work environment that will make employees think twice before looking elsewhere.

Detailed workforce planning draws all of the elements of effective HR management together i.e. recruitment, training and career development. The tougher the market, the harder management has to work to find and motivate its staff.

Performance Audit

Traditionally, the performance audit group has been particularly difficult to staff because the product itself has not been well understood by prospective employees. But VAGO now has a clear methodology supported by full job descriptions and capability statements.

We believe that a workforce plan for performance audit will be easier to develop than a work force plan for financial audit. Performance audit is well suited to the periodic identification of experienced recruits. It calls for a range of skill sets. It is generally accepted that the work is interesting and challenging. The group has just completed a strong recruitment drive with promising results.

However, it too should have a clear workforce plan containing well-researched up-to-date staff projections.

Recommendation

The HR Strategic plan should incorporate specific forward projections of future staff profiles linked to innovative recruitment strategies and synchronised training programs. **[Recommendation #18]**

8.4 ‘Employer of Choice’

Facts/Observations

Confronted with the major recruitment and retention issues described above, the AG has indicated that he wishes to make VAGO an “employer of choice”.

Comments

VAGO’s role in the affairs of Government is secured under statute. It has been considered neither necessary nor appropriate for VAGO to allocate funds for marketing purposes.

But if VAGO is going to attract and retain quality graduates and skilled practitioners, it will need to be portrayed as a dynamic progressive organisation which is not only a good place to work but also a respected career path into managerial roles across the public sector.

To become an “employer of choice”, VAGO needs to market itself aggressively across the major university campuses in the State. This activity will have to be supplemented by promotions at professional forums and through appropriate recruitment agencies and web-sites.

VAGO could strengthen its ties with the universities through initiatives such as:

- Scholarships for academic excellence in early years incorporating vacation employment;
- Sponsorship of selected student clubs societies and/or activities;
- Guest lectures and/or tutorial assistance; and
- Active participation in Careers Expos.

We believe that if VAGO’s recruitment and retention strategies are to be effective they will need to be supported by a positive information and marketing campaign.

Recommendation

To help ensure that it recruits and retains quality staff, VAGO needs to support its desire to become an “employee of choice” by marketing itself aggressively across the tertiary sector and through the employment market generally. **[Recommendation #19]**

8.5 Remuneration and Benefits

Facts/Observations

VAGO is compelled to remunerate its staff in accordance with VPS rates of pay.

The absolute amounts involved and the grading structure compound the difficulties faced by VAGO when attempting to build a quality workforce. Audit graduates develop very quickly during their early years in the field. An auditor with 18 months to 2 years experience is infinitely more valuable than one who has been on the job for 3 to 6 months.

It is extremely difficult For VAGO to fairly reward staff for their relative contributions to the office while offering them future salary growth commensurate with their increased market worth. After three years experience, auditors who have undertaken the requisite studies become eligible for membership of the two professional accounting bodies. At this point, they become highly marketable and their salaries escalate dramatically. VAGO's salaries fall well behind.

Staff Level	VAGO Salary	Market Salary
	\$k	Range \$k
2007 Graduate – Ist Year	41	40-45
2006 Graduate- 2 nd Year	44	45-65
2005 Graduate – 3 rd Year	48	65-75

Management has begun to prepare a paper for consideration in the development of the new VPS –wide employment agreement to come into effect in 2009. We note the Audit Office of NSW has its own award.

Comments

In developing their next employment agreement, it is to be hoped that VAGO will be able to lift its salary levels for those with 3-4 years experience.

In the interim, VAGO needs to be particularly aggressive in seeking to offer staff non-salary benefits. As part of plans to become an 'employer of choice', VAGO needs to be creative in providing staff with special conditions appropriate for a professional services organisation.

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We suggest that VAGO consider the following:

- Issuing mobile phones to all audit staff for contact efficiency as well as staff benefit;
- Financial support for personal development courses including MBA's;
- Funded travel to interstate and international conferences;
- Short-term transfers to other audit offices, including overseas offices;
- Inter-group transfers; and
- Car-parking support and assistance.

Benefits such as these should not be regarded as additional expenses but as investments in the intellectual capital of the office.

Recommendations

To help offset its relative salary disadvantage, VAGO broaden its offering of additional staff benefits, including the provision of mobile phones, financial support for fee-paying courses and sponsored travel for training and development. **[Recommendation #20]**

8.6 HR Management Information

Facts/Observations

Most of the HR information contained in this reported was taken from a detailed spreadsheet of employee information maintained off-line by the People and Culture group.

This information was drawn from the Micropay payroll supplemented by relevant data from the AllStaff Database and from MARS. The office does not have an integrated HR Management Information System. The audit groups maintain their own staff databases for day-to-day management and rostering purposes.

Comments

People represent VAGO's key asset.

Ideally aggregate staff profiles should be on line with full drill down capability to individual staff files. Payroll statistics, performance appraisals, training needs and career plans should be held in a common database. The database should retain information on staff movement histories for analytical purposes.

As well as being a practical aid to efficient staff management, an integrated HR Management Information System is tangible evidence of a desire to operate as an "employer of choice".

Recommendations

In accordance with its desire to be recognised as an "employer of choice" VAGO should carefully consider the benefits of implementing an integrated HR Management Information system. **[Recommendation #21]**

8. Appendices

APPENDIX 1: INDEX

INDEX BY REFERENCE NUMBER

Ref #	Terms of Reference	Report Section #	Section #
1	Assess the appropriateness of the purpose and objectives set by the Auditor-General in his annual plan and determine the extent to which they are being achieved.	Objectives and Governance	2.1, 2.2, 2.3
2	Review key management issues, including:		
2(a)	Review the adequacy and effectiveness of the annual planning process, having regard to risk factors and governance arrangements within agencies;	Strategic Audit Planning	4.1, 4.2, 4.3
2(b)	Review the adequacy of VAGO's corporate and business plans in promoting internal effectiveness and efficiency, including future plans for the next three to five years;	Objectives and Governance	2.6
2(c)	Review the adequacy and effectiveness of VAGO's audits in promoting improved performance and accountability as well as productivity in the Victorian public sector;	Stakeholder Relationships	3.4
2(d)	Review the adequacy and effectiveness of internal systems to measure and improve productivity;	Business Management	7.1, 7.2
2(e)	Review the adequacy of the existing time recording and costing systems to ensure all recoverable costs are collected for government and that there is no cross-subsidisation between chargeable and non-chargeable functions of the Office; or between performance and financial audits, and special reviews;	Business Management	7.3

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Ref #	Terms of Reference	Report Section #	Section #
2(f)	Review the adequacy and appropriateness of all audit methodologies, practices and procedures;	Financial Audit Performance Audit	5.1, 5.2, 6.4
2(g)	Review the culture of management and its effect on performance;	Objectives and Governance	2.4, 2.5
2(h)	Review the effectiveness of the relationship between the Office and its clients (particularly the Public Accounts and Estimates Committee and the Parliament) and any factors influencing that relationship;	Stakeholder Relationships	3.1, 3.2
2(i)	Review the extent to which best practice in public sector management and auditing has been adopted in the Office;	Objectives and Governance	2.9
2(j)	Review the appropriateness of performance measures and benchmarks against which the Auditor-General's Office measures its performance both internally and externally;	Objectives and Governance	2.7, 2.8
2(k)	Review whether the Victorian Auditor-General's Office complies with Australian auditing standards, including the quality control process associated with contracted audits; and	Financial Audit	5.3, 5.4
2(l)	Review whether audits are supported by adequate plans and work papers, appropriate audit evidence and appropriate quality control procedures	Financial Audit	5.5, 5.6
3	Review the efficiency and effectiveness of the management and conduct of performance audits and special reviews undertaken by the Victorian Auditor-General's Office, with particular attention to:		
3(a)	Review the extent to which the selection criteria for performance audits ensures key risk areas and major programs within the public sector receive adequate coverage;	Strategic Audit Planning	4.5
3(b)	Review the adequacy of the rationale supporting the selection of potential performance audit topics;	Strategic Audit Planning	4.4

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Ref #	Terms of Reference	Report Section #	Section #
3(c)	Review the effectiveness of the planning and management of performance audits;	Performance Audit	6.5
3(d)	Review the adequacy of the investigative process and quality control procedures to support conclusions arising from the performance audits;	Performance Audit	6.6
3(e)	Review whether significant issues that arise during the course of a performance audit that were not identified in audit plans, are addressed;	Performance Audit	6.8
3(f)	Review whether the existing practice of tabling a considerable number of performance audit reports should be varied to include large performance audit projects addressing significant issues of public interest;	Performance Audit	6.2
3(g)	Review compliance with statutory requirements for the conduct and reporting of performance audits;	Performance Audit	6.1
3(h)	Review the appropriateness of the mix between specialist expertise, contractors and suitably qualified in-house staff in undertaking particular performance audits; and	Performance Audit	6.7
3(i)	Review the appropriateness of criteria against which the efficiency and effectiveness of performance audits and special reviews conducted by the Office are measured.	Performance Audit	6.3
4	Determine whether it is appropriate for the Auditor-General to extend his activities to actively assist public sector agencies in enhancing accountability and resource management through publication of good practice guides.	Stakeholder Relationships	3.3
5	Survey a representative example of users of the Auditor-General's reports to the Parliament (Members of Parliament, Public Accounts and Estimates Committee, representatives of Executive Government and selected others) including key interest groups to determine whether the Auditor-General is meeting his objectives, particularly delivering value-added recommendations to agencies and providing value for money to the Parliament and the Victorian community.	Stakeholder Relationships & Appendix 2	3.5, 3.6

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Ref #	Terms of Reference	Report Section #	Section #
6	Determine the adequacy of existing strategies within the Auditor-General's Office to recruit, train, adequately remunerate and retain suitably qualified and skilled staff to achieve its objectives.	Human Resources	8.1, 8.2, 8.3, 8.4, 8.5, 8.6
7	Ascertain whether the existing processes for evaluating tenders from private audit contractors and consultancies are conducted with due regard to probity.	Objectives and Governance	2.11
8	Determine the scope, quality and effectiveness of the internal audit function within the Auditor-General's Office.	Objectives and Governance	2.10

INDEX BY REPORT SECTION

Report Section #	ToR #	Section #	Terms of Reference
Objectives and Governance	1	2.1, 2.2, 2.3	Assess the appropriateness of the purpose and objectives set by the Auditor-General in his annual plan and determine the extent to which they are being achieved.
Objectives and Governance	2(g)	2.4, 2.5	Review the culture of management and its effect on performance;
Objectives and Governance	2(b)	2.6	Review the adequacy of VAGO's corporate and business plans in promoting internal effectiveness and efficiency, including future plans for the next three to five years;
Objectives and Governance	2(j)	2.7, 2.8	Review the appropriateness of performance measures and benchmarks against which the Auditor-General's Office measures its performance both internally and externally;
Objectives and Governance	2(i)	2.9	Review the extent to which best practice in public sector management and auditing has been adopted in the Office;
Objectives and Governance	8	2.10	Determine the scope, quality and effectiveness of the internal audit function within the Auditor-General's Office.
Objectives and Governance	7	2.11	Ascertain whether the existing processes for evaluating tenders from private audit contractors and consultancies are conducted with due regard to probity.
Stakeholder Relationships	2(h)	3.1, 3.2	Review the effectiveness of the relationship between the Office and its clients (particularly the Public Accounts and Estimates Committee and the Parliament) and any factors influencing that relationship;
Stakeholder Relationships	4	3.3	Determine whether it is appropriate for the Auditor-General to extend his activities to actively assist public sector agencies in enhancing accountability and resource management through publication of good practice guides.
Stakeholder Relationships	2(c)	3.4	Review the adequacy and effectiveness of VAGO's audits in promoting improved performance and accountability as well as productivity in the Victorian public sector;
Stakeholder Relationships and Appendix 2	5	3.5, 3.6	Survey a representative example of users of the Auditor-General's reports to the Parliament (Members of Parliament, Public Accounts and Estimates Committee, representatives of Executive Government and selected others) including key interest groups to determine whether the Auditor-General is meeting his objectives, particularly delivering value-added recommendations to agencies and providing value for money to the Parliament and the Victorian community.
Strategic Audit Planning	2(a)	4.1, 4.2, 4.3	Review the adequacy and effectiveness of the annual planning process, having regard to risk factors and governance arrangements within agencies;

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Report Section #	ToR #	Section #	Terms of Reference
Strategic Audit Planning	3(b)	4.4	Review the adequacy of the rationale supporting the selection of potential performance audit topics;
Strategic Audit Planning	3(a)	4.5	Review the extent to which the selection criteria for performance audits ensures key risk areas and major programs within the public sector receive adequate coverage;
Financial Audit	2(f)	5.1, 5.2	Review the adequacy and appropriateness of all audit methodologies, practices and procedures;
Financial Audit	2(k)	5.3, 5.4	Review whether the Victorian Auditor-General's Office complies with Australian auditing standards, including the quality control process associated with contracted audits;
Financial Audit	2(l)	5.5, 5.6	Review whether audits are supported by adequate plans and work papers, appropriate audit evidence and appropriate quality control procedures;
Performance Audit	3(g)	6.1	Review compliance with statutory requirements for the conduct and reporting of performance audits;
Performance Audit	3(f)	6.2	Review whether the existing practice of tabling a considerable number of performance audit reports should be varied to include large performance audit projects addressing significant issues of public interest;
Performance Audit	3(i)	6.3	Review the appropriateness of criteria against which the efficiency and effectiveness of performance audits and special reviews conducted by the Office are measured.
Performance Audit	2(f)	6.4	Review the adequacy and appropriateness of all audit methodologies, practices and procedures;
Performance Audit	3(c)	6.5	Review the effectiveness of the planning and management of performance audits;
Performance Audit	3(d)	6.6	Review the adequacy of the investigative process and quality control procedures to support conclusions arising from the performance audits;
Performance Audit	3(h)	6.7	Review the appropriateness of the mix between specialist expertise, contractors and suitably qualified in-house staff in undertaking particular performance audits;
Performance Audit	3(e)	6.8	Review whether significant issues that arise during the course of a performance audit that were not identified in audit plans, are addressed;
Business Management	2(d)	7.1, 7.2	Review the adequacy and effectiveness of internal systems to measure and improve productivity;
Business Management	2(e)	7.3	Review the adequacy of the existing time recording and costing systems to ensure all recoverable costs are collected for government and that there is no cross-subsidisation between chargeable and non-chargeable functions

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Report Section #	ToR #	Section #	Terms of Reference
			of the Office; or between performance and financial audits, and special reviews;
Human Resources	6	8.1, 8.2, 8.3, 8.4, 8.5, 8.6	Determine the adequacy of existing strategies within the Auditor-General's Office to recruit, train, adequately remunerate and retain suitably qualified and skilled staff to achieve its objectives.

APPENDIX 2: SURVEY RESULTS

Methodology and Response Rate

As part of our review, we conducted surveys to obtain feedback from key stakeholders about the VAGO's performance between 2005 and 2007.

