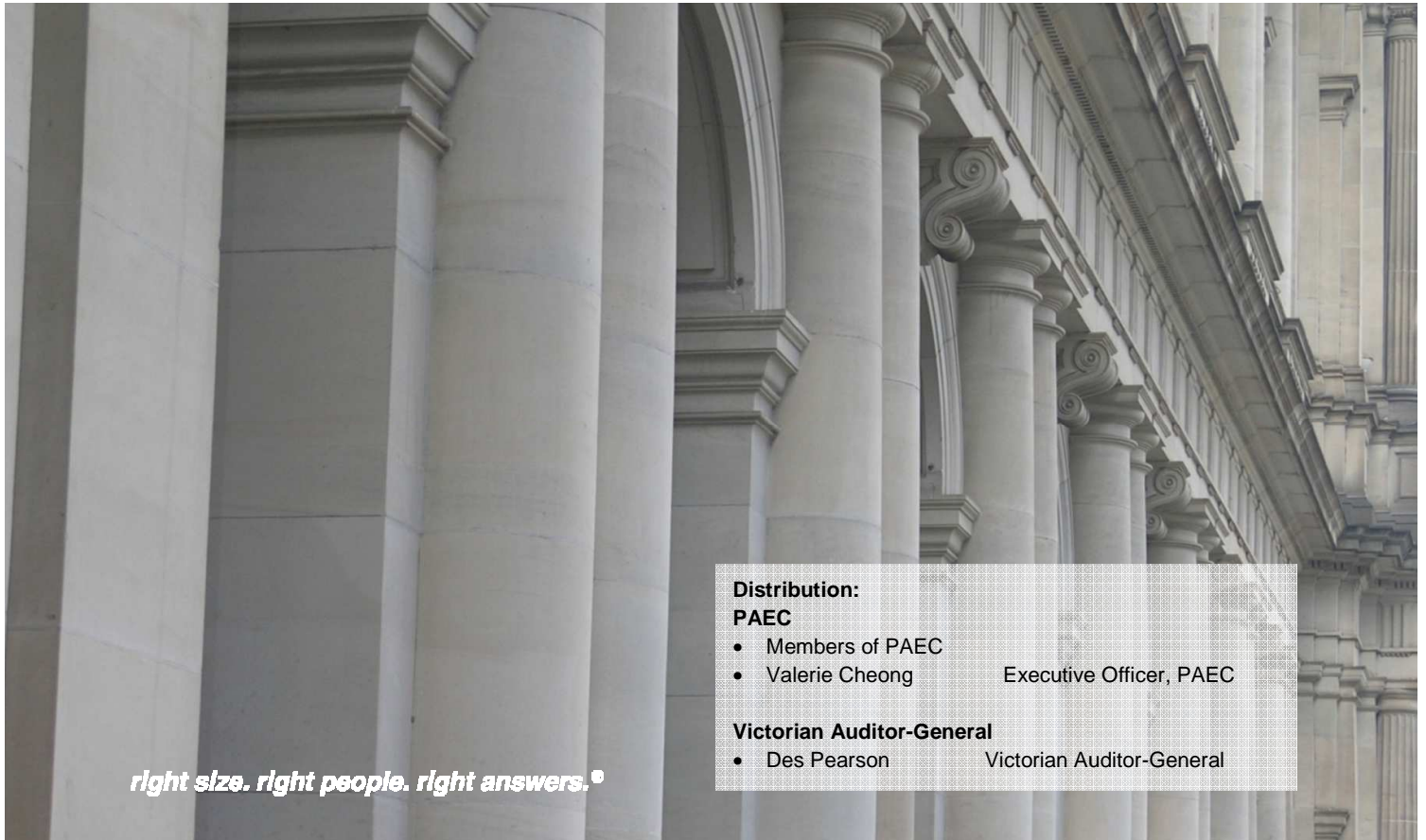


Final Report

Public Accounts and Estimates Committee (“PAEC”)

Performance Audit of Victorian Auditor-General
and Victorian Auditor-General’s Office
August 2010



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Section 1

1.0 Executive Summary

1.1 Introduction

Tom Fazio of PKF Chartered Accountants and Business Advisers (“PKF”) is pleased to submit his report following completion of a performance audit of the Victorian Auditor-General and the Victorian Auditor-General’s Office (“VAGO”).

This report has been completed in accordance with the PKF and Victorian Government contract dated 27 May 2010.

1.2 Background Information

The Victorian *Audit Act 1994* requires that a performance audit be conducted of the Victorian Auditor - General’s Office at least once every three years. Part 4 - Audit of Victorian Auditor-General's Office, of the *Audit Act 1994* stipulates;

“a person may be appointed by resolution of the Legislative Council and Legislative Assembly, on the recommendation of the Parliamentary Committee, as an independent auditor of the Victorian Auditor-General's Office.”

The performance auditor is required to conduct a performance audit in accordance with directions contained within the Terms of Reference prepared by the Parliamentary Committee, over the period May 2010 to August 2010 inclusive.

Following a public tender process PKF was awarded a contract to undertake a performance audit of the Victorian Auditor-General and VAGO in June 2010.

1.3 Scope

The Parliamentary Committee’s Terms of Reference outlined 9 key focus areas relating to the completion of the performance audit, requiring PKF to:

- 1. Assess the appropriateness of the purpose and objectives set by the Auditor-General in his 2008-09 and 2009-10 annual plans and determine the extent to which they are achieved;**
- 2. Assess selected Key Performance Management Issues;**
- 3. Review the efficiency and effectiveness of the management and conduct of performance audits (both broad scope and limited scope) undertaken by VAGO;**
- 4. Review the efficiency and effectiveness of the management and conduct of financial audits undertaken by the Victorian Auditor-General’s Office;**
- 5. Review the newly introduced system of sector reports against financial audits performed;**
- 6. Assess the soundness of processes followed by VAGO for periodic client surveys (including members of Parliament and audit clients) and to evaluate the results of such surveys and determine if an additional independent survey should be conducted;**

- 7. Evaluate the progress, adequacy and effectiveness of measures implemented by VAGO to address recommendations contained within the 2007 performance audit report of VAGO;**
- 8. Ascertain whether the existing processes for evaluating tenders from private audit contractors and consultancies are conducted with due regard to probity and value for money;**
- 9. Determine the scope, quality and effectiveness of the internal audit function within the Auditor-General's Office.**

The work completed by PKF is subject to the limitations set out at Section 1.5 to this report.

1.4 Approach

This performance audit was conducted by obtaining evidence through inspection, observation, inquiry, confirmation and testing and by reviewing system processes for any potential process improvement, inefficiency or duplication. This included:

- › Discussions with VAGO representatives;
- › Review of internal process documentation;
- › Review of supporting documentation; and
- › Determining potential recommendations to address identified performance issues.

1.5 Limitations of Procedures Completed By PKF

PKF has limited the procedures performed during this performance audit project to inquiries of relevant personnel, inspection of evidence and observation of, and enquiry about, the operation of the control procedures, policies and practices for a reasonable number of transactions or events. Our procedures are designed to provide a reasonable level of assurance in relation to the areas included within this report. Reasonable assurance is less than absolute assurance. Absolute assurance is not expressed in our report as a result of factors such as the following:

- › the use of selective testing undertaken by PKF;
- › the inherent limitations of internal controls;
- › the fact that much of the evidence available to PKF is persuasive rather than conclusive;
- › the use of judgement in gathering and evaluating evidence and forming conclusions based on that evidence; and
- › in some cases, the characteristics of the subject matter when evaluated or measured against the identified criteria.

