

# Performance auditing in Victoria

In a performance audit, we examine how well public money is being spent and used. We assess whether a state or local government agency, program or project is performing effectively, economically and efficiently, and in compliance with all relevant legislation.

The audit can cover part or all of an agency's activities, or the activities of a number of agencies. It can also include private and not-for-profit organisations—called associated entities—that are delivering public sector services or functions.

## How do we decide what to audit?

To focus our resources on areas where we can have the most impact, performance audit topics are selected following extensive research and consultation.

The following diagram outlines our early planning.



We then identify and prioritise potential performance audit topics. We consider risk, significance of the issue, relevance to key stakeholders, priority and timing, our ability to provide unique insights, and balance and coverage of the audit program. Once we have a draft topic list, we consult with the Public Accounts and Estimates Committee (PAEC), government departments and other agencies, and thoroughly consider their feedback.

For each topic, we develop an audit specification that outlines the audit objectives, issues and

agencies included in the audit. Before finalising these specifications, we seek and consider feedback from the audited agencies, PAEC and any associated entities.

We list the final topics and specifications in our annual plan and name the agencies to be included in the audits.

## Accessing information

To conduct our audits, we require access to information, documents and other evidence. The *Audit Act 1994* gives VAGO full access to information from an agency or an associated entity. We have the power to access a broad range of documents, including documents that:

- are Cabinet-in-Confidence
- are in draft form
- do not belong to a person but are in their possession.

These powers to access documents are irrespective of any obligations for confidentiality and override any other legislation that might restrict disclosure such as secrecy or privacy laws.

We engage with agencies continuously to scope and plan audits. We may start collecting information before an audit has begun as part of our annual planning and topic selection or to inform initial audit scoping.

Generally, agencies provide us with the information we ask for, but when they do not, we can compel them to do so. We have strict procedural fairness processes in place when using our coercive powers. For instance, if a person does not have sufficient knowledge of the English language to be able to understand or answer questions that are being asked, we will provide a competent interpreter. Similarly, there are specific legislative provisions concerning people who are under the age of 18 years and for those who have or are believed to have a mental impairment. We do not involve any person under the age of 16 in the audit process.

Individuals may complain to the Victorian Inspectorate if they believe we have not exercised our coercive functions properly.

## The performance audit process

There are three key phases during the performance audit process: risk assessment, risk response, and reporting.

### Risk assessment

To start the audit, we write to the head of the agency, naming the audit and VAGO's Engagement Leader responsible for the audit, and outlining the audit team, planned timelines and key milestones.

We ask that the agency name both an executive level and a day-to-day contact person for the audit. Both should have a sufficient understanding of the audited area to coordinate their agency's engagement with VAGO.

We hold an entry meeting with the agency, which should be attended by appropriately senior agency staff. At this meeting:

- the agency provides background information about the audited area
- timelines and expectations are established
- accommodation at the agency for the audit team is arranged if necessary.

We develop an audit plan that aligns with the audit specification. It describes the audit criteria and scope and guides our risk response phase. We provide a draft of this to the agency for feedback before finalising it.

### Risk response

During the risk response phase, we collect and analyse evidence against the audit plan, and begin to formulate findings, conclusions and recommendations.

Failure to provide complete and accurate evidence can lead to incorrect audit findings and delay the audit process.

We brief the agency progressively on emerging issues, evidence gaps and preliminary findings. We do this formally and informally, verbally and in writing. The audit team discusses the audit findings and recommendations with agency staff as early as possible to assist in developing recommendations and agency responses that are practical and that will meaningfully address the issues identified.

Agency contacts should escalate any issues that require the attention of more senior agency or VAGO staff early.

### Reporting

We prepare a report to Parliament on the audit's findings, conclusions and recommendations.

Recommendations are directed only at public sector agencies, not associated entities.

The report may only include certain sensitive and confidential information (such as Cabinet- or commercial-in-confidence material) if the Auditor-General considers it is in the public interest.

In the rare instance that the report includes an adverse comment or opinion about a named person who is an officer or employee of an audited agency, the agency head must give that person a reasonable opportunity to respond.

At times, the Auditor-General may wish to convey audit findings to an agency to a level of detail that is not warranted in the published report. In these cases, we issue a management letter that provides this detail to the agency.

We must provide a proposed draft of the report to audited agencies, any associated entities, and the Secretary of the Department of Premier and Cabinet. We usually issue an earlier provisional draft of the report and ask the agency to confirm the accuracy of the provisional draft, correcting errors of fact or context.

We then issue the proposed report for formal comment. Agencies and associated entities (where relevant) have 10 business days to submit a response, which we must include in the report. Agencies are responsible for the accuracy, balance and fairness of their response.

We encourage agencies to include actions to address the audit recommendations and timelines for implementation in their response. This increases accountability to Parliament and the community.

Under *the Act*, information from the proposed report cannot be disclosed until the Auditor-General has tabled the report in Parliament, unless it is in the course of performing official duties. There are penalties for improper disclosure.

## After the performance audit

### Briefing Members of Parliament

In the days just before tabling, we offer a verbal briefing on the report to relevant ministers and on the day of tabling we offer a briefing on the audit report findings, conclusions and recommendations to all Members of Parliament.

### Follow up

Parliament and the Executive Government have the power to act on audit recommendations. The Auditor-General cannot enforce recommendations.

The Auditor-General may undertake a follow-up

performance audit that examines how agencies have responded to recommendations and issues raised in past reports. Follow-up audits may be highlighted in the annual plan or added to our program as need arises. Agencies should monitor their responses to audit recommendations on an ongoing basis.

We also undertake an annual survey of all agencies that have open recommendations from audits tabled in the past three years, to gauge the extent to which agencies are addressing and completing actions to address recommendations. From 2020, this work will be tabled in Parliament as an assurance review.

### Agency feedback

After a performance audit, we survey audited agencies to get their views on the audit process and the report, and we use the results to identify areas for improvement.

## Key points to remember

### Prepare early for the audit

- Understand the objectives, scope, focus and timing of the audit—they are generally foreshadowed in the annual plan tabled in Parliament each year, and detailed in the audit specification and plan.
- Provide timely and unrestricted access to information.
- Review relevant plans, records and data, and make sure they are up-to-date.
- Gather documentation on how your agency monitors and measures the effectiveness, economy and efficiency of the audited activity, and have the most recent results ready.
- There are no legal impediments to audit access—*the Act* has provisions that can compel access if needed.

### Consider communication and coordination

- Determine how your agency will communicate and coordinate internally regarding the audit, and with any other included agencies and associated agencies.
- Liaise regularly—there are set briefing points throughout the audit, but maintain regular contact, and engage on significant audit issues as they arise.
- Start talking about recommendations and responses early.

### Carefully review the provisional draft

This is the last opportunity to comment or provide more feedback before the reporting time frames mandated in *the Act* apply.