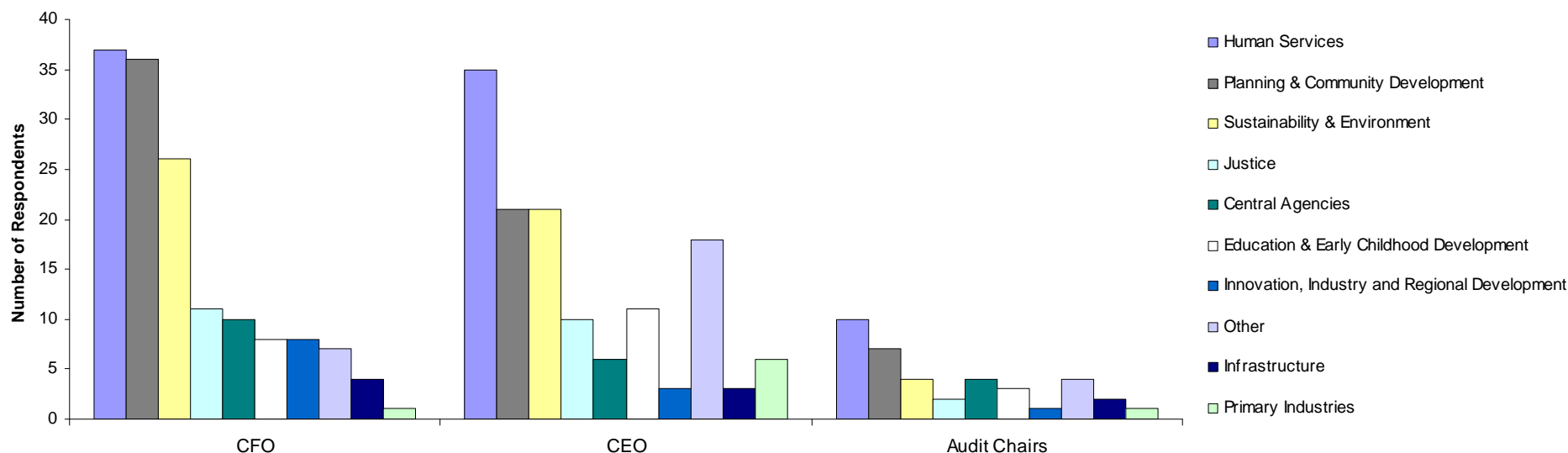
Four separate surveys were designed to specifically gauge the opinions of Chief Financial Officers (CFOs), Chief Executive Officers (CEOs), Audit Committee Chairs (AC Chairs) and Parliamentarians. All four surveys were distributed in August 2007 via e-mail to each stakeholder category.

The following table illustrates the extent of our sample and the number of respondents for each survey.

Surveys	Total Population	Selected Sample	Sample (%)	Number of Respondents	Response Rate (%)
CFOs	300	193	64	148	77
CEOs	440	299	68	134	45
Audit Committee Chairs	210	75	36	38	51
Parliamentarians	128	128	100	18	14
Total	1,078	695	64	338	49

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The profiles of the respondents by sector group in each stakeholder group are shown in the charts below.



From the above, the largest sector response across the 3 groups was from Human Services followed by Planning and Community Development and Sustainability and Environment.

Performance, Accountability and Productivity in the Victorian Public Sector

Effects on Performance

As it is inherently difficult for the financial audit process to have a significant effect on performance, we concentrated on questions in this area on performance audits only.

Of the relatively small number (24) of CEO respondents that were subject to a performance audit in the past 3 years, 42% were satisfied that it has helped to improve performance of their organisation while 45% of the respondents were undecided.

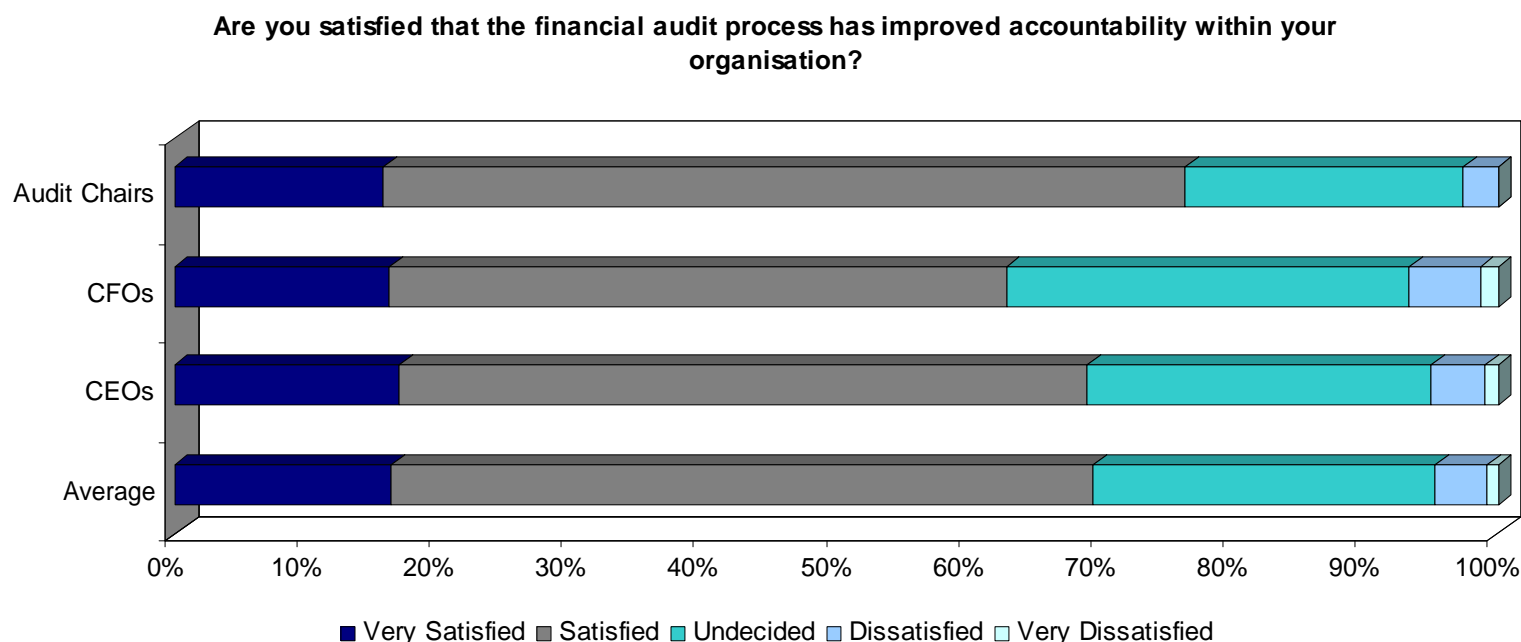
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In the overall view of Parliamentarians respondents, 61% expressed satisfaction that the AG has helped to improve performance of the Victorian public sector with a further 33% undecided.

The majority of respondents indicated that they felt that their financial auditors had taken all reasonable steps to identify opportunities for improvement within the organisation.

Effects on Accountability

Overall, we surveyed CEOs, CFOs and AC Chairs about their satisfaction on how the financial audit process has improved accountability within their organisations. As shown below, on average, 69% of the respondents were satisfied that the process has brought improvement in accountability.



We surveyed CEOs on the contribution of performance audits to improving organisational accountability. Of the small amount of CEO respondents that were subject to a performance audit, 62% were satisfied that it has helped to improve the accountability of their organisation.

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In the view of Parliamentary respondents, 67% expressed satisfaction that the AG has helped to improve accountability of the Victorian public sector which included 44% being **very** satisfied.

Effects on Productivity

Of the CEO's that were subject to a performance audit, one quarter of the respondents were satisfied that performance audits had improved productivity while more than half (54%) were undecided.

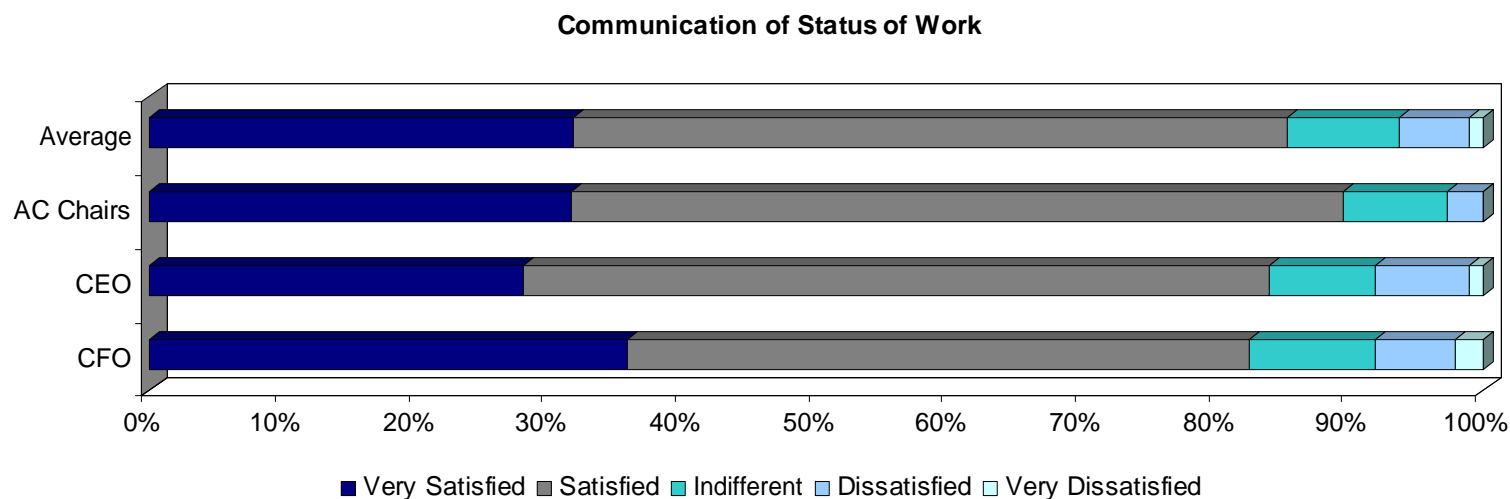
In the view of Parliamentary respondents, 67% expressed satisfaction that the AG has helped to improve productivity of the Victorian public sector. A small 11% expressed dissatisfaction.

Financial Audit

Overall, results from the surveys of CFOs, CEOs and AC Chairs showed that clients were satisfied with the financial audits being performed by VAGO and private sector firms (agents) appointed by VAGO. The proportion of respondents audited by VAGO staff compared those audited by agents was approximately 1/3 to 2/3 respectively for the most recent financial audit year.

Generally, respondents were satisfied that audits were being planned, communicated and executed on a timely basis. They were also satisfied that the approach taken properly reflected audit risks and that audit staff including, AG Directors, had sufficient technical and business knowledge of the operations.

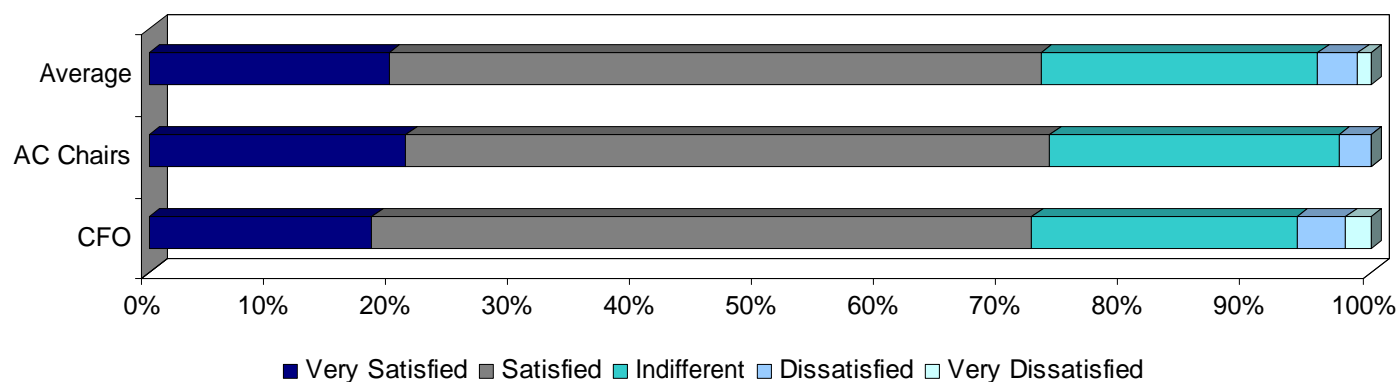
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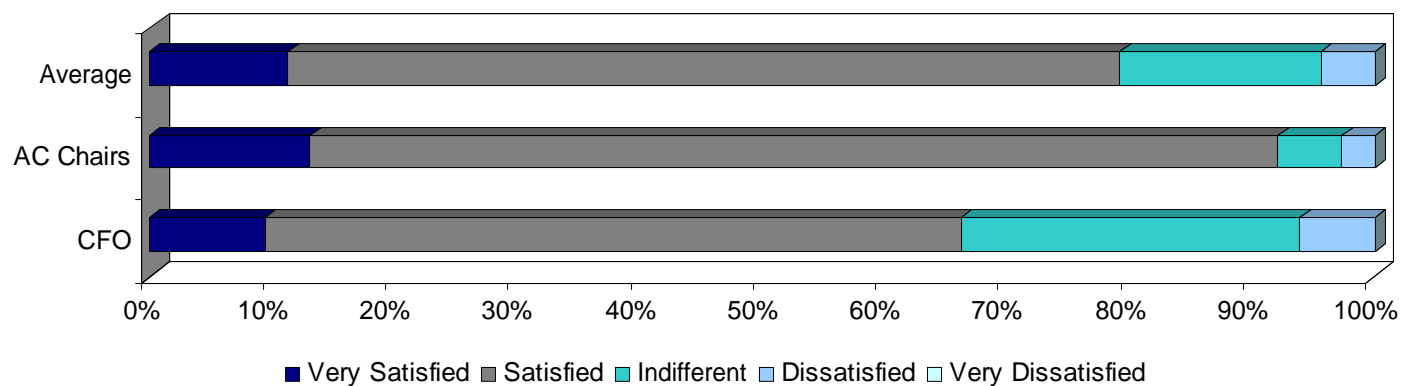
As shown below, over 80% of respondents were satisfied that audit staff kept them informed of the status of field work and that emerging issues were communicated on a timely basis, were valid and appropriately resolved. This is an improvement on the results of VAGO surveys for prior periods. There was 73% satisfaction from respondents that reasonable steps were taken to use internal audit work.