The matters raised in this report are only those that came to our attention during the course of performing our procedures and may not necessarily be a comprehensive statement of all the weaknesses that may exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for the Auditor-General's or VAGO's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, comply with laws and regulations and avoid fraud. Accordingly, PAEC should not rely on our report to identify all weaknesses that may exist in the systems and procedures reviewed, or potential instances of fraud that may exist.

The Parliamentary Committee, the Auditor-General and VAGO and should assess PKF's recommendations for their full commercial / other impacts before they are implemented.

1.6 Summary of Recommendations

Terms of Reference	Recommendations	Victorian Auditor-General's Response
Section 2.1: Terms of Reference 1		
<p>Assess the appropriateness of the purpose and objectives set by the Auditor-General in his 2008-09 and 2009-10 annual plans and determine the extent to which they are achieved.</p>	<p>1. External Service Providers for Performance Audits <i>Consider alternative funding arrangements for performance audits and also consider utilising external service delivery model.</i></p> <p>2. Reporting Frequency for Annual Plan Acquittals / Progress by VAGO to PAEC/Parliament <i>Consider improving the frequency of reporting to Parliament/PAEC.</i></p> <p>3. Disclosure of Name and Scope Changes for Performance Audits <i>Consider disclosure of name and scope changes in performance audit reports.</i></p> <p>4. Implementation of Past Recommendations <i>Consider performing follow-up reviews on the implementation of recommendations raised by VAGO and to monitor auditees' progress in addressing agreed findings.</i></p>	<p>Not Accepted. VAGO funding is determined by the Audit Act 1994, alternative funding regimes would require legislative change. Further, performance auditing is an evolving discipline and the limited market expertise available is being utilised and nurtured to the extent possible.</p> <p>Not accepted. The Auditor-General is the accountable officer and responsible for the management of the Office.</p> <p>Accepted. Appropriate disclosure will continue to be considered where material and substantive change occurs.</p> <p>Not accepted. As part of the annual planning process, the annual Minister for Finance Report and ensuing PAEC enquiries are considered in selecting audit topics.</p>

Terms of Reference	Recommendations	Victorian Auditor-General's Response
Section 2.2 : Key Performance Management Issues		
Section 2.2.1: Terms of Reference 2(a)		
1.6.1 The adequacy and effectiveness of VAGO's audits in promoting improved performance and accountability as well as efficiency in the Victorian public sector.	5. Fostering Productive Relationships with Audit Clients <i>Consider strategies to further improve relationships with auditees.</i>	Accepted. Fostering of productive relationships with clients has been central to successive VAGO Strategic Plans.
	6. Measuring Adequacy and Effectiveness of VAGO's Audits <i>Consider reporting quantifiable measures relating to recommendations raised by VAGO.</i>	Not accepted. Priority is accorded to the statutory mandate and a comprehensive suite of performance indicators, including a core developed in conjunction with ACAG, already exists.
Section 2.2.2: Terms of Reference 2(b)		
The adequacy and appropriateness of all audit methodologies, practices and procedures and improvements undertaken over the past three years.	7. Independence Declaration for Staff <i>Consider completing independence declarations of all staff for each assignment, including the Victorian Auditor-General, and other executive staff.</i>	Not accepted. Existing annual declaration of interests are complemented by <ul style="list-style-type: none"> • The Code of Conduct for Victorian Public Sector Employees of Special Bodies and • Audit standards and methodology are considered adequate for the public sector context in which VAGO operates.
	8. Audit Method Performance (Performance Audit Methodology – AmP) Library and Checklists <i>Consider developing a process to enable VAGO's performance audit practitioners to fully comply with relevant Auditing Standards.</i>	Not accepted. Involves duplication as AmP already designed to acquit these requirements.
	9. Application of AmP <i>Consider further refinement of VAGO's performance audit methodology.</i>	Accepted. VAGO's continuous improvement process on an at least annual basis adopts refinements in light of the business need and risk.

Terms of Reference	Recommendations	Victorian Auditor-General's Response
	<p>10. Structure of Performance Audit Reports Tabled at Parliament <i>Consider introduction of consistent performance audit reports.</i></p>	<p>Not accepted. The diversity of audit topics and the nature of audit findings render a formulaic approach inappropriate.</p>
Section 2.2.3: Terms of Reference 2(c)		
<p>The adequacy and effectiveness of internal systems to measure and improve productivity including cost and resource-use effectiveness within VAGO.</p>	<p>11. Performance audits: Budgeted Costs vs. Published Costs <i>Consider strategies for containing budget overruns and setting accurate budgets relating to VAGO's performance audit division</i></p>	<p>Accepted. VAGO's continuous improvement process adopts refinements in light of experience and post audit reviews, business need and risk.</p>
Section 2.2.4: Terms of Reference 2(d)		
<p>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.</p>	None.	Noted.
Section 2.2.5: Terms of Reference 2(e)		
<p>The adequacy and effectiveness of the annual planning process, having regard to risk factors and governance arrangements within agencies.</p>	None.	Noted.
Section 2.2.6: Terms of Reference 2(f)		
<p>The adequacy of the existing time recording and costing systems to ensure all recoverable costs are collected and that there is no cross-subsidisation between chargeable and non-chargeable functions of the Office; or between performance and financial audits.</p>	<p>12. Time Costs for Performance Audit <i>Consider allocating time relating to familiarisation of performance audit assignments to internal VAGO cost centres.</i></p>	<p>Not accepted. Incidence does not warrant a change in audit costing policy.</p>
	<p>13. Comparability of Costs Between Performance Audits <i>Consider implementing a consistent approach to measuring performance audits.</i></p>	<p>Accepted. VAGO's continuous improvement process adopts refinements in light of experience and post audit reviews.</p>

Terms of Reference	Recommendations	Victorian Auditor-General's Response
Section 2.2.7: Terms of Reference 2(g)		
The culture of management and workloads and their effect on staff performance, work-life balance and retention rates over the past three years in all VAGO divisions.	None.	Noted.
Section 2.2.8: Terms of Reference 2(h)		
Whether the recommendations of the previous performance auditor on human resources issues such as workforce planning and people management have been addressed in an effective and sustainable manner (insight on progress achieved from strategies developed for implementing these recommendations should be gained from appropriate sources including original data gathered in staff surveys, an update in data on staff turnover rates since 1 July 2007 up to and including the year ended 30 June 2010 and the conduct of an appropriate confidential staff survey by the successfully appointed performance auditor.	None.	Noted.
Section 2.2.9: Terms of Reference 2(i)		
The extent to which best practice in public sector management and auditing has been updated and adopted in the Office over the past three years.	None.	Noted.

Terms of Reference	Recommendations	Victorian Auditor-General's Response
Section 2.2.10: Terms of Reference 2(j)		
The appropriateness of performance measures and veracity of performance outcomes reported and benchmarks against which the Auditor-General's Office measures its performance both internally and externally.	None.	Noted.
Section 2.2.11: Terms of Reference 2(k)		
Whether VAGO continues to comply with Australian auditing standards, including the quality control process associated with contracted audits in both financial and performance audits	None.	Noted.
Section 2.2.12: Terms of Reference 2(l)		
Whether audits are supported by adequate plans and work papers, appropriate audit evidence and appropriate quality control procedures	14. Performance Audit –Cold Reviews <i>Consider further refining the process for undertaking cold reviews.</i>	Accepted. VAGO's continuous improvement process adopts refinements in light of experience, business need and risk.

Terms of Reference	Recommendations	Victorian Auditor-General's Response
Section 2.2.13: Terms of Reference 2(m)		
<p>Conduct a pricing review on VAGO's 2010-11 budget to determine adequacy of funding levels provided by Government. In so doing, ascertain whether the analysis and findings of separate independent pricing reviews undertaken by VAGO for its 2009-10 budget and the Department of Treasury and Finance for its 2010-11 budget can be reconciled in relation to the veracity of VAGO's budget pressures, the sources of those pressures, revenue sources and appropriate levels of fees and charges, efficiencies in VAGO's output deliveries and options for achieving efficiencies, productivity and possible savings in the future. Efficiencies will include any strategies to manage the future increased costs and the usual quantum of financial audits and performance audits</p>	None.	Noted.
Section 2.3: Review the efficiency and effectiveness of the management and conduct of performance audits (both broad scope and limited scope) undertaken by VAGO		
Section 2.3.1: Terms of Reference 3(a)		
<p>The adequacy and effectiveness of measures taken by VAGO since the previous performance audit of VAGO in 2007 to address specific areas contained in the significant finding that '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'</p>	None.	Noted.

Terms of Reference	Recommendations	Victorian Auditor-General's Response
Section 2.3.2: Terms of Reference 3(b)		
The extent to which the selection criteria for performance audits ensures key risk areas and major programs within the public sector receive adequate coverage	None.	Noted.
Section 2.3.3: Terms of Reference 3(c)		
The adequacy of the rationale supporting the selection of potential performance audit topics	None.	Noted.
Section 2.3.4: Terms of Reference 3(d)		
The effectiveness of the planning and management of performance audits	None.	Noted.
Section 2.3.5: Terms of Reference 3(e)		
The adequacy of the investigative process and quality control procedures to support conclusions arising from the performance audits	None.	Noted.
Section 2.3.6: Terms of Reference 3(f)		
Whether significant issues that arise during the course of a performance audit that were not identified in audit plans are adequately and effectively considered in a timely manner and addressed	None.	Noted.

Terms of Reference	Recommendations	Victorian Auditor-General's Response
Section 2.3.7: Terms of Reference 3(g)		
Confidentiality of audit processes (e.g. in terms of information leaks).	15. Signature of Employees Agreeing to Abide by VAGO's Code of Conduct <i>Consider implementing further measures to enhance the process to maintain confidentiality of information.</i>	Accepted. Long serving employees whose commencement was prior to the May 2008 revised induction procedure have been requested to sign an agreement to abide by the Code of Conduct. By 27 August 2010, all staff, except those who were absent on leave, have signed an agreement that they understand their statutory and professional obligations.
Section 2.3.8: Terms of Reference 3(h)		
The impact of undertaking a considerable number of performance audit reports on sustaining staff motivation and whether 'in-house' benefits of gaining an in-depth knowledge on a subject area and related issues have been sustained	None.	Noted.
Section 2.3.9: Terms of Reference 3(i)		
Flowing from point (h), any instances of pressures from adherence to time and cost budgets significantly curtailing planned audit activity and impacting on the depth of issues reported to Parliament	None.	Noted.
Section 2.3.10: Terms of Reference 3(j)		
Compliance with statutory requirements for the conduct and reporting of performance audits	None.	Noted.
Section 2.3.11: Terms of Reference 3(k)		
The appropriateness of the mix between specialist expertise, contractors and suitably qualified in-house staff in undertaking particular performance audits	Refer Recommendation # 1 (above) relating to utilising external service delivery model within VAGO.	Noted.

Terms of Reference	Recommendations	Victorian Auditor-General's Response
Section 2.3.12: Terms of Reference 3(l)		
The appropriateness of criteria against which the efficiency and effectiveness of performance audits conducted by the Office are measured	None.	Noted.
Section 2.3.13: Terms of Reference 3(m)		
Assess, through the gathering of relevant evidential materials, the veracity of comments formally communicated to the Committee during the Audit Act Inquiry by the Department of Treasury and Finance that, 'recent audit practice has shown that the focus of audit reports has been on matters of compliance...(rather than) on matters of performance'	None.	Noted.
Section 2.4: Review the efficiency and effectiveness of the management and conduct of financial audits undertaken by the Victorian Auditor General's Office, with particular attention to:		
Section 2.4.1: Terms of Reference 4(a)		
Initiatives taken by VAGO to expand the reporting to Parliament of financial audit issues	None.	Noted.
Section 2.4.2: Terms of Reference 4(b)		
The extent to which the selection criteria for financial audits ensure key risk areas entailed with an entity's financial operations are addressed and the appropriateness of the criteria	None.	Noted.
Section 2.4.3: Terms of Reference 4(c)		
The effectiveness of the planning, management and resourcing for financial audits	None.	Noted.

Terms of Reference	Recommendations	Victorian Auditor-General's Response
Section 2.4.4: Terms of Reference 4(d)		
The adequacy of the investigative process and quality control procedures to support conclusions arising from the financial audits	16. Expanding Quality Review of Completed Financial Audits <i>Consider expanding quality reviews for financial audits.</i>	Not accepted. Our current level of quality review is significantly in excess of professional requirements and is rigorously monitored. Results do not warrant expansion.
Section 2.4.5: Terms of Reference 4(e)		
Whether significant issues that arise during the course of a financial audit that were not identified in audit plans, are adequately and effectively considered in a timely manner and addressed	None.	Noted.
Section 2.4.6: Terms of Reference 4(f)		
The impact of undertaking a considerable number of financial audit reports on sustaining staff motivation and whether 'in-house' benefits of gaining an in-depth knowledge on a portfolio area and related issues have been sustained	None.	Noted.
Section 2.4.7: Terms of Reference 4(g)		
Compliance with statutory requirements for the conduct and reporting of financial audits	None.	Noted.
Section 2.4.8: Terms of Reference 4(h)		
The appropriateness of the mix between specialist expertise, contractors and suitably qualified in-house staff in undertaking particular financial audits and the soundness of VAGO's quality review practices	17. IT Audits <i>Consider measures to increase use of computerised audit techniques.</i>	Accepted. A business improvement project to expand our IT capacity and the tools applied was included in the 2010-11 Financial Audit Group Business Plan.