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Use of Internal Audit Work



Financial Audit Recommendations

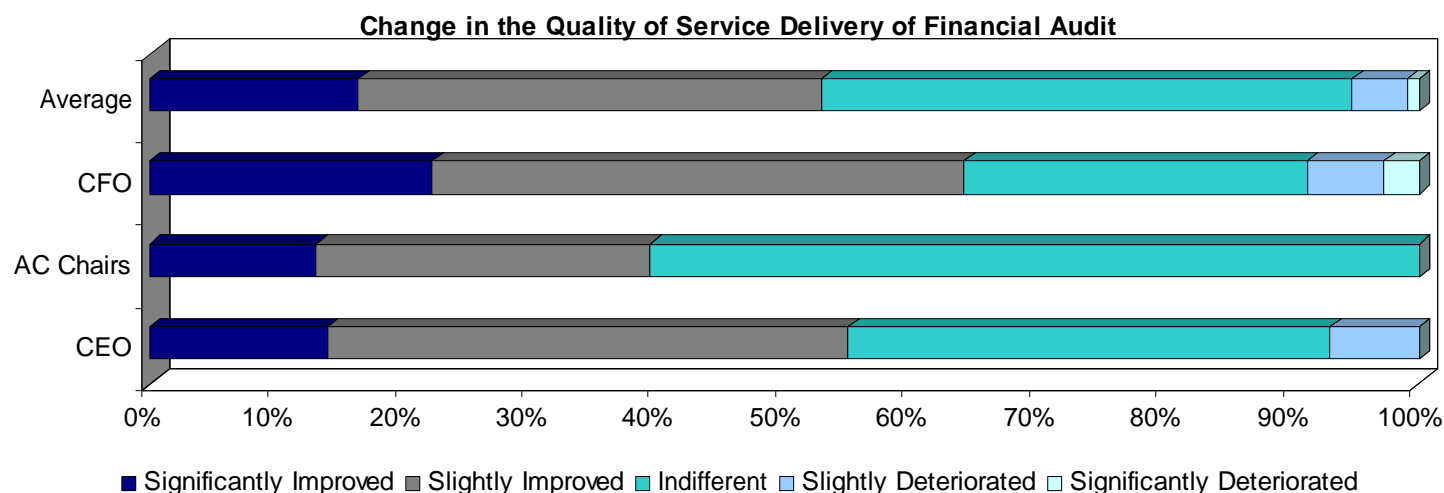


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Only 66% of CFOs were satisfied that the recommendations contained in the final management letter were valid, practical and capable of implementation. However, 92% of AC Chairs were satisfied with recommendations in the management letter.

Service Delivery

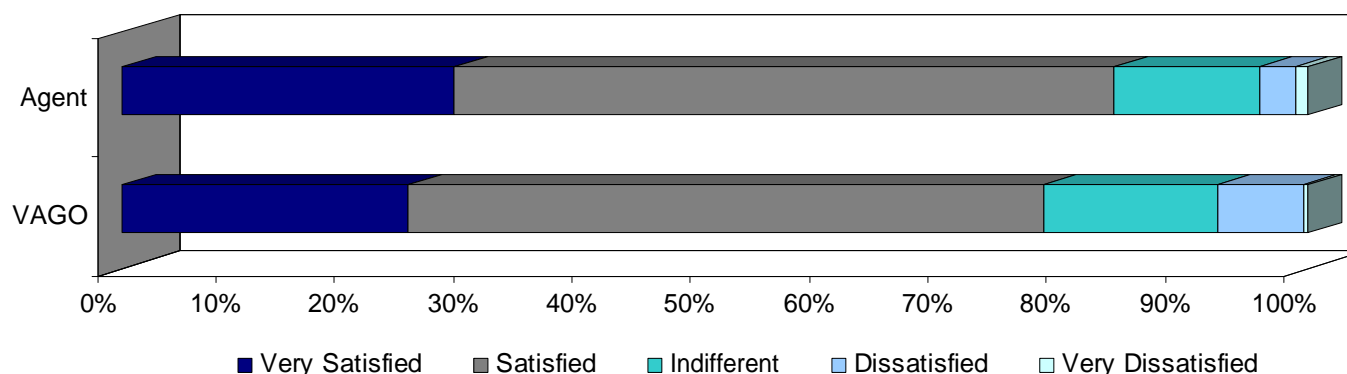
We specifically asked respondents whether there was any change in the quality of service delivery by VAGO and its Agents over the past 3 years leading up to 2007. As shown below, the opinions between CEOs and CFOs were consistent in seeing improved service while very few perceived that it has deteriorated. More than half (61%) of the AC Chairs felt indifferent with the service quality over the period. None of them saw any deterioration.



We further analysed the CFO survey results by performing a comparison of overall ratings of service delivery between VAGO and VAGO agents. Overall, approximately 84% of CFOs were satisfied with the work performed by agencies with a slightly lower percentage (78%) satisfied with audits performed by VAGO staff.

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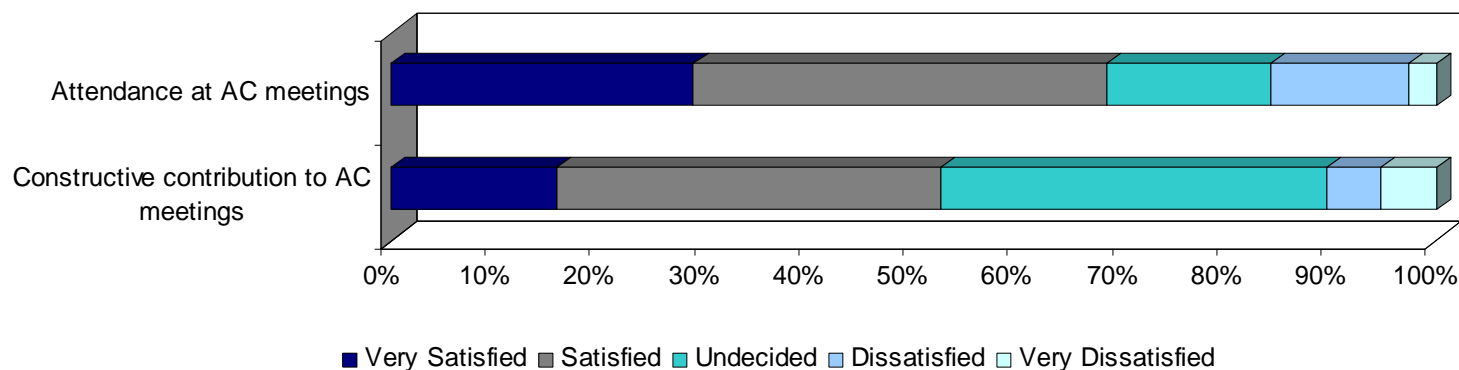
CFO Satisfaction Level of Financial Audit between VAGO and Agent



This implies that the quality of service being delivered in financial audit was relatively consistent between VAGO and their appointed agents.

Audit Committee Participation

AC Chairs Opinion on the Quality of Service Delivered by VAGO

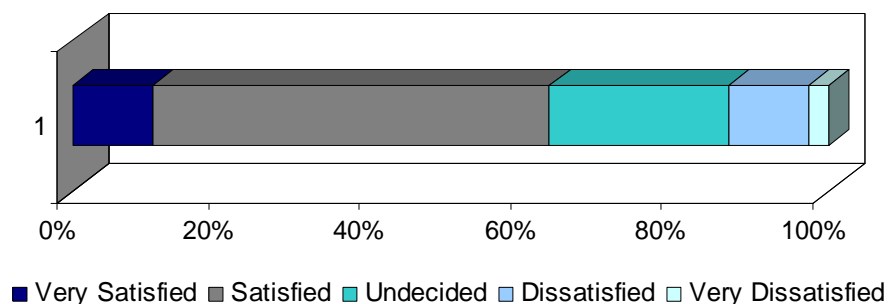


We specifically asked AC Chairs for their feedback on VAGO and its Directors. Outsourced audits to private firms are assigned a VAGO director to sign the audit opinion. 68% of respondents were satisfied with VAGO Director's attendance at audit committee meetings. Slightly above half (53%) of the AC Chairs

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were satisfied that VAGO directors have made constructive contribution towards their audit committee meetings. Approximately 37% of them were undecided whether they have made any constructive contribution.

Appraised of Planned and/or Actual PA/Special Reviews



63% were satisfied that the VAGO director kept them appraised of planned and/or actual performance audits/special reviews.

Qualitative Survey Comments

Respondents were invited to provide any comments and suggestions for improvement, particularly if they were dissatisfied with any of the questions. While the majority of the comments from respondents reinforced the satisfactory results discussed above, a minority provided comments on areas which could be improved, the common themes being:

- Communication with the appropriate client contacts as to the status/timelines of the audit and timely notification/resolution of issues to avoid any “surprises”;
- Timeliness of audit execution;
- Staff turnover/continuity with particular regard to being able to attain/retain knowledge of the client’s organisation and sector;
- Better visibility of field staff at the client’s premises as the client may not feel that they are getting value for money;
- Value-add from the audit process, especially the practicality of implementing recommendations made in the management letter; and
- Better attendance and contributions at client audit committee’s by VAGO directors.

We note that most of the above comments were reflected in the results of VAGO’s own 30 June 2006 Financial Audit survey so management are aware and are actively working with clients and staff to improve in all these areas.

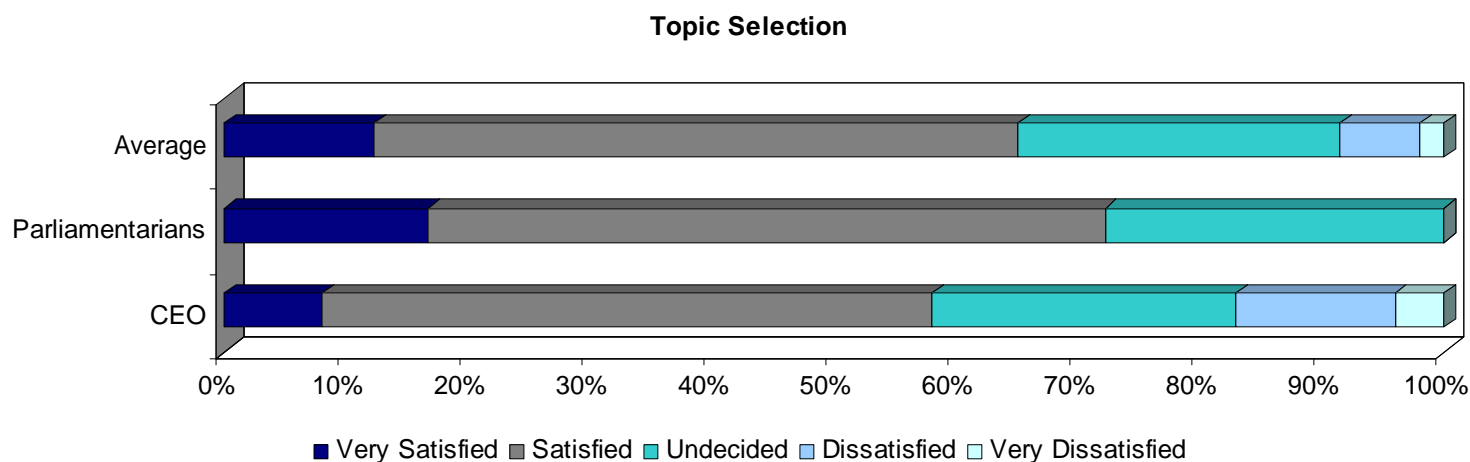
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Performance Audit/Special Investigations

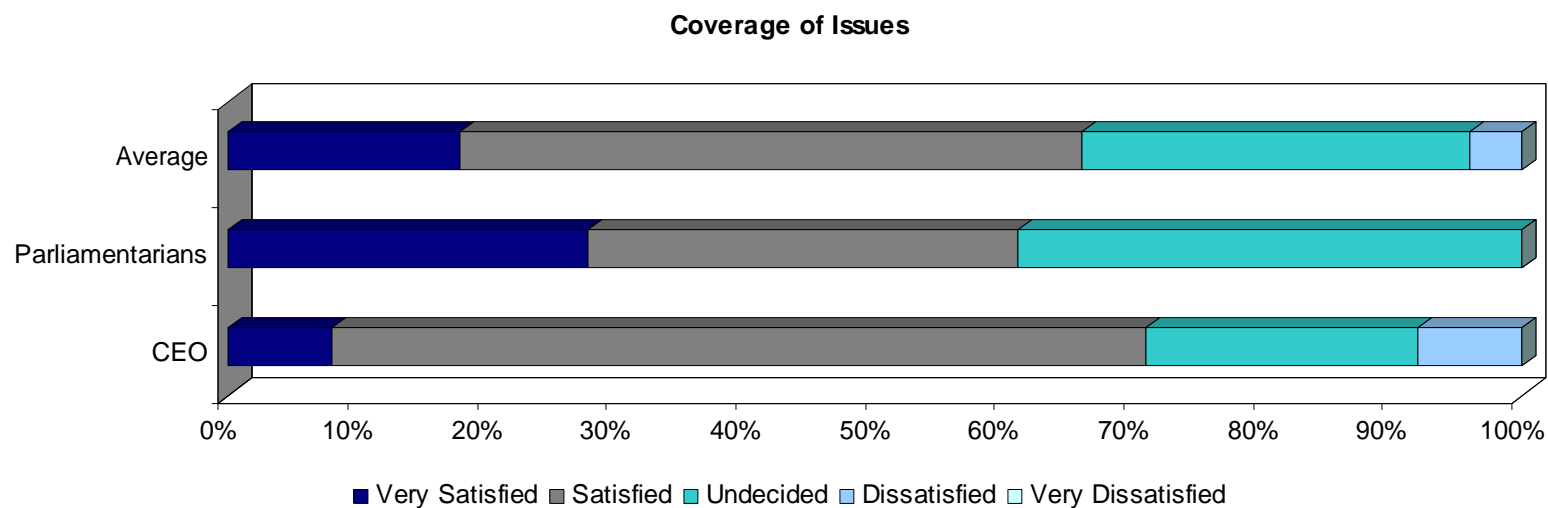
We surveyed CEOs on the quality of performance audits. Of the 134 respondents, only 18% or 24 respondents had been subject to a performance audit in the past 3 years. Based on these 24 respondents, the overall satisfaction on the service quality delivered by VAGO in performance audit is lower when compared to financial audit. On average, 57% of these CEOs respondents were satisfied with how VAGO has undertaken performance audits at their organisation. On investigation we ascertained that significant number of the less favourable responses related to their experiences with special reviews/investigations and not with performance audits.

Topic Selection

In the area of topic selection, 58% of CEO respondents subject to a performance audit were satisfied that topics were well chosen and scoped appropriately. A further 25% were undecided. 71% of them were satisfied that performance audits/special reviews had covered issues of high public interest, high risk areas and/or issues of significant materiality. Only half of them were satisfied that the performance audits provided public benefit with a further 38% undecided. 72% of Parliamentary respondents were satisfied with the selection of topics.