Terms of Reference	Recommendations	Victorian Auditor-General's Response
Section 2.4.9: Terms of Reference 4(i)		
The appropriateness of criteria against which the efficiency and effectiveness of financial audits conducted by the Office are measured	None.	Noted.
Section 2.5: Review the newly introduced system of sector reports against financial audits performed, with particular reference to:		
Section 2.5.1: Terms of Reference 5(a)		
Their usefulness and appropriateness as a reporting format	None.	Noted.
Section 2.5.2: Terms of Reference 5(b)		
Their content, including possible overlap with performance auditing or evaluation / review activities of the State Services Authority or central agencies (e.g. Department of Premier and Cabinet and Department of Treasury and Finance)	None.	Noted.
Section 2.5.3: Terms of Reference 5(c)		
The budget implications of preparing such reports	None.	Noted.
Section 2.6: Terms of Reference 6		
Assess the soundness of processes followed by VAGO for periodic client surveys (including members of Parliament and audit clients). Evaluate the results of such surveys and determine if an additional independent survey should be conducted	None.	Noted.

Terms of Reference	Recommendations	Victorian Auditor-General's Response
Section 2.7: Terms of Reference 7		
Evaluate the progress, adequacy and effectiveness of measures implemented by VAGO to address recommendations contained within the 2007 performance audit report of VAGO	None.	Noted.
Section 2.8: Terms of Reference 8		
Ascertain whether the existing processes for evaluating tenders from private audit contractors and consultancies are conducted with due regard to probity and value for money	18. Evaluation of Private Audit Contractors and Consultants <i>Consider refining the process for evaluation of private audit contractors and consultants.</i>	Accepted. VAGO has a continuous improvement process and particular attention will be paid to more comprehensively documenting rationale for decisions.
	19. Delegations of Authority – Threshold Limits <i>Consider reviewing delegations of authority limits provided to VAGO personnel.</i>	Not accepted. The delegations of authority specifically separate out the approval to tender and the approval to purchase – the Assistant Auditor-Generals' approval to purchase is limited by the tender approval.
Section 2.9: Terms of Reference 9		
Determine the scope, quality and effectiveness of the internal audit function within the Auditor-General's Office	20. Exclusion of High Risk from Internal Audit Activity <i>Consider full documentation for exclusion of "High" risk from internal audit activity and possible inclusion in future audit activities.</i>	Accepted. VAGO has a continuous improvement process and particular attention will be paid to more comprehensively documenting rationale for decisions.

1.7 Acknowledgments

PKF would like to thank the Victorian Auditor-General and all VAGO personnel who participated in the performance audit, the members and Secretariat of the PAEC who provided timely assistance to us, the current and former members of VAGO staff who responded to our survey, and senior staff of public sector agencies who provided valuable input to the performance audit. The co-operative and positive attitude towards the review from all VAGO staff was very encouraging.

1.8 Conclusion

Based on the work performed by PKF and as specified in the Terms of Reference we conclude that in all material respects the Victorian Auditor-General is operating in compliance with the Audit Act 1994 (as amended) and that the Victorian Auditor-General and VAGO are operating effectively and efficiently to discharge their duties.

Section 2

2.0 Detailed Findings

Our findings have been derived from our review of the focus areas set out in the Parliamentary Committee's Terms of Reference and are provided in this Section of our report.

2.1 Assess the appropriateness of the purpose and objectives set by the Auditor - General in his 2008-09 and 2009-10 Annual Plans and determine the extent to which they are being achieved [Terms of Reference – 1]

Observations

In order to assess the appropriateness of the purpose and objectives set by the Auditor-General in his 2008-09 and 2009-10 Annual Plans we have considered the following:

- *Whether the Annual Plans focused on financial and performance audits as required by Section 3A of the Audit Act 1994.*

We have reviewed the Strategic Plans 2007-2010, Annual Plans 2007-2010, Business Plans for Financial Audits, Performance Audits and Corporate Business Groups for the years 2007-2010. We have in our review of these documents and through discussions with relevant staff members of the Victorian Auditor-General's Office ("VAGO") ascertained that VAGO's processes are appropriate and adequate to transpose strategic plans into workable business plans for all business units.

Performance Audits

Performance audits aim to provide Parliament with independent assurance on the adequacy of accountability and resource management practices in the public sector. Performance audit reports may cover:

- Efficiency, economy and effectiveness of publicly funded activities;
- Probity and compliance matters; and
- Assessment of Victoria's finances.

VAGO uses its performance audit framework to select suitable topics for audit activity. The framework used by VAGO includes the following steps:

- a) Identification and analysis of public sector programs and initiatives with reference to the following criteria:
 - ▶ Concerns raised by Members of Parliament, government agencies or the community;
 - ▶ Progress of the Growing Victoria Together Government policy;
 - ▶ Performance challenges facing government or its agencies;
 - ▶ Current or proposed actions by government or agencies to address performance challenges;
 - ▶ Emerging trends or factors which may impact on government service delivery;
 - ▶ Materiality;
 - ▶ Impact of performance challenges on the social, environmental or economic expectations of the community; and

Terms of Reference 1 (Cont'd)

- Results of current or previous audits.
- b) Identification of potential areas of audit interest;
- c) Assessment of risk and materiality to prioritise prospective audit topics, and
- d) Determination of areas of performance audit interest (audit topics) for the Annual Plan and multi-year strategy.

Following a recommendation arising from the performance audit of VAGO in 2007, the 2008 audit framework now incorporates a risk and materiality component. Accordingly, risks are assessed in terms of economic, environmental and social materiality. Following the risk assessment, audit topics have been determined for inclusion in the Annual Plan, including a 4-year audit program strategy.

Up to and including 2009-10, performance audits were classified as either Broad or Limited scope. This classification has been dispensed with for 2010-11 onwards and replaced with High, Medium and Low risk ratings.

Broad performance audit / reviews and limited performance audit / reviews are equivalent to "Performance Audit Engagements" and "Performance Review Engagements" defined in ASAE 3500 Standard on Assurance Engagements - Performance Engagements, issued by the Auditing and Assurance Standards Board.

Financial Audits

Financial audits aim to provide an independent assurance to public entities, Parliament and the public that information in the financial reports of public entities is presented fairly, in all material respects, according to Australian Accounting Standards, the Financial Management Act 1994 and/or other relevant legislative requirements. The Auditor-General is required to express an opinion on the financial statements in line with the requirements of Section 9 and 9A of the *Audit Act 1994*.

Audit Mix Between Financial and Performance Audits

The mix between financial audits and performance audits conducted by VAGO for the years 2007-08 to 2009-10 are listed below:

Table 1: Audit Mix, Financial and Performance Audits (Targets)

	07/08		08/09		09/10	
	No	%	No	%	No	%
Financial Audits ¹	766	96.7	722	96.0	714	96.2
Performance Audits ²	29	3.3	30	4.0	27	3.8
Total	795	100	752	100	741	100

Source: Annual Plans, 2007-08 to 2009-10

¹ Includes non-financial performance indicator audits.

² Includes Broad and Limited scope performance audit/ reviews, but excludes other reports under Output Group 1, such as Parliamentary reports and other services.

We note that the costs of financial audits are borne by the auditees (Section 10, Audit Act 1994) whilst the cost of performance audits are financed from the funds made available to VAGO.

Terms of Reference 1 (Cont'd)

Performance audits are predominantly performed utilising VAGO personnel. Where there is a need identified by VAGO for the use of specialist expertise, VAGO will engage suitable external parties to provide the required expertise.