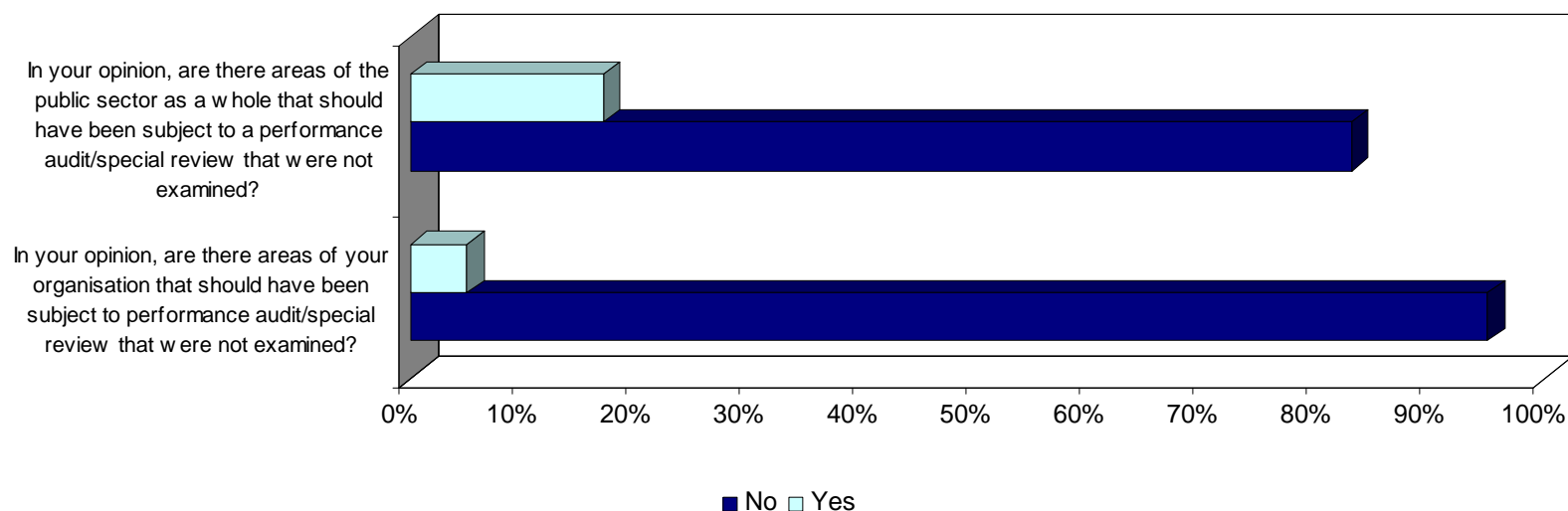


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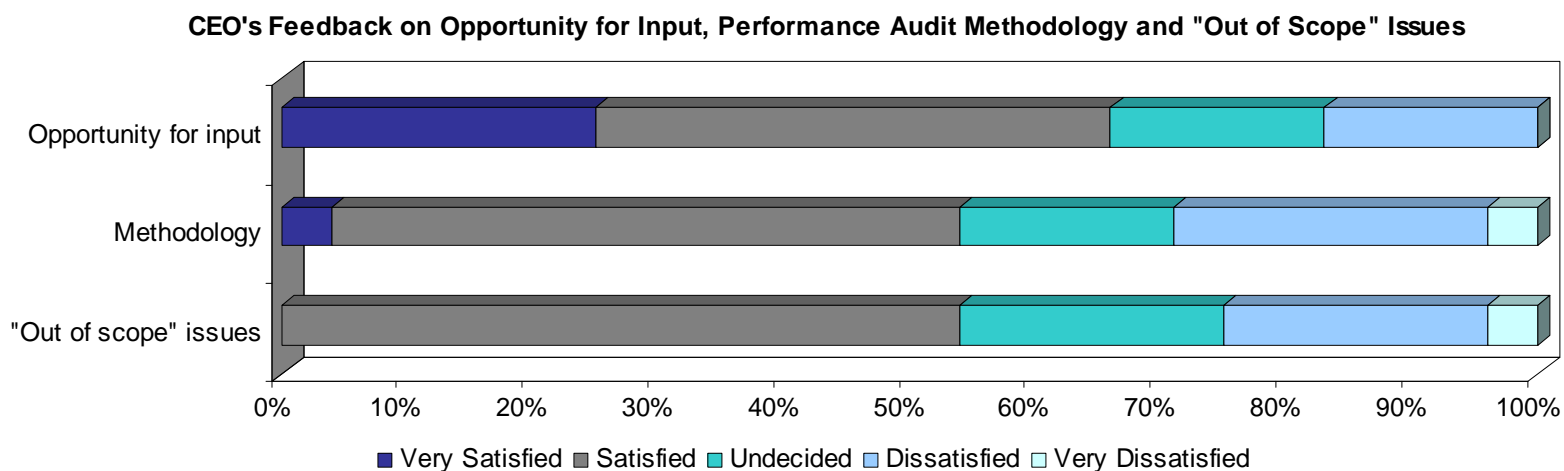


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As shown below, out of the 134 CEO respondents, 95% believed that there were no areas of their organisation that should have been subject to performance audits that were not examined and 83% believing that there were no areas of the public sector as a whole that should have been subject to a performance audit that were not examined.

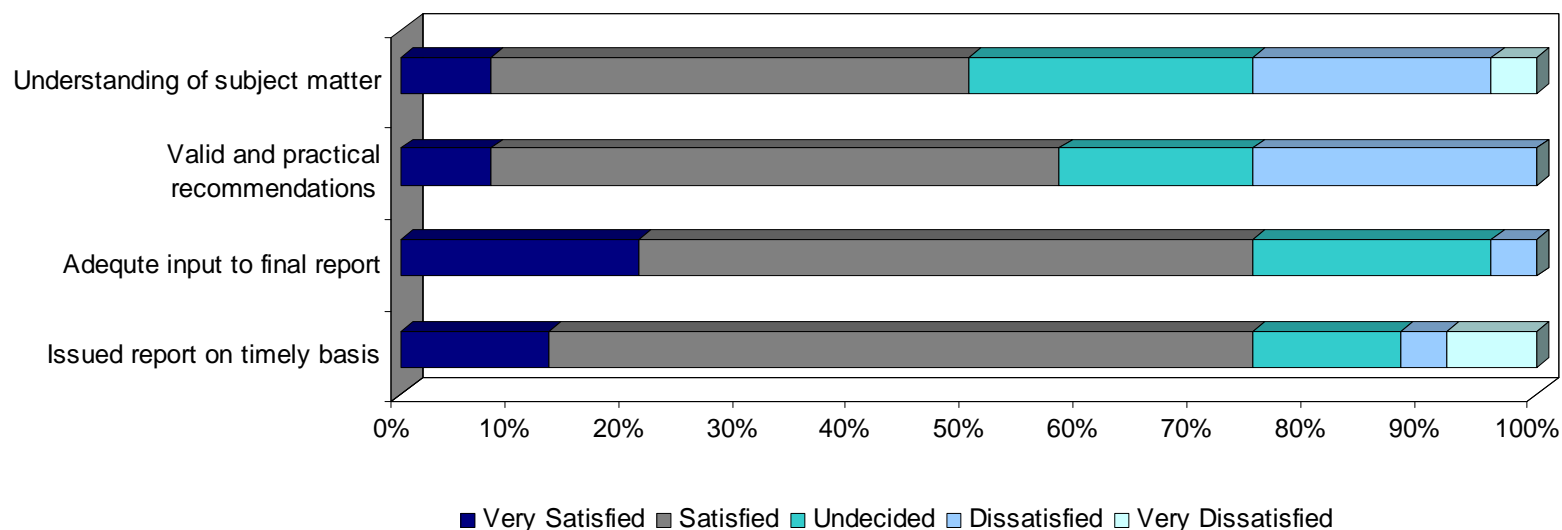


Performance audit execution



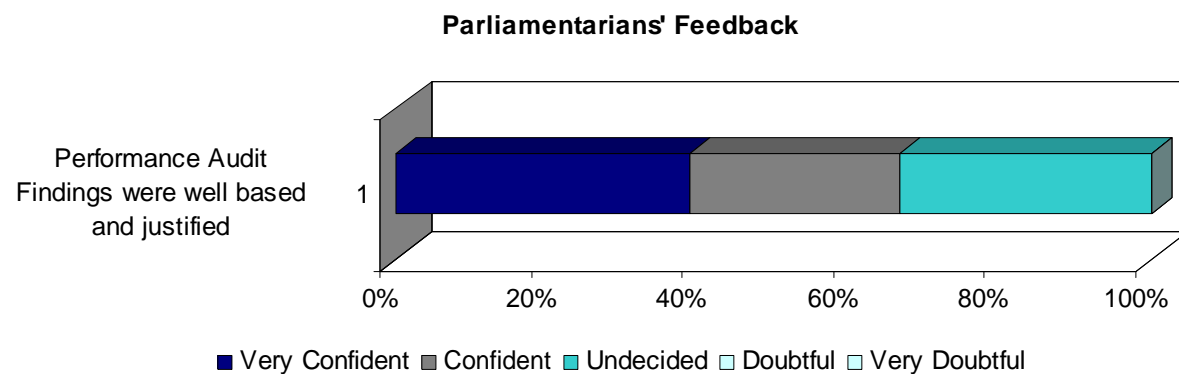
67% of CEOs were satisfied that they had appropriate opportunity to provide input to the VAGO plan. When asked about their satisfaction with the methodology applied in conducting the performance audit/special review, slightly above half were satisfied. It is noted that 29% expressed dissatisfaction. Similarly, 54% of the respondents were satisfied with how the audit staff treated "out of scope" issues appropriately with 25% being dissatisfied.

Understanding of Subject Matter, Valid Recommendations, Input to Final Report & Timeliness



Half of the respondents were satisfied that the performance audit team understood the subject matter with 25% expressing dissatisfaction. Similarly, there was 25% dissatisfaction that recommendations were valid, practical and capable implementation with 58% being satisfied. 75% of the CEOs were satisfied that they had adequate input into the final report and it was issued on a timely basis.

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Parliamentarians expressed a high level of confidence that VAGO's performance audit/special review findings were well based and properly justified with 67% being confident including 39% very confident.

Comments

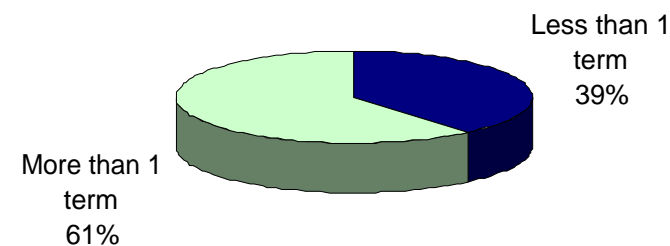
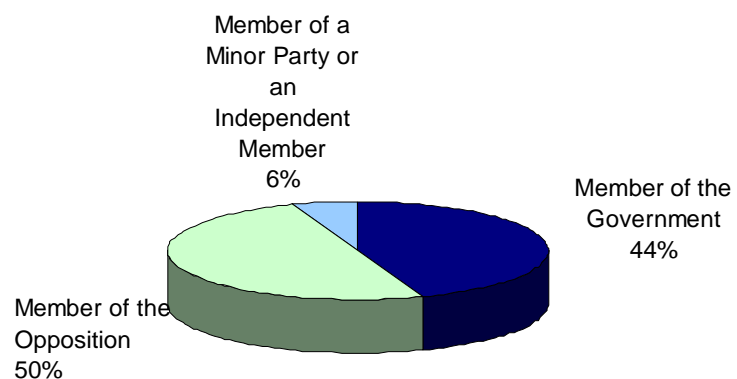
Comments received by CEO respondents who were subject to a performance audit were mixed. While some were satisfied with the work done by the performance auditors there were some areas of dissatisfaction:

We have traced most of the more critical comments to agencies that were related to special reviews rather than performance audits.

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Parliamentarian Survey Findings

The charts below show the profile of the 18 respondents in the Parliamentarian survey. Half of them were members of the opposition while the majority (78%) were non-ministers. 61% of respondents were serving for more than one term.

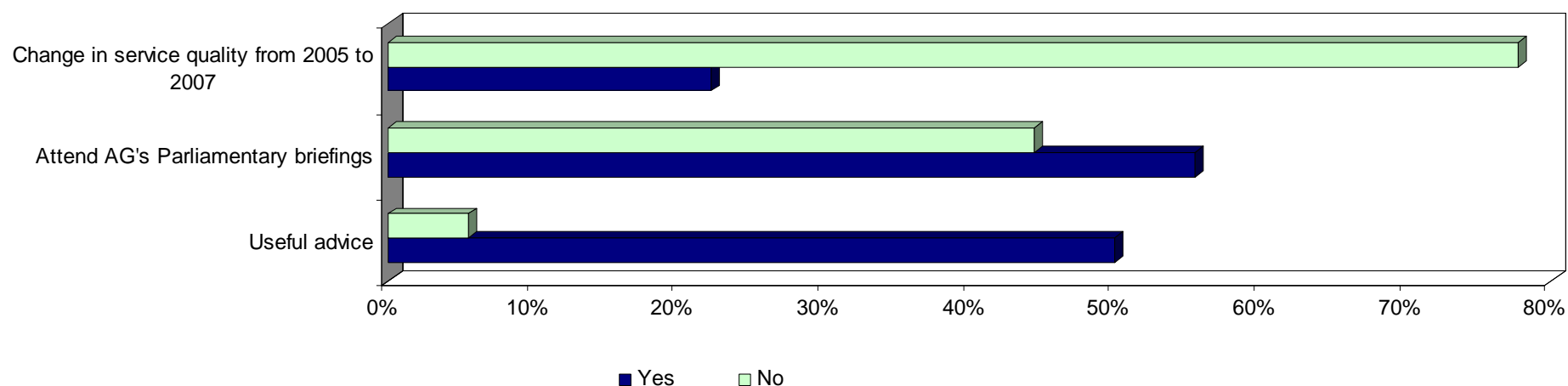


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Service Quality

Overall, the respondents were satisfied and had strong confidence in how the A-G provided service to the Parliamentarians. 78% of the respondents had not seen any change in service quality from the AG from 2005 to 2007. Only 56% of them had attended the AG's Parliamentary briefings with half of this group feeling that the AG provided them with useful advice.

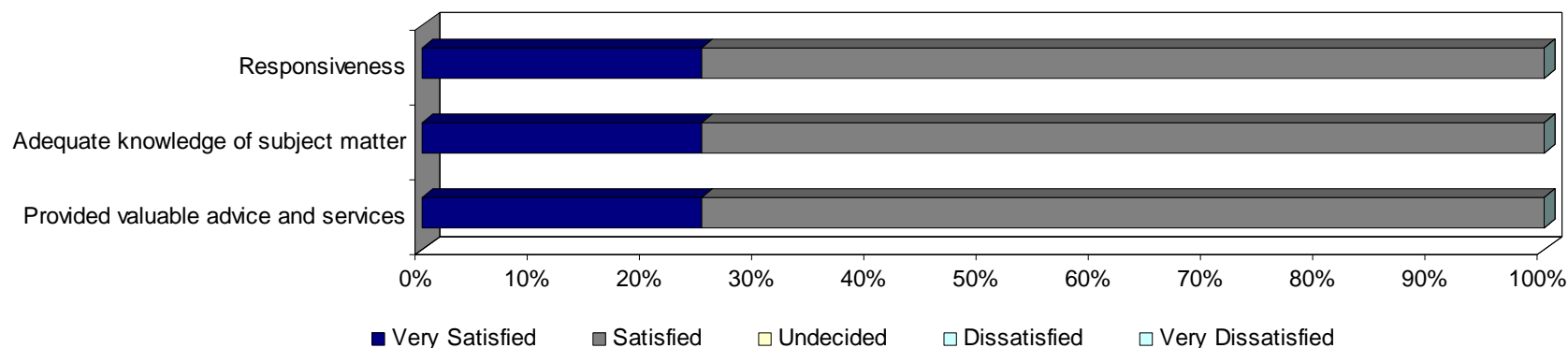
Parliamentarians' Feedback on Service Quality



From the chart below, the majority (78%) of the respondents have not approached the AG for any other dealings besides receiving the AG's reports. Of the remaining 22% of those who have approached the AG for special dealings, 75% of them were satisfied with the responsiveness, knowledge of the subject matter as well as being able to provide valuable advice and services.