We have also considered the cost structure relating to financial audits and performance audits and we note the following from our review of VAGO's Business Plan 2009-10:

Table 2: Average Cost and Average Hours per Financial Audit and Performance Audit

		07/08 (Actual)	08/09 (Actual)	09/10 (Target)
Financial Audit				
Total cost of financial audits (\$, million):	[A]	19.2	19.2	19.8
Total number of financial audits ¹ :	[B]	766	722	714
Average cost per financial audit (\$, '000) (computed):	[A/B]	25.1	27.4	27.7
Performance Audit				
Total cost of performance audits (\$, million):	[D]	13.9	13.5	13.9
Total number of performance audits:	[E]	29	30	27
Average cost per performance audit (\$, '000) (computed):	[D/E]	479.3	450.0	514.8
Average cost per performance audit (\$, '000)(per VAGO, includes other services in Output Group 1)		324.6	358.3	340.9

Source: VAGO Business Plan 2009-10; VAGO Annual Reports 2008/09 and various other internal reports.

¹ Includes non-financial performance indicator audits.

FINDING / RECOMMENDATION 1: External Service Providers for Performance Audits

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>VAGO currently performs most performance audits utilising in-house resources. Consequently, the number of performance audits that could be performed may be limited in part by resources available within VAGO.</p> <p>We also note the different funding models adopted for financial and performance audits.</p>	<p>Recommendation:</p> <p>We suggest that VAGO in conjunction with the Government consider evaluating the feasibility of funding the cost associated with performance audits from either the consolidated fund or directly from auditees. This funding model may require consideration of the impact on the independence of the Victorian Auditor-General's office, from the perspective of the Constitution Act 1975 in relation to:</p> <ul style="list-style-type: none"> • Whether or not a particular audit is to be conducted; • The way in which a particular audit is to be conducted; and • The priority to be given to any particular matter. 	<p>Comment:</p> <p>Not Accepted.</p> <p>VAGO funding is determined by the Audit Act 1994, alternative funding regimes would require legislative change.</p> <p>Further, performance auditing is an evolving discipline and the limited market expertise available is being utilised and nurtured to the extent possible.</p>

Terms of Reference 1 (Cont'd)

FINDING / RECOMMENDATION 1: External Service Providers for Performance Audits (Cont'd)

Finding (Cont'd)	Recommendation (Cont'd)	Auditor- General Comments (Cont'd)
	<p>We also suggest that the Victorian Auditor-General consider adopting an outsource service delivery model for the conduct of some performance audits.</p> <p>Consideration of the following matters will be required as part of the feasibility study:</p> <ul style="list-style-type: none"> • Government acceptance to bear a portion of the performance audit costs; • Amendment(s) to the <i>Audit Act 1994</i>; • Transfer of knowledge from VAGO to outsource providers in conducting performance audits; • Management of outsource providers to include confidentiality agreements, transfer of knowledge to VAGO for audits completed, defined reporting timelines, milestone reporting, etc; • Planning process to include VAGO, outsource providers and auditees; • Consultation and inclusion of full auditee comments into the audit report prepared by the outsource provider; and • Amendments to VAGO's Strategic, Annual and Business Plans. 	

- *Reporting to Parliament.*

VAGO maintains a list of acquittals for performance audits for each year. As the performance audits are completed and tabled at Parliament, a record is made against this acquittal list to indicate that the report has been tabled at Parliament. This list is also included in VAGO's annual report each year.

The Auditor-General also provides acquittal letters addressed to the Chair of the PAEC on a quarterly basis, to update PAEC on the status of completion of performance and financial audits as compared to the Annual Plan. The acquittal letter also reconciles the actual timing of performance and financial audit reports tabled at Parliament compared to the targeted tabling dates.

Terms of Reference 1 (Cont'd)

The following table identifies performance audits were not tabled in accordance with the original proposed Parliamentary tabling dates:

Table 3: Performance Audit- Proposed Tabling Date vs. Actual Tabling Dates

As at 30 June	No	Performance Audit	Proposed Tabling Date	Actual Tabling Date
2008	1	Services to Young Offenders	May 2008	June 2008
	2	Discovering Bendigo Project	Oct 2007	Nov 2007
	3	Themed Report 1: <ul style="list-style-type: none"> Buyback of Citylink Concession Notes Calder/Tullamarine Freeway Interchange Project Westgate & Monash Freeway Corridor Project 	Nov 2007	Dec 2007
	4	Piping the System – Wimmera-Mallee pipeline and Goldfields Superpipe	Apr 2008	May 2008
	5	Review of Southeast-Water's Works Alliance Agreement	Apr 2008	May 2008
	6	Project Rosetta	Apr 2008	May 2008
	7	Implementation of the Criminal Justice Enhancement Program	May 2008	June 2008
	8	Performance Reporting in Local Government: Relevance and Appropriateness	Feb 2008	June 2008
	9	Performance Reporting by Public Financial Corporations	May 2008	June 2008
	10	Performance Reporting in Local Government: Good Practice Guide	Dec 2007	June 2008
2009	11	Preparedness to Respond to Terrorism	Dec 2008	Jan 2009
	12	Family Violence Strategy	Apr 2009	June 2009
	13	Maintaining the Integrity and Confidentiality of Personal Information	May 2009	Nov 2009
	14	Private Practice Arrangements in Health Services	Sept 2008	Oct 2008
2009	15	Achievement of Literacy and Numeracy Benchmarks i Victoria	Oct 2008	Feb 2009
	16	Flora and Fauna Guarantee Act	Nov 2008	Apr 2009
	17	Delivery of Home and Community Services	Feb 2009	May 2009
	18	Fraud - Assessment of Systems , Policies and Procedures	Feb 2009	June 2009
	19	Management of Funds Held by Schools	Feb 2009	May 2009
	20	Royal Children's Hospital Re development	Mar 2009	May 2009
	21	Management of Community Support Fund	Mar 2009	Nov 2009
	22	Integrated Courts Management System (ICMS)	Mar 2009	June 2009
	23	International and Full Fee-Paving Students	Apr 2009	June 2009
	24	Construction of New Police Stations and Courthouses	Apr 2009	Not disclosed
	25	Withdrawal of Infringement Notices	Apr 2009	June 2009
2010	26	Biotechnology Development	May 2010	Not tabled as date of

Terms of Reference 1 (Cont'd)

As at 30 June	No	Performance Audit	Proposed Tabling Date	Actual Tabling Date
				this report
	27	VicForests	May 2010	Deferred to 2012-13
	28	Access to Social Housing	Apr 2010	Jun 2010
	29	Managing Teacher Performance in Government Schools	Apr 2010	May 2010
	30	Irrigation Efficiency Programs	Mar 2010	June 2010
	31	Management of Safety Risks at Level Crossings	Feb 2010	Mar 2010
	32	Toward a "Smart Grid" – the Rollout of Advanced Metering Infrastructure	Sept 2009	Nov 2009
	33	Effectiveness of Student Well-Being Programs and Services	Dec 2009	Feb 2010
	34	Personal Safety and Security on the Metropolitan Train System	May 2010	June 2010
	35	Use of Development Contributions by Local Government	Nov 2009	Dec 2009
	36	Performance Reporting Across Government	Mar 2010	Apr 2010
Year	Total No. of Performance Audit Reports Tabled at Parliament	Number of Performance Audit Reports Not Tabled at Original Proposed Tabling Date (As above)	% of Performance Audit Reports Not Tabled by Original Proposed Tabling Date	
2008-2010	83	36	43.4%	

Source: Quarterly VAGO Annual Plan Acquittals, 2008-2010

Terms of Reference 1 (Cont'd)

Table 3a: PKF Analysis of Performance Audit Reports Tabled to Parliament

Year	Q1	Q2	Q3	Q4	Total
	Number				
2007-2008	1	8	3	17	29
2008-2009	3	8	2	15	28
2009-2010	0	8	5	13	26
Year	Q1	Q2	Q3	Q4	Total
	Percentage				
2007-2008	3.4	27.6	10.3	58.7	100
2008-2009	10.7	28.6	7.1	53.6	100
2009-2010	0	30.8	19.2	50	100

Source: Register of Performance Audit Acquittals, VAGO;

Q1: July-September; Q2: October-December; Q3: January-March; Q4: April-June.