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Parliamentarians' Feedback on Other Dealings

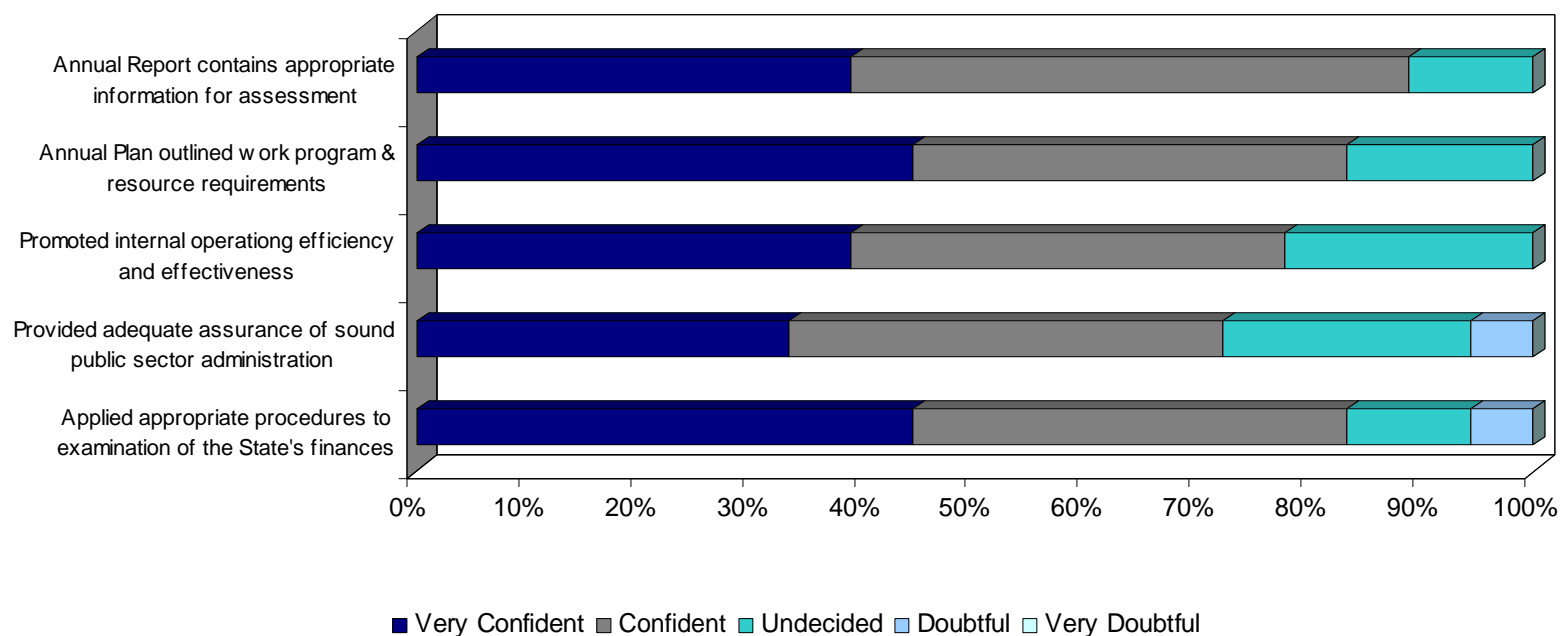


VAGO Performance

89% of respondents were confident that VAGO's Annual Report contained appropriate information by which to assess its performance against its Annual Plan. A slightly lower percentage (83%) were confident that VAGO's Annual Plan, as tabled in Parliament, properly outlined the proposed work program and resource requirements for the coming year.

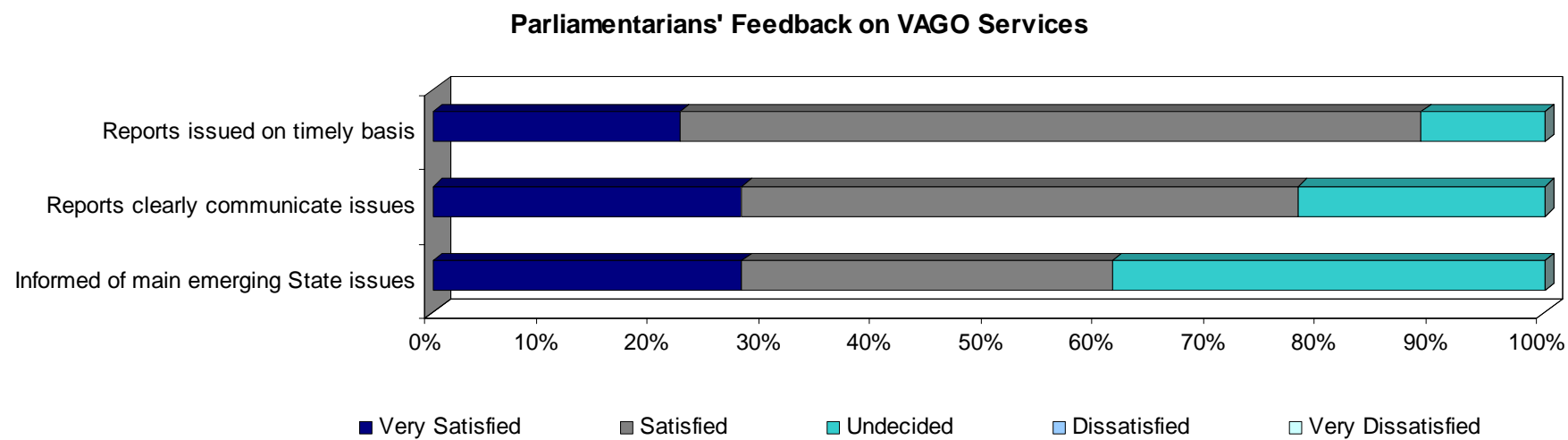
78% had confidence that the corporate and business plan of the AG's office promoted internal operating efficiency and effectiveness while 72% had confidence that the A-G provided adequate assurance of sound administration in the public sector. 83% were confident that the AG applied appropriate procedures in analysing and examining the State's finances.

Parliamentarians' Feedback on VAGO Services



89% of the respondents were satisfied that VAGO has delivered its work on a timely basis. This result is consistent with those found with the CFOs, CEOs and AC Chairs. 78% of the Parliamentarians were also satisfied that the reports written by the AG had communicated issues clearly. 61% were satisfied that the AG's reports have helped keep informed of the main emerging issues of the state 39% undecided.

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There were very few qualitative comments made by respondents.

Recommendations

There are no new recommendations in this area.

APPENDIX 3: FOLLOW-UP OF 2004 RECOMMENDATIONS

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Governance

Governance Findings and Conclusions	2004 Recommendations	VAGO Comment	Acumen Assessment
<p>The AG prepares an Annual Plan, which is tabled in Parliament in accordance with section 7A of the Act. This plan outlines the AG's outputs and products, indicative areas of audit interest, key performance indicators (KPIs), office management initiatives, funding requirements and forecast financial statements.</p> <p>The AG's annual report provides accountability against the KPIs outlined in the Annual Plan.</p> <p>Our review found that:</p> <ol style="list-style-type: none"> 1. The Annual Plan appropriately sets out the AG's objectives and purpose, relevant to the requirements of the Act. 2. The outline of work in respect of "Parliamentary Reports" (principally relating to reporting on performance audits and special reviews) is defined as "areas of audit interest". The AG determines what audits in these areas will be undertaken during the year and at what time. Accountability for this output area is achieved by virtue of the KPIs set for costs, quantity of reports delivered, timeliness and agency satisfaction. 3. The AG's externally reported KPIs are substantially accurate. 	<ol style="list-style-type: none"> 1. There are no recommendations for this area. <p>Separate recommendations in respect of KPIs are summarised in 1.7.7.</p>	N/A	N/A
In conjunction with the Annual Plan, a Business Plan	2. Business plans at business unit level	ED- Corporate Services	Completed.

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Governance Findings and Conclusions	2004 Recommendations	VAGO Comment	Acumen Assessment
<p>for VAGO is prepared which outlines a series of KPIs, which are reported on quarterly to the PAEC and to the Department of Treasury and Finance (as part of the appropriation output acquittal). This business plan is supported by individual business plans for each operating division which have more detailed KPIs that are reported internally to the Senior Management Group (SMG).</p> <p>We noted some business plans at individual business unit level omitted key information that we would expect to be in such plans.</p>	<p>should use a consistent template that includes strategies, activities, timelines and milestones, budget and resource requirements, revenue projections (where applicable), and KPIs. We believe the business plan for the Strategic Audit Planning, Policies and Standards Group (SAPPS) is an appropriate template to use.</p>	<p>Implemented for the 2005-06 financial year. Standard format has been implemented for all Group business plans and plans for 2005-06 are finalised and in operation.</p> <p>Completed.</p>	<p>Refer to “Objectives and Governance” section, ToR 2(b), Section 2.6.</p>
<p>We reviewed in detail VAGO’s performance against its internal scorecard for 2003/04 and found some discrepancies in the data reported. Whilst VAGO manage its KPIs through quarterly reports to DTF and monthly financial reports, as this scorecard becomes an integral part of the future management of the office, we believe these discrepancies may impact the usefulness of the scorecard as a management improvement tool. We understand VAGO is aware of these discrepancies and is seeking to understand how these have occurred.</p> <p>In its annual assessment of its performance against the office “scorecard” for 2003/04, VAGO acknowledge that significant improvement is required in the area of project management of performance audits and special reviews. It is pleasing to note VAGO have recognised these issues and are introducing a number of measures to deal</p>	<p>3. VAGO need to continue to analyse the processes by which the internal scorecard is prepared and ensure the data and reports used are accurate.</p> <p>4. We support the initiatives recently introduced by VAGO to better manage assignments from a cost and timeline perspective. The results of these measures should be monitored regularly and reinforced by appropriate training.</p>	<p>ED- Corporate Services</p> <p>Enhanced Senior Management Group Reports is currently under development.</p> <p>In progress.</p> <p>Asst AG – Perf Audit</p> <p>AmP has incorporated project management of performance audits.</p> <p>Completed.</p>	<p>In progress.</p> <p>Refer to “Objectives and Governance” section, ToR 2(j), Section 2.8.</p> <p>Completed subject to full roll-out of the training program.</p>

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Governance Findings and Conclusions	2004 Recommendations	VAGO Comment	Acumen Assessment
with them.			Refer to “Performance Audit” section, ToR 3(i), section 6.3
<p>We reviewed various aspects of the VAGO Audit Committee and internal audit function including:</p> <ul style="list-style-type: none"> ▪ The Audit Committee charter ▪ The internal audit charter and scope of work ▪ The Internal Audit annual program, and ▪ A sample of audit reports. <p>We found that in overall terms the Audit Committee and internal audit function operated satisfactorily, with some attention required in the following areas:</p> <ul style="list-style-type: none"> ▪ The Audit Committee’s current charter requires revision to better reflect its responsibilities. We understand a revised draft is being considered ▪ We noted the Audit Committee self-assessment process could be more comprehensive ▪ We noted a draft Internal Audit charter has yet to be adopted ▪ The current internal audit program is solely focussed on business support areas. We note the VAGO risk management plan identifies a number of high risk areas in operational groups ▪ We noted no formal process exists whereby the 	<p>5. In respect of the VAGO internal audit function:</p> <ul style="list-style-type: none"> a. The Audit Committee should amend its charter, formally adopt an internal audit charter and improve its annual self assessment process b. The scope of the annual internal audit program should be reviewed to possibly include controls over areas of potential high-risk (not being audit risk) to the operational groups. c. Internal audit reports should clearly identify the objectives, scope, conclusion, recommendations, agreed management plans, timelines and responsibilities. Additionally, a process should also be implemented whereby the Audit Committee monitor and ensure recommendations from all 	<p>Chief Operating Officer Audit Committee Secretary</p> <p>Recommendations accepted and implemented.</p>	<p>Completed.</p> <p>Refer to “Objectives and Governance” section, ToR 8, section 2.10.</p>

Conducted by Mr John Phillips

Governance Findings and Conclusions	2004 Recommendations	VAGO Comment	Acumen Assessment
<p>Audit Committee monitor and ensure previous internal audit recommendations are being implemented</p> <ul style="list-style-type: none"> Internal audit reports do not clearly identify the objectives of the audit, scope, conclusions and clear identification of recommendations, agreed management plans, timelines and responsibilities, and The composition of the Audit Committee may require revision to ensure it is seen to be fully independent of line management functions. 	<p>assurance activities commissioned by the Committee are being implemented. Further, the results of these reports should be reflected in the offices' overall risk management plans, and</p> <p>d. It may be prudent for VAGO to review the composition of the Audit Committee and consider whether it is appropriate that the Senior Executive responsible for all areas in the current internal audit program be the sole management representative.</p>		
<p>We reviewed the policy and processes used by VAGO for the contracting of audits. We found that VAGO complied with VGPB procurement guidelines in all material respects. We noted some issues of efficiency which may improve the process, all of which VAGO are currently examining.</p>	<p>6. We understand VAGO are considering ways in which they may be able to streamline the contracting process. We support these initiatives. We also believe VAGO could consider the establishment of a panel of service providers to further improve the efficiency and effectiveness of the contracting process.</p>	<p>Asst AG- Financial Audit</p> <p>Streamlining of tender/contracting process undertaken for 2006-07 tender round – combined ROI/RFT utilised in conjunction with removal of selective tender process for large public tenders.</p> <p>Panel arrangements not considered necessary for large public tenders.</p> <p>Completed</p>	<p>Completed</p> <p>Refer to “Objectives and Governance” section, ToR 7, section 2.11.</p>

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Governance Findings and Conclusions	2004 Recommendations	VAGO Comment	Acumen Assessment
<p>We reviewed the recommendations made in the previous performance audit review of VAGO undertaken in 2001. It is pleasing to note a number of these have been successfully implemented.</p> <p>However some recommendations agreed to by the AG have not been fully achieved at this point. These include:</p> <ul style="list-style-type: none"> ▪ Linkage of the office wide risk assessment to areas of focus outlined in the internal audit program now exists, although the internal audit program continues to focus primarily on business support areas and does not consider areas of high risk in operational groups, and ▪ Enhancements to the office's financial audit methods to assist in improving documentation on better linking financial statement risk and the extent of audit work required – despite some enhancements, this issue is still evident. 	<p>7. We have no separate recommendations under this area.</p> <p>(We note that matters not yet fully actioned from the last Performance Audit are covered elsewhere in this report)</p>	N/A	N/A
<p>Section 19 of the Act specifically precludes the appointment of a person who is either an agent of the AG (section 7F), a delegate of the AG (section 7G) or the independent auditor (section 17) as the Performance Auditor under section 19. These amendments were introduced in 2003.</p> <p>As currently drafted, section 19 of the Act still allows the Performance Auditor, following the completion of his or her audit, to undertake audit</p>	<p>8. To remove any perception of a conflict of interest, appropriate controls should be introduced by the PAEC to specifically preclude the Performance Auditor appointed under section 19 of the Act, to be appointed under sections 7F and / or 7G subsequent to completion of the performance audit. We would expect a reasonable period for such a requirement would be for 2</p>	No action required by the Office.	Noted by PAEC.

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<i>Governance Findings and Conclusions</i>	<i>2004 Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
work for the AG under section 7F and / or section 7G. We consider that if such an appointment was made, there may be a perception of a conflict of interest.	years following the completion of the Performance Audit. Such a requirement could be enforced at the contractual stage or enshrined in the Act. We note this is a matter for the PAEC and not the AG. We would be happy to accept that such a requirement retrospectively apply to our appointment.		