We note from the above that 60% or more of VAGO's performance audit reports were tabled in Q3 and Q4.

FINDING / RECOMMENDATION 2: Reporting Frequency for Annual Plan Acquittals / Progress by VAGO to PAEC/Parliament

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>a) Quarterly reporting may not provide ample opportunity for PAEC/Parliament to monitor VAGO's performance against its Annual Plan;</p> <p>b) The current quarterly report format provided to PAEC may not provide sufficient information to identify changes to Annual Plan commitments of VAGO;</p> <p>c) Most performance audit reports are tabled in Parliament at Q3 and Q4 (refer Table 3a above) of each financial year, which may impact on Parliament's ability to read and address actions arising from the performance audit activity undertaken by VAGO.</p>	<p>Recommendations:</p> <p>a) In order to better meet the expectations of Parliament, improve the relevance of performance and financial audit reports to various stakeholders and further improve timely consideration on matters of public interest, we suggest that VAGO consider monthly reporting of acquittals of the Annual Plan to PAEC.</p>	<p>Comment:</p> <p>Not accepted. The Auditor-General is the accountable officer and responsible for the management of the Office.</p>

Terms of Reference 1 (Cont'd)

FINDING / RECOMMENDATION 2: Reporting Frequency for Annual Plan Acquittals / Progress by VAGO to PAEC/Parliament (Cont'd)

Finding (Cont'd)	Recommendations (Cont'd)	Auditor-General Comments (Cont'd)
<p>Finding:</p>	<p>Recommendations:</p> <p>b) To provide further clarity on the acquittal of financial and performance audit reports against Annual Plans to PAEC/Parliament, we suggest that VAGO provide a monthly summary of acquittals taking into account reports added, deleted, deferred, amended (in scope) during the relevant reporting period.</p> <p>An example for consideration is included in Table 5 of this report.</p> <p>Where required, further details for each of the components of the proposed summary could be included as attachments or appendices.</p> <p>c) We suggest VAGO consider a more consistent reporting allocation of performance audit reports to Parliament.</p>	

Terms of Reference 1 (Cont'd)

A review of Performance Audit report name changes was performed for the Annual Plans from 1 July 2007 to 30 June 2010 to ascertain consistency of audit execution (compared to Annual Plan).

Table 4: Performance Audit Name Changes

	Annual Plan	Date Tabled at Parliament	Type of Review (Ltd/Broad)	Original Name per Annual Plan	New Name in Tabled Parliamentary Report	Any change in the scope of the audit? (Y/N)
1	2007	10/10/07	Ltd	Specific purpose funds management by health services	Management of Specific Purpose Funds by Public Health Services	N
2	2007	21/11/07	Ltd	Southern Cross Station project / Melbourne Convention Centre project	Audits of 2 Major Partnership Victoria Projects	N
3	2007	21/11/07	Ltd	Parliamentary appropriations: Output specifications	Parliamentary Appropriations: Output Measures	N
4	2007	5/12/07	Ltd	Calder and Tullamarine Freeway interchange project West Gate and Monash Freeway corridor project Buyback of Concession Notes associated with the Melbourne City Link	Funding and Delivery of Two Freeway Upgrade Projects	N
5	2007	27/2/08	Broad	Primary industry research	Agricultural Research Investment, Monitoring and Review	N
6	2007	12/03/08	Broad	Housing and accommodation support for people with a disability	Accommodation for People with a Disability	N
7	2007	12/3/08	Broad	Records management	Records Management in the Victorian Public Sector	N
8	2007	9/4/08	Broad	Renewal and extension of water infrastructure	Planning for Water Infrastructure in Victoria	N
9	2007	16/4/08	Ltd	Management of the HealthSMART whole-of-health information and communication technology system	Delivering HealthSMART—Victoria's whole-of-health ICT strategy	N

Terms of Reference 1 (Cont'd)

	Annual Plan	Date Tabled at Parliament	Type of Review (Ltd/ Broad)	Original Name per Annual Plan	New Name in Tabled Parliamentary Report	Any change in the scope of the audit? (Y/N)
10	2007	7/5/08	Broad	Urban Planning	Victoria's Planning Framework for Land Use and Development	N
11	2007	28/5/08	Ltd	Piping the system: Wimmera-Mallee pipeline and Goldfields Superpipe	Piping the System	N
12	2007	11/6/08	Ltd	Criminal Justice Enhancement Program	Implementation of the Criminal Justice Enhancement Program	N
13	2007	11/6/08	Ltd	Performance reporting in local government: Relevance and appropriateness	Performance reporting in local government	N
14	2007	25/6/08	Ltd	Performance reporting by financial institutions and insurance agencies: Relevance and appropriateness	Performance reporting by Public Financial Corporations	N
15	2007	25/6/08	Broad	Effectiveness of responses to indigenous health and education matters	Coordinating services and initiatives for Aboriginal people	N
16	2007	25/6/08	Ltd	Royal Women's Hospital redevelopment	The New Royal Women's Hospital-a public private partnership	N
17	2008	30/7/08	Ltd	Complaints against ticket inspectors	Managing Complaints Against Ticket Inspectors	N
18	2008	29/10/08	Ltd	Working with Children Check system	Working with Children Check	N
19	2008	29/10/08	Ltd	Assessment of outcomes associated with CASES21	CASES 21	N
20	2008	12/11/08	Broad	Patient flow and bed management in public hospitals	Managing Acute Patient Flows	N

Terms of Reference 1 (Cont'd)

	Annual Plan	Date Tabled at Parliament	Type of Review (Ltd/ Broad)	Original Name per Annual Plan	New Name in Tabled Parliamentary Report	Any change in the scope of the audit? (Y/N)
21	2008	21/1/09	Broad	Preparedness to respond to terrorism	Preparedness to Respond to Terrorism Incidents: Essential Services and Critical Infrastructure	N
22	2008	4/2/09	Ltd	Achievement of literacy benchmarks in Victoria	Literacy and Numeracy Achievement	Y
23	2008	1/4/09	Ltd	Flora and Fauna Guarantee Act 1988	Administration of the Flora and Fauna Guarantee Act 1988	N
24	2008	6/5/09	Ltd	Management of funds held by schools/school councils (including loans of school cooperatives)	Management of School Funds	N
25	2008	6/5/09	Ltd	Royal Children's Hospital redevelopment	The New Royal Children's Hospital—a public private partnership	N
26	2008	6/5/09	Broad	Port of Melbourne channel deepening project	The Channel Deepening Project	N
27	2008	3/6/09	Ltd	Fraud-assessment of systems, policies and procedures	Governance and Fraud Control in Selected Adult Educational Agencies	Y
28	2008	3/6/09	Broad	Victorian WorkCover Authority-claims management	Claims Management by the Victorian WorkCover Authority	N
29	2008	10/6/09	Ltd	Integrated courts management system	Connecting Courts - the Integrated Courts Management System	N
30	2008	10/6/09	Broad	Family violence strategy	Implementing Victoria's Police's Code of Practice for the investigation of Family Violence	N
31	2008	24/6/09	Ltd	Buyback of intra-state rail infrastructure from Pacific National	Buy-back of the Regional Intrastate Rail Network	N
32	2008	24/6/09	Broad	Privately provided public bus services	Melbourne's New Bus Contracts	N

Terms of Reference 1 (Cont'd)

	Annual Plan	Date Tabled at Parliament	Type of Review (Ltd/ Broad)	Original Name per Annual Plan	New Name in Tabled Parliamentary Report	Any change in the scope of the audit? (Y/N)
33	2008	24/6/09	Ltd	International and full fee-paying students	International Students: risks and responsibilities of universities	N
34	2008	24/6/09	Ltd	Home and community care services	Funding of the Home and Community Care Program	N
35	2009	11/11/09	Ltd	Rollout of advanced metering infrastructure	Towards a 'smart-grid' - the roll-out of Advanced Metering Infrastructure	N
36	2009	11/11/09	Ltd	Capacity of police and emergency services to respond to people with mental health issues	Responding to Mental Health Crises in the Community	N
37	2009	11/11/09	Ltd	Community support fund	Management of the Community Support Fund	N
38	2009	25/11/09	Broad	Maintaining the integrity and confidentiality of personal data	Maintaining the Integrity and Confidentiality of Personal Information	N
39	2009	25/11/09	Ltd	Compliance with Community Corrections Orders	Managing Offenders on Community Correction Orders	N
40	2009	9/12/09	Ltd	Public transport access for persons with disabilities	Making Public Transport More Accessible for People Who Face Mobility Challenges	N
41	2009	9/12/09	Ltd	Utilisation of development contributions by local government	Use of Development Contributions in Local Government	N
42	2009	3/2/10	Ltd	Effectiveness of student welfare services	The Effectiveness of Student Wellbeing Programs and Services	N
43	2009	24/2/10	Broad	Tendering in local government	Tendering and Contracting in Local Government	N
44	2009	24/2/10	Ltd	Management of concessions to pensioners and beneficiaries	Management of Concessions by the Department of Human Services	N

Terms of Reference 1 (Cont'd)

	Annual Plan	Date Tabled at Parliament	Type of Review (Ltd/ Broad)	Original Name per Annual Plan	New Name in Tabled Parliamentary Report	Any change in the scope of the audit? (Y/N)
45	2009	24/3/10	Ltd	Rail safety	Management of Safety Risks at Level Crossings	N
46	2009	5/5/10	Ltd	Performance reporting across government agencies	Performance Reporting by Departments	N
47	2009	26/5/10	Broad	Teacher performance	Managing Teacher Performance in Government Schools	N
48	2009	26/5/10	Broad	Environmental management in Victorian parks	Control of invasive plants and animals in Victoria's parks	N
49	2009	26/5/10	Ltd	Management of funding and service agreements with non-government service providers	Partnering with the Community Sector in Human Services and Health	N
50	2009	26/5/10	Ltd	Community-building projects, including governance and financial management	The Community Building Initiative	N
51	2009	9/6/10	Ltd	Review of the Victorian Curriculum and Assessment Authority	Administration of the Victorian Certificate of Education	N
52	2009	9/6/10	Ltd	Personal safety on public transport	Personal Safety and Security on the Metropolitan Train System	N
53	2009	23/6/10	Broad	Management of major rail projects, including project outcomes	Management of Major Rail Projects	N
54	2009	23/6/10	Ltd	Compliance with requirements to disclose details of contracts with the private sector	Managing the requirements for disclosing private sector contracts	N

Source: List of Parliamentary Reports Tabled by VAGO, 2007-2010

For the financial years 2007 to 2010, fifty four (or 65%) of the eighty three Performance Audits tabled at Parliament were subject to name change. Of the 54 items that were subject to a name change, 2 (or 3.7%) of these performance audits also had changes to their scope.

Terms of Reference 1 (Cont'd)

FINDING / RECOMMENDATION 3: Disclosure of Name and Scope Changes for Performance Audits

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>The performance audit reports tabled at Parliament for the financial years 2007 to 2010 included fifty four (or 65%) reports that were subject to name changes – refer to Table 4 above.</p> <p>VAGO advised that most of the name changes:</p> <ul style="list-style-type: none"> ▶ Have been minor; ▶ Have been undertaken to better define the audit subject; and/or ▶ Were requested either by the agency or by the PAEC. <p>Of the reports that were subject to name changes, two were also subject to changes in scope compared to the original intent as stipulated in the Annual Plans.</p> <p>The two performance audit reports that were subject to name and audit scope changes were:</p> <ul style="list-style-type: none"> ▶ Literacy and Numeracy Achievement; ▶ Governance and Fraud Control in Selected Adult Educational Agencies <p>Of the two performance audit reports that were subject to scope changes, only one report identified this change in the body of the report.</p> <p>We note however the auditees involved were advised of the revised scope and were provided an updated specification.</p>	<p>Recommendations:</p> <p>We suggest that VAGO consider including a statement in all final performance audit reports tabled to Parliament, disclosing any name and scope changes when compared to the name or scope included in Annual Plan.</p>	<p>Comment:</p> <p>Accepted.</p> <p>Appropriate disclosure will continue to be considered where material and substantive change occurs.</p> <p>Responsible Person (Title):</p> <p>Anticipated Completion Date:</p>

Terms of Reference 1 (Cont'd)

- *Whether progress against 08/09/10 Annual Plans was adequate and whether the Auditor-General achieved the objectives of the Annual Plans.*

A review of the 2007-08, 2008-09 and 2009-10 Annual Plans against the reports tabled at Parliament for both financial and performance audits is provided below.

Table 5: Acquittals of Performance Audits from Annual Plans

	2007/08	2008/09	2009/10
Targeted number of reports (as per Annual Plans) [A]	29	30	27
Reports from Annual Plans tabled to Parliament (internal VAGO management reporting)	29	31	25
Add: Additional reports (not originally in Annual Plans or were deferred from previous year's Annual Plan now tabled to Parliament)	4	4	5
Less: Reports deferred to next year or deleted, etc	(4)	(7)	(4)
Total number of actual reports tabled to Parliament (see also Table 3a) [B]	29	28	26
% acquittal against Annual Plans (computed, i.e. [B]/[A] %)	100	93.3	96.2

Reports added, deleted or deferred from the original Annual Plans are appropriately informed or disclosed to Parliament/PAEC via the quarterly acquittal letter addressed to the Chair of PAEC. Notwithstanding that Output Group 1 targets are reported in the quarterly acquittal letter, a summary similar to Table 5 above is not available to PAEC (see Finding 3 above).