Strategic Audit Planning

Strategic Audit Planning Findings and Conclusions	Recommendations	VAGO Comment	Acumen Assessment
<p>The Annual Plan (inclusive of the annual work program) and the subsequent reporting on its achievement are important components of the AG's accountability to Parliament.</p> <p>Given the long lead times involved in its preparation (as a result of the timetable imposed on it by the requirements of the Act in relation to the government budgetary process) the Annual Plan only provides an outline of potential areas of performance audit investigation that may be undertaken. Further, proposed special reviews are not identified even though they are an important part of the VAGO annual work program as they often address areas of major public interest.</p> <p>In our view the key to the optimum allocation of audit (excluding financial audit) resources is an understanding of emerging risks across the Whole of Government. We consider changes to the annual planning cycle are warranted to ensure such risks are reflected in a timely manner in the planning process. This will improve the relevance of the annual work program and enhance accountability to Parliament.</p> <p>We note that VAGO prefers the term "themes" to the term "risks".</p>	<p>9. The annual planning cycle be amended along the following lines:</p> <ul style="list-style-type: none"> Phase 1 (up to December) – Identify the Whole of Government risks and confirm selection criteria, in consultation with the PAEC. Preparation of the statutory Annual Plan and operating budget. Phase 2 (January to March) – Develop the final sector audit plans and identification of areas of audit interest in line with the major risks at the Whole of Government level. Refinement of annual budget. Phase 3 (April to May) – Develop the annual work program and submit it for consultation with the PAEC. We note the annual work program as described would not form part of the Annual Plan tabled in Parliament. 	<p>Asst AG- PP&T</p> <p>The annual planning cycle is now outlined in the <i>Selection of Areas of Audit Interest Framework</i> and the <i>2007-08 Annual Plan</i>. A draft version of the <i>2008-09 Annual Plan</i> will be provided to the PAEC in Nov. 2007. Bringing the date forward allows enhanced integration with the ERC budget cycle. PAEC was highly supportive of this change</p>	<p>Completed.</p> <p>Refer to "Objective and Governance", ToR 1, sections 2.1, 2.2, and 2.3</p>
<p>The processes undertaken to identify and select areas for audit coverage are critical to the AG's corporate</p>	<p>10. The process by which portfolio sector audit plans are prepared, together with</p>	<p>ED- Planning Guidance / induction manual</p>	<p>Completed.</p> <p>Refer to "Strategic</p>

<i>Strategic Audit Planning Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>purpose of “improving performance and accountability in the public sector”. The identification of potential audit topics for consideration by the AG is one of the responsibilities of the “Sector Directors” in the “strategic planning group”(SAPPS). We support the existence of a planning and liaison group separate from the groups carrying responsibility for audit delivery. This is unique amongst Australian audit offices. Sector Directors prepare “sector audit plans” which have 3-year planning horizons and are updated annually. The 10 sector plans are important documents in the planning cycle representing the culmination of detailed examinations of portfolios, discussions with key portfolio representatives and VAGO officers, reviews of critical planning and budget information and the outcomes of recent audit activity.</p> <p>Topics are selected by reference to four criteria, namely risk, materiality, potential for improvement and potential for enhanced accountability. In selecting topics within sectors VAGO sees these criteria as equally important and regards immediacy as the key determinant when prioritising projects.</p> <p>We believe the planning process should be improved by:</p> <ul style="list-style-type: none"> ▪ More formally assessing risks from a “ Whole of Government” perspective ▪ Strengthening the relationships of Sector Directors with the relevant portfolio senior 	<p>their linkage to the annual plan requires improvement. In particular:</p> <ol style="list-style-type: none"> Additional training and guidance for Sector Directors on engaging with portfolios is required to assist them in preparing sector audit plans. This guidance should note the importance of maintaining a visible presence at Audit Committee meetings A documented “Whole of Government” scan of major risks / themes should precede the development of the final plans – this would provide context to the risks / themes identified at the portfolio level Where Whole of Government and / or Departmental risk management plans are prepared they should be more formally assessed in developing an understanding of the key risks / themes affecting the portfolio. If they are not available from the executive then they should be sought from the Audit Committee Sector audit plans should explain the prioritisation of “areas of 	<p>made available for new sector directors. Note that the allocation of the sector planning function is subject to review as part of the transfer of client liaison to FA. At this stage, the sector plans for the <i>2008-09 Annual Plan</i> will be prepared by PPTG given the current Office transition phase.</p> <p>The Office has also commenced a review of its capability and learning and development framework, which will drive required training for sector planning.</p> <p>The <i>Selection of Areas of Audit Interest Framework</i> represents our current risk matrix, referred to as internal and external factors influencing the achievement of community expectations against the <i>Growing Victoria Together</i> visions/goals.</p> <p>An <i>Areas of Audit Interest Prioritisation Matrix</i> also ranks areas against criteria. Please refer to the <i>Selection</i></p>	<p>Audit Planning”, ToR 2(a) and 3(a), sections 4.1, 4.2, 4.4 and 4.5.</p>

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<i>Strategic Audit Planning Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>executives to further enhance their knowledge of portfolio operations</p> <ul style="list-style-type: none"> ▪ More formally explaining the prioritisation of “areas of audit interest” by reference to the selection criteria, and ▪ More formally addressing Information Technology (IT) risks in a Whole of Government context as IT systems become increasingly important and sophisticated. The recent appointment of a Victorian Government Chief Information Officer (CIO) is a reflection of this. 	<p>audit interest” by reference to the selection criteria. High risk areas should be given primary consideration, and</p> <p>e. Further attention should be given to IT developments across the “Whole of Government” with particular consideration given to preparing a specific IT plan utilising specialist IT resources.</p>	<p><i>of Areas of Audit Interest Framework.</i></p> <p>PPTG liaises actively with PA and FA during the development of the sector and annual plans. FA directors access risk management plans as part of the financial audit process and use this data to contribute to the internal liaison process. In addition, audit committees are made aware of all audit activities on a regular basis. Liaison also occurs with the central agencies, departments, VMIA and SSA.</p> <p>An IT sector plan was prepared for 2007-08.</p>	

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Stakeholder Relationships

<i>Stakeholder relationships Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>The PAEC has been assigned a number of responsibilities under the Audit Act 1994. These responsibilities represent the means by which Parliament:</p> <ul style="list-style-type: none"> Ensures the accountability of the AG, and Protects and supports the independence of the AG² <p>The development during the review period of a formal communication protocol between the AG and the PAEC has been a positive initiative. The introduction of briefings to members of Parliament by the AG on reports tabled in Parliament has also been a positive initiative.</p> <p>In considering the role of the PAEC in the context of the AG, we believe the relationship could be further enhanced with a more balanced allocation of PAEC time spent on discussing:</p> <ul style="list-style-type: none"> Appropriate audit topics encompassing performance audits and / or special reviews The resulting annual work program The status of the complete annual work program including upcoming special reviews and financial audits, and 	<p>11. The annual consultative process between the AG and the PAEC is amended to enable greater consultation on the development and status of the annual work program and the results of audits tabled in Parliament. This would involve:</p> <ol style="list-style-type: none"> Revising the timelines and content of the annual plan (refer earlier recommendation relating to annual planning cycle). This would enable the PAEC and the AG to discuss the content of the full annual work program much closer to the commencement of the financial year to which the program relates and provide the PAEC (and Parliament) with a greater opportunity to contribute to the risk assessments and selection criteria which will shape the development of the detailed annual work program. The current protocol provides for a quarterly report and briefing to the PAEC by the AG. We support this initiative and believe this can be 	<p>ED - Planning</p> <p>Please refer to commentary above.</p> <p>VAGO will continue with the quarterly reporting</p>	<p>Completed.</p> <p>Refer to “Stakeholder Relationships”, ToR 2(h), sections 3.1 and 3.2.</p>

² Source: VAGO/PAEC Protocol June 2003

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Stakeholder relationships Findings and Conclusions	Recommendations	VAGO Comment	Acumen Assessment
<ul style="list-style-type: none"> VAGO reports tabled in Parliament. 	<p>further enhanced by reporting on the status and development of the complete annual work program, planned activity for the next quarter in light of any revision in risk assessments, reporting of additional KPIs as set out later in this report. This would effectively replace the detailed discussions on the approach to individual audit areas previously selected for attention.</p> <p><i>We are mindful of the fact that Section 7A(1)(a) of the Act requires a work program to be included in the Annual Plan. If our revised Annual Plan containing a list of risks to be considered and / or themes to be followed is not considered a “work program” as envisaged by the Act, then the wording of the Act should be amended. However we would be sympathetic to the view that a description of a “series of audits scoped to address a set of stated risks” does constitute a “work program” in the context of VAGO as a whole.</i></p>	<p>process, however the protocol between VAGO and PAEC is currently being updated.</p>	
<p>As part of our review, we issued separate surveys to:</p> <p>1. All 132 members of the Victorian Parliament</p>	<p>12. There are no separate recommendations for this area.</p>	<p>N/A</p>	<p>N/A</p>

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Stakeholder relationships Findings and Conclusions	Recommendations	VAGO Comment	Acumen Assessment
<p>(both Legislative Assembly and Council)</p> <ol style="list-style-type: none"> 1. Board or Audit Committee Chairs of some 46 public sector agencies, and 2. Departmental secretaries / CEO's / CFO's of some 260 public sector agencies. <p>The overall response rate across the 3 groups was 40%, which provides a valid basis on which to derive overall conclusions. In addition we conducted interviews with selected representatives of certain agencies.</p> <p>The surveys asked respondents to rate VAGO across a range of areas including service delivery, planning and supervision, technical competency, communication, VAGO staff attitude and performance, value adding, reporting, quality control, use of agents and specialists, performance audits and special reviews.</p> <p>The overall rating, combining each area and each type of respondent was satisfactory to good with favourable comments received for communication and interaction, contribution to and attendance at audit committees, the generally positive attitude of VAGO staff and adherence to meeting reporting timelines.</p> <p>Areas for attention included being more proactive and timely in resolving issues, more prompt issuing of management letters after finalisation of financial</p>			

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Stakeholder relationships Findings and Conclusions	Recommendations	VAGO Comment	Acumen Assessment
<p>audits, and greater consistency in the conduct of audits. In addition, a number of respondents were unaware of the Good Practice Guides. Further some agencies interviewed were unaware of the Portfolio Strategic Audit Planning process and the role of the Sector Director.</p> <p>The results of the survey and our discussions support a number of our recommendations made in other parts of this report including:</p> <ul style="list-style-type: none"> ▪ Changes in the way sector audit plans are prepared and the relationship these have to the annual plan – leading to improved identification of significant sector wide audit topics ▪ Improving the execution of the role of the Sector Director ▪ Reinforcing the importance of the “plain English” style of reporting, and ▪ Reviewing the way in which “Good Practice guides” are published and disseminated. 			
<p>In the period this review covers, the AG has published a number of Good Practice guides. These are:</p> <ul style="list-style-type: none"> • June 2002 - Framework for Government Advertising and Marketing • February 2004 - CFO, Role and responsibilities • June 2004 - Managing Internet Security, and • June 2004 - Managing Risk across the Public 	<p>13. In determining the most appropriate method to publish and distribute sector wide audit recommendations and / or general guidance material, the AG should incorporate into its next round of surveys an opportunity for agencies to comment on the Good Practice guides issued to date, the relevance of the content and the most appropriate and</p>	<p>A revised financial audit survey instrument has been developed in conjunction with other Audit offices and used for the first time in December 2005. Questions relating to good practice guides were included in the surveys relating to June 2006</p>	<p>Completed</p> <p>Refer to “Stakeholder Relationships” section, ToR 4 and section 3.3.</p>

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Stakeholder relationships Findings and Conclusions	Recommendations	VAGO Comment	Acumen Assessment
<p>Sector</p> <p>In general, feedback from Agencies on the guides (via interviews and survey) was positive, although the practical use of the guides was minimal and a number were not aware of their existence notwithstanding that the guides were distributed to Secretaries, CEO's and CFO's.</p> <p>As a matter of principal, we believe that the efficient and effective distribution and sharing of intellectual capital gained from audit activity undertaken by the AG is appropriate, where such information is applicable to the wider public sector.</p> <p>We note the practice is consistent with other Australian Audit Offices. Further, it is consistent with the AG's corporate purpose of improving performance and accountability in the Victorian public sector.</p> <p>Now that a number of guides have been released, we believe it appropriate for the AG to seek agency feedback on their use, applicability, form and content, prior to investing in further similar publications.</p> <p>We also noted that the AG published in June 2004 an "Occasional Paper" on "Measuring and Reporting on Sustainability. This paper came out of the first phase of the performance audit of "Managing Logging in</p>	<p>effective means by which they should receive future relevant sector wide "guidance". We consider that an additional distribution channel may be Chairs of Agency Audit Committees.</p> <p>14. Prior to developing any further "occasional papers" the AG should ensure that sufficient stakeholder interest exists to provide a degree of comfort that investment in such a paper will provide value to the public sector.</p>	<p>financial audits.</p> <p>The issue of good practice guides is considered as an offshoot of the findings from audit activities.</p> <p>Noted. The issue of "occasional papers" is considered as an offshoot of the findings from audit activities.</p>	

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<i>Stakeholder relationships Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
State Forests”. We are advised by VAGO that this paper was developed for a special purpose and as such was termed “occasional”. In this context and given the favourable feedback, we believe this particular paper was fully justified under the AG’s mandate. We would however be concerned if such papers were to become a regular output without first ensuring there are sufficient interested stakeholders who would receive value from such an investment.			

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Financial Audit

<i>Financial Audit Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>We reviewed a number of audit files (encompassing in house and externally contracted audits) covering the period under review and found no evidence that any inappropriate audit opinions had been issued.</p> <p>Whilst VAGO's methodology is consistent with Australian Auditing Standards it is not fully supplemented by sufficient detailed guidance material to support the assessment and identification of inherent / control / audit risk, the selection of the particular audit approach (eg, compliance / substantive / systems based), and the determination of the level and type of audit work to be undertaken (i.e., work program steps).</p> <p>In the audits examined, the nature and extent of documentation was also inconsistent and some sets of workpapers were not easy to follow and interpret. This could be attributable to a lack of guidance material and structured training.</p> <p>We acknowledge that through the review period, VAGO have progressively updated their current financial audit manual to reflect changes in Auditing Standards and an improved focus on audit risk.</p>	<p>15. To improve the effectiveness, efficiency and consistency of approach we consider that further investment is required in developing financial audit methods, guidance material and training programs. Such investment should be undertaken in conjunction with the development of new supporting audit technology (refer below).</p>	<p>Asst AG- PP&T</p> <p>The new financial audit toolset (IPSAM) includes guidance material and associated training programs. IPSAM is developed in conjunction with the Queensland Audit Office. This project was completed on target in November 2005 with implementation of a new methodology and toolkit including detailed guidance material. Training in the use of the toolkit was provided to all staff.</p> <p>A four year technical training curriculum has been developed and implemented for financial audit staff. In addition <u>all</u> financial audit staff were provided refresher training in financial audit methodology in November 2006.</p> <p>Completed.</p>	<p>Completed.</p> <p>Refer to "Financial Audit" section, ToR 2(f) and section 5.2.</p>

Conducted by Mr John Phillips

<i>Financial Audit Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>Our examination of financial audits involved a review of the use of EFINA (VAGO's automated financial audit workpaper package). We note:</p> <ul style="list-style-type: none"> EFINA is not a fully integrated and linked electronic workpaper system and as such effectively only provides an electronic storage facility for workpapers. Whilst it does serve as a useful file index it is not conducive to quick and efficient cross checks, aggregations and comparisons, and The system does not contain an "intelligent" logic layer, which, for example, enables adjustments and / or issues identified in detailed schedules to automatically flow through to lead schedules. The system does not therefore take advantage of the relationship between different sections of the audit file to facilitate an efficient audit. <p>We understand VAGO have recently commenced discussions with the Queensland Audit Office (QAO) on an initiative to jointly re-develop audit methods and supporting technology.</p>	<p>16. To ensure VAGO remain up to date in the use of audit technology and are able to effectively discharge their assurance role and retain and attract staff, we support the decision to review the use of EFINA. This should be undertaken in the context of a wider project in relation to development of supporting guidance to the financial audit method (as referred to above). Prior to finalising any agreement with the QAO in respect of such a project, the AG should be satisfied that all options for a replacement have been considered, including evaluation of existing packages in the private sector and joint development with other Audit Offices. Once all options have been properly considered, a business case should be developed with a clear statement of project scope, deliverables and timelines, together with identification of capital and recurrent funding requirements.</p>	<p>Asst AG- PP&T</p> <p>Review completed and new toolkit (IPSAM) implemented. Refer above. Completed.</p>	<p>Completed</p> <p>Refer to "Financial Audit" section, ToR 2(f) and section 5.2.</p>
<p>VAGO does consider the work of Internal Auditors. However, VAGO does not in all cases clearly document the impact of internal audit work on their audit approach and their work programs.</p>	<p>17. In relation to the use of work conducted by Internal Audit, VAGO should undertake appropriate training to ensure audit files contain documentation setting out how an Agency's Internal Audit function has been assessed, the</p>	<p>Asst AG- PP&T</p> <p>Development of appropriate guidance material covering the review and use of the work of internal has been completed</p>	<p>Completed</p> <p>Refer to "Financial Audit" section, ToR 2(l)</p>

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<i>Financial Audit Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
	conclusions drawn by the Audit Team and the resulting impact on VAGO's audit approach and work program.	and included in the new toolkit consistent with requirements of auditing standards. Completed.	
<p>We noted a robust policy exists for external experts to conduct an annual independent quality review of a sample of financial audit files (covering both in house and contracted audits). The reviews are commissioned independently of the Financial Audit Group.</p> <p>We noted some issues with the independent review of the June 2003 and December 2003 round of audits:</p> <ul style="list-style-type: none"> ▪ The independent review for these periods was combined and findings subsequently only reported in June 2004. Resulting recommendations for improvements have had limited application for the June 2004 round of audits as most of these audits are planned and commenced by this time, and ▪ The review was designed to cover the overall audit process and did not therefore examine all workpapers in detail. 	<p>18. Independent reviews of June year-end audits should be conducted as soon as possible after completion to allow sufficient time for any recommendations and improvements to be incorporated into the subsequent year's audit planning process. Independent reviews of December year-end audits should be separately conducted so as not to delay the reporting of recommendations for the June round of audits.</p> <p>19. In view of our own findings in respect of the need to improve the consistency of documentation on audit files and ensure workpapers clearly link risk to work programs and audit evidence, particular emphasis on workpaper consistency and clarity should be incorporated into the next round of independent quality reviews.</p>	<p>Asst AG- PP&T</p> <p>Policy amended covering independent reviews of audits to ensure that it addresses the concerns expressed in the recommendation. Completed.</p> <p>See above comment.</p>	<p>Completed</p> <p>Refer to "Financial Audit" section, ToR 2(1)</p>
VAGO's Computer Risk Management Group (CRM) currently comprises four staff members. CRM is involved in 30-40 financial audits per year. When requested, they are also involved in performance	20. We recognise that the recruitment and retention of appropriate IT skills is difficult. However, we believe that CRM is sufficiently important to warrant the	<p>Asst AG- Financial Audit</p> <p>A separate CRM strategy has been developed and approved</p>	<p>Completed.</p> <p>Refer to "Financial Audit" section, ToR</p>

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<i>Financial Audit Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>audits and special reviews.</p> <p>Increasing sophistication of information systems across the public sector represents a Whole of Government and financial audit risk. It is important that VAGO has sufficient skilled resources, if not to perform the necessary IT environment and application reviews themselves, then to ensure that appropriate IT professionals are engaged to do so.</p> <p>We understand that VAGO is actively recruiting to increase their CRM resource base. Such decisions should be made in the context of the scope and amount of work required to be undertaken in IT across client agencies, which will come from a strategic analysis of IT audit needs.</p>	<p>implementation of a formal CRM human resources strategy that addresses the areas of IT audit risk identified across client agencies. To maximise the effectiveness of existing resources, we also recommend that consideration be given to expanding the usage and current suite of computer interrogation packages.</p>	<p>incorporating resourcing issues.</p> <p>CRM now has 6 in-house ongoing staff, supplemented by contracted resources to assist in the delivery of financial statement audits.</p> <p>In addition, the creation of 2 VPS 7 positions to the CRM unit has been approved to deliver on its 3 key functions: strategic planning, sector liaison, and financial and performance audits.</p> <p>Completed.</p> <p>Additional ACL licenses have been acquired and training provided to CRM and financial audit staff.</p> <p>Consideration is currently being given to other audit software.</p> <p>In progress.</p>	<p>2(f)</p> <p>In progress.</p> <p>Refer to “Financial Audit” section, ToR 2(f)</p>

Performance Audit

<i>Performance Audit Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>VAGO's Manual for Auditing Performance (MPA), which is based on Australian Auditing Standards 806 and 808, contains statements of theoretical principle. Whilst we agree that the manual should not be overly prescriptive, further development of detailed guidance material is required to support the conduct of performance audits. We note such developments are in progress.</p> <p>We acknowledge that performance auditing is a younger discipline than financial audit and methods and procedures are evolving. We note there have been significant changes during the review period in the approach to performance audits undertaken and the audit methods used. The adoption of the new reporting format earlier this year is now leading several improvements. VAGO recognise further work is required to develop its performance audit methodology and have established a Business Improvement Project (BIP) to drive this forward.</p>	<p>21. To improve consistency in approach and outcomes of performance audits, recent efforts (via the Business Improvement Project) to develop a method and supporting guidance material should be accelerated. This should include guidance on how to complete the work necessary to satisfy the revised reporting requirements for special reviews and performance audits.</p>	<p>Asst AG – Perf Audit</p> <p>Major review and upgrade of EMPERA performance audit methodology completed. AmP application (replacement to EMPERA) completed in June 2007.</p> <p>AmP applies to all performance audits – broad scope and limited scope (formerly “special reviews”)</p> <p>Completed</p>	<p>Completed.</p> <p>Refer to “Performance Audit”, ToR 2(f) and section 6.4.</p>
<p>We have considered the size and number of Performance Audits undertaken by VAGO on an annual basis.</p> <p>The size and cost of performance audits will vary, depending on the subject matter, the issues to address, the required approach and the resourcing</p>	<p>22. Our belief is that the critical success factors for the efficient and effective completion of a performance audit are a well defined audit criteria, achievable audit timelines (to both ensure budget is met and retain currency of</p>	<p>Asst AG – Perf Audit</p> <p>Guidance on this aspect has been incorporated into the Audit Method- Performance (AmP).</p>	<p>Completed.</p> <p>Refer to “Performance Audit”, ToR 3(f), 3(i) and 3(c), sections 6.2, 6.4</p>

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<i>Performance Audit Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
requirements. We do not believe there is a definitive guideline that can be set for the appropriate size of a performance audit as there are case-by-case issues that will ultimately shape this.	recommendations) and use of appropriately skilled staff. In our view, the most critical determinant of efficiency and effectiveness should be timeliness as this provides the basis on which cost can be managed and currency / relevance of the report outcomes can be ensured. In view of this, we believe VAGO should ensure that where performance audits are scheduled to run for say greater than say 7-9 months from commencement to completion, then consideration be given to conducting the audit in stages to enable recommendations to be progressively released and actioned. We note this practice was undertaken in the recent audit “Managing Logging in State Forests”.	The decision about whether a performance audit is split into smaller parts is made during the planning stage of a performance audit, and where appropriate, included in the audit specification. AmP requires all audit specifications to be approved by the AG. Completed.	and 6.5.
Significant time is spent scoping and planning Performance Audits. At the commencement of the review period, such audits were outlined by the SAPPS Group and handed on to the Performance Audit Group. In some cases this resulted in: <ul style="list-style-type: none"> Additional hours being spent on agreeing the scope of audits between the initial “audit area summary” prepared by the SAPPS Group and the detailed plan prepared by the Performance Audit Group, and 	23. Collaboration between the two groups has become progressively more efficient and effective throughout the review period, although we note further room for improvement. We also suggest that a standard “change schedule” be introduced to ensure that all modifications to the original scope are recorded and explained.	Asst AG – Perf Audit Recent changes to the structure and responsibilities of business groups have been designed to increase the level of coordination and integration of activities across the Office. Involvement of the operational groups (FA and PA) in the selection of performance audit	Completed Refer to “Performance Audit”, ToR 3(c), section 6.5.

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<i>Performance Audit Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<ul style="list-style-type: none"> Modifications to the original audit topic and scope. <p>We note that Sector Directors in the SAPPS Group now identify the broad areas of audit interest and pass primary responsibility for the final scoping to the Performance Audit Group.</p>		<p>topics and development of the Annual Plan has been increased and is a focus of further improvement projects for the 2007-08 year.</p> <p>Where there is a scope change, the AmP policy and guidance material requires a submission to be prepared and the approved by the AG. A standard memo for approving scope changes has been developed. Guidance material and AmP require scope changes to be identified, recorded, approved and communicated to the relevant parties (PAEC and Agencies). A change schedule to track scope changes is also built into AmP.</p> <p>Completed.</p>	
<p>We found no evidence of any significant non-compliance with statutory requirements including Australian Auditing Standards.</p> <p>However, some performance audits have not been conducted efficiently and effectively, particularly in the areas of scope and definition of assessment criteria, control of cost and timelines and management of communications with agencies.</p>	<p>24. To ensure further improvement of the performance audit program, continued attention is required in relation to:</p> <ul style="list-style-type: none"> a. Development of the performance audit method and supporting guidance material (refer recommendation 21) b. Establishing clear and relevant 	<p>Asst AG – Perf Audit</p> <p>The Performance audit methodology has been significantly revised.</p> <p>The new policy and guidance material (within AmP),</p>	<p>Completed</p> <p>Refer to “Performance Audit”, ToR 3(g), section 6.1.</p>

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<i>Performance Audit Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>Accordingly, elements of the performance audit program have not been as efficient and effective as VAGO would have intended.</p> <p>We note VAGO is aware of this and is taking appropriate steps to enhance efficiency and effectiveness via the Business Improvement Project (BIP).</p>	<p>audit criteria</p> <p>c. Management of audit costs, progress against plan and achievement of agreed timelines for completion of the audit, and</p> <p>d. Ensuring communication with agencies as part of the audit process is conducted at the appropriate levels, commensurate with the varying audit stages of the audit process.</p> <p>A number of these issues will also be addressed by the recommendations we have made in respect of the scoping and planning of performance audits.</p>	<p>requires:</p> <ul style="list-style-type: none"> the development of clear and relevant audit criteria. reinforces the significance of sound project management and requires the development of an Audit plan to manage an audit's time, cost and quality. requires a communication strategy and a communication plan for tabling the performance audit report to be developed. <p>Completed.</p>	
<p>In our review of several Performance Audit and Special Review files we noted a high level of awareness of potential out of scope issues. We further noted the Post Audit debriefing process specifically includes identification of any additional issues warranting audit attention.</p>	<p>25. We understand the Post Audit De-Brief form is currently being reviewed and revised. We recommend the review be completed and the form be reintroduced as soon as practical.</p>	<p>Asst AG – Perf Audit</p> <p>AmP policy and guidance now requires a post audit debrief be conducted post-tabling of the audit report. A standard form has been developed to aid staff.</p> <p>Completed.</p>	<p>Completed</p> <p>Refer to “Performance Audit”, ToR 3(e), section 6.8.</p>
<p>We reviewed the EMPERA working paper package.</p>	<p>26. The Business Improvement Project (BIP)</p>	<p>Asst AG – Perf Audit</p>	<p>Completed</p>

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<i>Performance Audit Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>This package is used to store workpapers and assist in the management of performance audits and special reviews. It has not been fully and consistently applied throughout the review period.</p> <p>We believe EMPERA is an appropriate tool for the recording and management of performance audits and special reviews. However, the package needs to be revised to better suit the new reporting structures being progressively introduced.</p>	<p>currently underway in Performance Audit should include the updating of EMPERA to bring it into line with new methods, reporting frameworks and overall audit management techniques. Further, the use of EMPERA should be enforced as the accepted standard means of documenting performance audits.</p>	<p>Policy and Guidance (included in AmP) requires AmP be used for the planning, conduct and reporting of all performance audits – both broad scope and limited scope (formerly referred to as “special reviews”).</p> <p>Completed.</p>	<p>Refer to “Performance Audit”, ToR 6.5, sections 6.4</p>
<p>We note a robust policy of independent quality review exists in performance audit.</p> <p>A number of independent quality reviews of selected Performance Audits and Special Reviews have been conducted over the review period. These have been undertaken by representatives of the NSW Auditor General’s Office and by leading Academics. We have found these reviews to be thorough and constructive. Further, efforts are being made by VAGO to implement resulting recommendations.</p>	<p>27. We have no recommendations in this area.</p>	<p>N/A</p>	<p>N/A</p>

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<i>Performance Audit Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
We have noted improvements over the review period in the use of appropriately skilled resources on performance audits. Overall we believe that there is an appropriate balance between the use of in house resources and specialist providers.	28. We have no recommendations in this area.	N/A	N/A
<p>We note the recent introduction of several KPIs for measuring the efficiency and effectiveness of Performance Audits. These are:</p> <ul style="list-style-type: none"> ▪ Cost vs budget ▪ Timeliness, and ▪ “Quality” - Agency satisfaction <p>We believe that each of these measures is appropriate. However, a measure of quality does not completely exist, although agency satisfaction goes some way towards this. We recognise the difficulty in establishing such a measure.</p>	29. We recommend the conclusions from the independent quality reviews conducted on performance audits be included in the KPIs as a possible means of measuring the effectiveness and efficiency of performance audits.	<p>Asst AG- PP&T</p> <p>Issues emanated from cold reviews are addressed in follow-up action plans in accordance with established quality assurance policy.</p> <p>Completed.</p>	<p>Completed</p> <p>Refer to “Performance Audit”, ToR 3(d), section 6.6</p>

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Special Reviews

<i>Special Reviews Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
13% ³ of total audit time is spent on “special reviews” (reported under section 16(1) of the Act). Hence they are a substantial component of VAGO’s annual activity. Special reviews include compliance reviews of sector wide issues, performance reviews, financial / attest reviews and general exploratory / investigative reviews. The recently revised Manual of Performance Auditing (MPA) provides the method for the conduct of all non-financial audits. In the absence of supporting guidance material, a wide variety of approaches were applied during the review period. We acknowledge that in the last 6 months standard reports have been developed for this area as a basis for ensuring greater consistency in the future.	30. We support the initiative to include special reviews in the Performance Audit Business Improvement Project and the new 3 tiered reporting framework recently introduced. We consider it essential that guidance material be developed to support the application of the method outlined in the MPA. A possible way to approach this may involve the defining of broad categories within which reviews may be classified (compliance reviews, performance reviews, financial / attest reviews and general exploratory / investigate reviews) and accordingly developing guidance material to support each category.	Asst AG – Perf Audit “Special reviews” have been superseded by limited scope performance audits. AmP policy and guidance comprehensively guides the planning, conduct and reporting of all broad scope and limited scope performance audits. Completed.	Completed Refer to “Performance Audit”, ToR 3(f), 3(i) and 3(c), section 6.2, 6.3, 6.5 and 2.2. “
Refer comments on EMPERA in performance audit.	31 Refer recommendation on EMPERA in performance audit.	Refer to response on EMPERA in performance audit.	Completed Refer to “Performance Audit”, ToR 2(f) and section 6.4

³ Based on 2003/04 production records

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<i>Special Reviews Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
During the review period, the Financial Audit Group has performed the majority of “special reviews”. The AG has recently established a small rapid response team to ensure prompt response to urgent issues of audit interest that arise during the course of the year. We note that this team comprises representatives with sector planning, Financial audit and performance audit backgrounds. We support this initiative.	32. It is important that appropriate skills are used in the conduct of special reviews. In a number of cases this may require the involvement of staff from performance audit group. Whilst we note that this happens on occasions, we suggest that greater emphasis be placed on the importance of allocating appropriately skilled staff from all operational groups to special reviews in the future.	Asst AG – Perf Audit Asst AG- Financial Audit The staffing of each audit is considered at the time the audit is being planned with regard to the appropriate skill mix. Completed.	Completed Refer to “Performance Audit”, ToR 3(h) and section 6.7.

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Business Management

<i>Business Management Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>Since completion of the last Performance Audit, VAGO have introduced a new Practice Management System called MARS.</p> <p>We found MARS to be a robust system. Given its recent introduction, it will require on going refinement and improvement. In particular, we note that an established standard suite of MARS management reports needs to be developed from the many reporting options currently available.</p> <p>We reviewed the manner in which Financial Audit staff are assigned to particular audit engagements. We note that staff scheduling is now being conducted on a more centralised basis without reference to an appropriate system that allows Managers to view staff availability across the entire audit group.</p>	<p>33. To assist Directors and Managers in the discharge of their management and supervisory roles, a standard suite of MARS management reports should be defined. Further, on going training in the use of MARS will be required to ensure it is used in an effective and efficient manner.</p> <p>34. We recommend that VAGO consider the acquisition and / or development of a simple centralised scheduling system to support the optimum allocation of financial audit staff to audit assignments across the whole group.</p>	<p>ED- Corporate Services /CFO</p> <p>Improved reporting facilities have been introduced.</p> <p>Completed.</p> <p>Asst AG- Financial Audit</p> <p>Scheduling software and system implemented in Financial Audit Group in November 2005.</p> <p>Completed.</p>	<p>Completed</p> <p>Refer to “Business Management” section, ToR 2(e)</p> <p>Completed</p> <p>Refer to “Business Management” section, ToR 2(e)</p>
<p>We reviewed the basis on which costs are accumulated and charged.</p> <p>We confirmed that there is no evidence of cross subsidisation of costs between financial audit, performance audit and special reviews.</p>			

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<i>Business Management Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>We note that costs incurred in obtaining some additional information from agencies for the audit of the State's consolidated Annual Financial Report are being included in the fee charged for the agencies financial statement audits. We note these costs are not material and are therefore satisfied that no breach of Section 10(2) exists.</p> <p>Further, we noted that standard VAGO practice is to "write on" time when financial audit costs are less than budget, and to "write off" time where costs exceed budget (where there is no justification for seeking an increased fee from an agency). This is a reflection of general commercial practice, but it may not strictly accord with section 10(1) of the Act and may lead to some cross subsidisation of audit fees between agencies.</p>	<p>35. We recommend that VAGO review the practice of "write on and offs" and assure itself that it is operating within the intent of section 10(1) of the Act. If appropriate, the Act may need to be amended to provide VAGO with flexibility in respect of the application of financial audit fees across all agencies.</p>	<p>Asst AG- Financial Audit</p> <p>We monitor our fees to ensure that the hours incurred and corresponding fee allows us to perform an audit in accordance with the methodology.</p> <p>Completed.</p>	<p>Completed</p> <p>Refer to "Business Management" section, ToR 2(e)</p>
<p>We reviewed a number of aspects pertaining to VAGO's IT infrastructure and systems including:</p> <ul style="list-style-type: none"> Underlying infrastructure Disaster recovery and business continuity plans, and The IT strategy, including governance and resourcing arrangements. <p>We noted a number of positive developments over the review period including:</p> <ul style="list-style-type: none"> Complete upgrade and standardisation of 	<p>36. VAGO should develop a formal business continuity plan to ensure in the event of a disaster, key functions and processes can be resumed without significant delay.</p>	<p>ED- Corporate Services/Mgr IT</p> <p>A broad business continuity plan is currently under review by the Senior Management Group.</p> <p>Completed</p>	<p>Completed (subject to testing)</p> <p>Refer to "Business Management" section, ToR 2(d)</p>

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<i>Business Management Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>hardware, software and network infrastructure, supported by well documented and formalised procedures for IT administration</p> <ul style="list-style-type: none"> ▪ Development of a Disaster Recovery Plan ▪ Development of an IT Strategies that align with corporate objectives, and ▪ Successful implementation of a number of discrete applications that support the improved operations of the office. <p>We noted the development of a business continuity plan should be addressed.</p>			
<p>Over the review period, a number of initiatives in respect of HR have been introduced including a revised graduate recruitment strategy, implementation of a revised VPS career framework, introduction of an induction program, and significant policy development in a number of areas.</p> <p>Our review indicates that whilst some attention at the micro level is being given to the management of VAGO human resources, there is limited strategic analysis of VAGO's human resources.</p> <p>While there are a number of annual HR initiatives implemented by VAGO, these are not the result of a comprehensive understanding of what actions or plans are required over a 3 to 5 year period to ensure VAGO's human resources are best able to</p>	<p>37. A HR Strategic Plan be developed that links to and supports the achievement of the recent 3 year Corporate Plan. We recognise that the corporate plan up to 2003/04 provided a strategic framework for the development of HR initiatives, but that the 2004/05 corporate plan has less emphasis on prescriptive HR requirements, hence the need for a more formalised approach to this area. We note, an appropriate framework for the development of such a strategy is outlined in the VAGO 2003/04 annual report.</p> <p>38. Current recruitment practices generally reflect contemporary practice and should be continued, with an on going emphasis on:</p>	<p>ED- Corporate Services/Mgr HR</p> <p>An HR strategic framework has been developed and is now under review.</p> <p>In progress</p> <p>No action required on this recommendation.</p>	<p>In progress</p> <p>Refer to "Human Resources", ToR 6 and section 8.2.</p>

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<i>Business Management Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>meet the legislative and corporate plan objectives.</p> <p>We note there has been an increase in staff turnover, the reasons for which have been identified through exit discussions and include a lack of appropriate professional development planning, scheduling of work, career progression and changes in personal career paths.</p> <p>We believe VAGO's current approach to managing and developing its human resources is predominantly operationally focussed. Whilst this is necessary there is an imbalance between this focus and a more strategic and forward planning approach, which may lead to improved management of human resources.</p>	<ul style="list-style-type: none"> a. Ensuring diverse means of advertising vacancies b. Sourcing staff from diverse backgrounds and experience, and c. When recruiting for manager or above positions, experience in agencies or industries in addition to high-level technical skills be emphasised <p>39. Whilst reporting on staff turnover is undertaken, more analysis is required for VAGO to better understand the reasons for the rate of staff turnover. No documentation was sighted that brought a strategic analysis to better inform decision making on this important issue. Such an analysis may better identify the reasons and causes and is a necessary precursor for the development of rectification strategies that may be employed in the short and long term.</p> <p>40. It is recommended that consistent with the VPS career framework VAGO develop and adopt formal succession planning strategies to address the impact of a potential departure of senior staff across the office.</p>	<p>ED- Corporate Services/Mgr HR</p> <p>The quarterly reports to SMG have been expanded to provide a more strategic view of the nature of staff departures.</p> <p>Completed.</p> <p>ED- Corporate Services</p> <p>To be considered as part of the review of the existing HR strategic framework.</p> <p>In progress.</p>	<p>Completed.</p> <p>Refer to "Human Resources", ToR 6 and section 8.3.</p> <p>In progress.</p> <p>Refer to "Human Resources", ToR 6 and section 8.4.</p>

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<i>Business Management Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>We note that VAGO is aware of the importance of developing a positive culture. The existence of an annual staff survey demonstrates a desire to better understand and improve staffing and cultural issues. Whilst the survey response rate averages 69%, the results provide a useful indicator of the positive aspects of VAGO's culture and areas for improvement.</p> <p>The elements of a culture that are conducive to effective and efficient operations of VAGO would include a common understanding of:</p> <ul style="list-style-type: none"> ▪ The office's mission and vision ▪ The office's values, and ▪ The office's plans to achieve its vision. <p>The recent survey undertaken by VAGO indicates a significant number of employees (>60% of responses) identifying a number of positive trends over a 3-year period in areas such as:</p> <ul style="list-style-type: none"> ▪ Meeting the Parliament's and public expectations ▪ Meeting agency and other stakeholder expectations ▪ Commitment to quality service, and ▪ Improving technology available to staff <p>The survey also indicates some employees (~25-</p>	<p>41. To ensure staff understand the AG's vision and its impact on office plans, increased attention is required in a number of areas, including:</p> <ul style="list-style-type: none"> a. Acknowledgement of the results of the staff survey and demonstrable action plans identified to address issues noted b. Improved focus on coaching / mentoring and counselling and appraising all staff. This includes honest and open assessment of performance and development of identifiable action plans (including structured training plans) to address any deficiencies noted, and c. Reinforcement through internal training and staff meetings of the office's vision values and plans to achieve. 	<p>ED- Corporate Services/Mgr HR</p> <p>The SMG will consider the results of the 2006 survey in formulating links to the current strategic plan which has one objective of VAGO being an Employer of Choice. Strategies to be developed for consideration by SMG.</p> <p>Completed.</p> <p>(b) Guidance and training is provided on the implementation of the staff performance assessment and development framework.</p> <p>Completed.</p> <p>(c) Matter reinforced through the induction program, the development of the strategic plan and is reflected in the performance management framework.</p> <p>Completed.</p>	<p>Completed.</p> <p>Refer to "Human Resources", ToR 6 and section 8.1.</p> <p>Completed.</p> <p>Refer to "Human Resources", ToR 6 and section 8.3.</p> <p>Completed.</p> <p>Refer to "Human Resources", ToR 6 and section 8.3.</p>

Conducted by Mr John Phillips

<i>Business Management Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>30% of responses):</p> <ul style="list-style-type: none"> ▪ Were uncertain that all staff were aligned to the AG's vision and values, and ▪ Did not consider that the Senior Management Group set clear plans and directions and kept staff informed about future plans. <p>These results and our various discussions with VAGO staff indicate that further work is required to develop a cohesive culture to ensure VAGO staff understand the office's vision, how it is to be achieved and their role in achieving that vision.</p>			
<p>In conducting this review we visited and held discussions with senior officers of both the Australian National Audit Office and Queensland Audit Office.</p> <p>We generally noted that VAGO compares well to these offices in a range of areas including the existence of a separate strategic audit planning group, the relationship with the PAEC, the widening skill set across the office, and commitment to independent quality reviews.</p> <p>However, there have been some initiatives introduced elsewhere the AG should consider, principally relating to use of external independent resources for stakeholder surveys and reporting of additional KPIs.</p>	<p>42. Whilst we acknowledge that VAGO undertake surveys of Agencies and Parliamentarians, we would suggest consideration be given to engaging external independents to conduct such surveys. Specifically:</p> <ul style="list-style-type: none"> a. VAGO conducts a full external independent survey of Parliamentary members every 2 years, and b. An external independent survey on a sample basis of Agencies who have received Performance Audits as well as conduct "face to face" interviews. 	<p>Asst AG- PP&T</p> <p>We have established a joint initiative with other Audit Offices in respect of an enhanced survey process, conducted by an independent firm. Surveys are now issued under this revised approach.</p> <p>Completed.</p>	<p>Completed.</p> <p>Refer to "Human Resources", ToR 5</p>

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<i>Business Management Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
<p>We understand VAGO are reviewing a possible joint initiative with other Audit Offices in respect of an enhanced survey process, conducted by an independent firm</p> <p>We note the practice in some jurisdictions of disclosing in performance audit reports the costs of conducting such audits. In the interests of promoting transparency generally, VAGO should disclose the cost of their performance audits in their reports, but only within reasonable bands of variation.</p> <p>We note that VAGO reports on a number of KPIs through its scorecard, including:</p> <ul style="list-style-type: none"> ■ Timeliness of reports to parliament ■ Level of adherence to approved time and cost budgets, and ■ Training goals achieved <p>We consider that the list of KPIs could be extended.</p>	<p>43. Consistent with the PAEC's "Report on the 2002/03 Budget Outcomes", consideration be given to reporting on some additional KPIs or performance measures, these being:</p> <ul style="list-style-type: none"> ■ Percentage of internal / administrative resources (measured in dollars) devoted to audit support ■ Percentage of audit hours of audit staff charged against annual available hours (staff utilisation) for each operational group ■ Percentage of annual budget invested in learning and development ■ Cost of completed performance audits <p>We believe these measures could be included in the quarterly report currently provided to the PAEC by the AG to further enhance its usefulness.</p> <p>44. So as to be fully transparent, VAGO should disclose in each performance audit report the cost of the audit within reasonable bands of variation, say \$100k. Costs should be determined in a manner comparable with other Audit Offices and the basis disclosed.</p>	<p>ED- Corporate Services/ CFO</p> <p>Paper to SMG 21 April 2005 addressed this recommendation and agreed to continue to provide the PAEC with the KPIs provided to DTF. Completed. SMG agreed (21 April 2005) that Parliamentary reports will include their cost from 1 July 2005. Completed.</p>	<p>Completed.</p> <p>Refer to "Business Management", ToR 2(d) and 2(e) and section 7.2 and 7.3.</p>

Audit Act

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<i>Audit Act Findings and Conclusions</i>	<i>Recommendations</i>	<i>VAGO Comment</i>	<i>Acumen Assessment</i>
We note Section 15(3) of the Act requires the AG in consultation with the PAEC, to determine the intervals at which performance audits are conducted and the number to be conducted in any one year. We consider planning for performance audits to be adequately covered in the provisions of the Act covering the development of the annual plan and work program.	45. Section 7A of the Act adequately provides for the development of the Annual Plan. Accordingly, the need for Section 15(3) of the Act should be reviewed.	For discussion with PAEC.	<p>For discussion by PAEC</p> <p>Refer to “Performance Audit”, ToR 3(f), section 6.2.</p>