We have also considered the extent to which the Victorian Auditor-General and/or VAGO follows-up on its performance audit recommendations to auditees. The present Victorian Auditor-General's practice and view is that the Victorian Auditor-General has no executive power to require auditees to implement its recommendations or to compel Government to amend the policy of the day.

However, in the absence of a direct follow-up process undertaken by the Victorian Auditor-General/VAGO, to gain assurance that its recommendations are implemented in a timely and effective manner across government, the objectives of a performance audit (Section 15(1), *Audit Act 1994*) may not be fully achievable.

Section 15(1) Audit Act 1994:

"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 (whether or not those operations or activities are being performed by an authority or authorities) are being performed effectively, economically and efficiently and in compliance with all relevant Acts."*

Terms of Reference 1 (Cont'd)

FINDING / RECOMMENDATION 4: Implementation of Past Recommendations

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>Presently, VAGO does not directly “follow-up” its past performance audit recommendations.</p>	<p>Recommendations:</p> <p>In order to better facilitate a full achievement of the objectives of a performance audit and notwithstanding that other audit follow-up processes may involve PAEC and/or Parliament, the Minister for Finance and other Government bodies’ follow-up actions, we suggest that VAGO conduct direct “follow-up” on its performance audit findings to ensure better compliance with <i>Section 15(1) of the Audit Act 1994</i>.</p> <p>The purpose of this process is to assess the level to which auditees have implemented VAGO’s recommendations.</p> <p>In making this proposal, we acknowledge that the Victorian Auditor-General does not have executive powers to implement his recommendations, particularly when it involves policy choices. Consequently, this proposal may also need to be considered in the light of how it may affect the perception of independence of the Victorian Auditor-General’s office. Additionally, legislative amendments may also need to be considered.</p> <p>A useful comparative can be made with the US Government’s General Accountability Office (“GAO”), the US auditor-general equivalent. The GAO specifically tracks the implementation of their recommendations to auditees over 5 years (i.e. 4 previous years, plus current year). The GAO assesses recommendations implemented after 4 years, the point at which their experience has shown that if a recommendation has not been implemented, it is not likely to be.</p> <p>We also note that the previous Auditor-General had in place a process to follow-up performance audit findings. We suggest that VAGO consider following up on the effective implementation of its recommendations and to further track the progress of each finding across the current year and four previous years.</p>	<p>Comment:</p> <p>Not accepted.</p> <p>As part of the annual planning process, the annual Minister for Finance Report and ensuing PAEC enquiries are considered in selecting audit topics.</p>

Terms of Reference 1 (Cont'd)

- *Whether the Victorian Auditor-General has a robust operational planning and administrative focus in place.*

As per discussions with VAGO's staff and other written information, we have ascertained that the operational planning and administrative processes for performance audits conducted by VAGO involves the following steps:

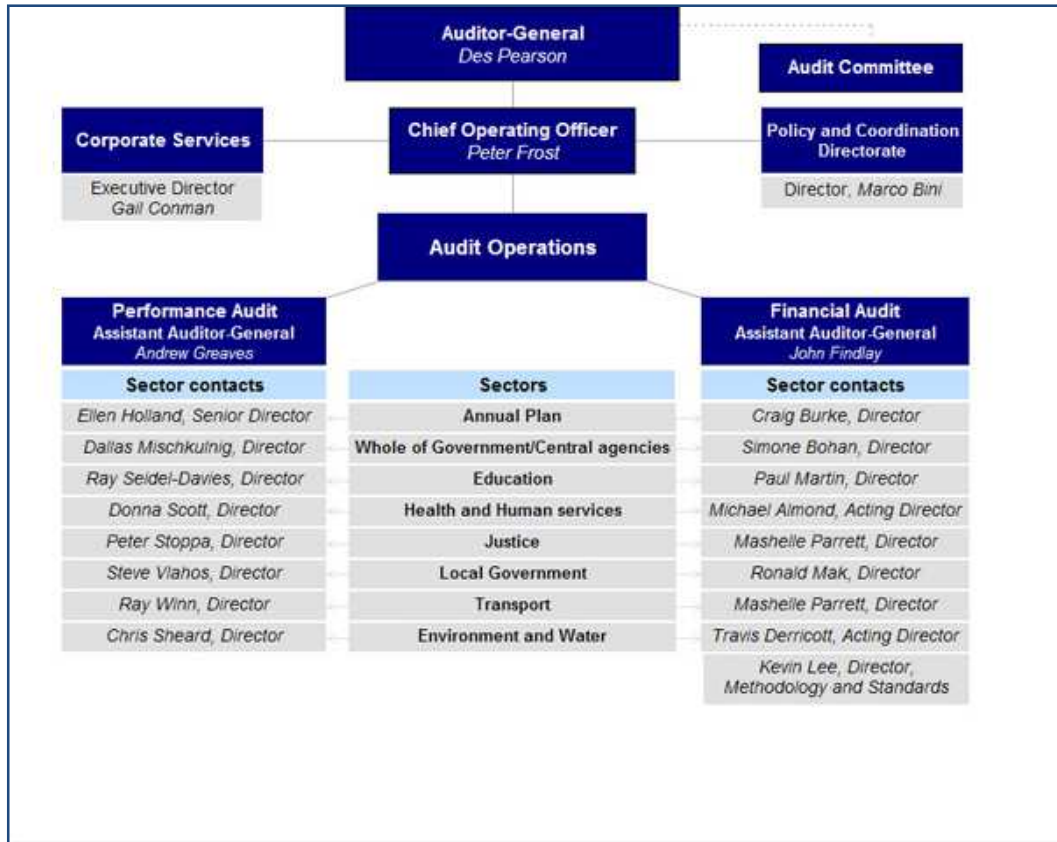
- (i) VAGO sends the auditee's key representatives (typically Department Secretary or agency heads) an engagement letter and the auditee names an audit contact person. Entry meetings are held and background information is obtained from the auditee about the program or activity;
- (ii) VAGO's audit team prepares the draft audit specification (which contains the objectives and scope), and submits it to the Victorian Assistant Auditor-General for review. It is then submitted to the Chief Operating Officer ("COO") and the Victorian Auditor-General for review and approval. The audit team will not submit the draft specification to the Victorian Auditor-General unless they:
 - are satisfied that those persons who are to conduct the performance engagement collectively possess the necessary professional and technical competencies;
 - on the basis of a preliminary knowledge of the performance engagement circumstances, forms the view that:
 - o requirements of the fundamental ethical principles will be satisfied;
 - o the activity is appropriate as a subject matter for the performance engagement in that it is identifiable, its performance is capable of consistent measurement against identified criteria and information about it is capable of being subjected to procedures for gathering sufficient appropriate evidence;
 - o identified criteria are suitable; and
 - o requirements of ASAE 3500, 3100 and 3000 will be satisfied. (ASAE 3500 S27).
- (iii) When the draft audit specification is cleared by the Victorian Auditor-General, it is issued to the auditee and PAEC to seek their input prior to its finalisation;
- (iv) The draft audit specification is then sent to PAEC secretariat 18 calendar days prior to the Victorian Auditor-General's scheduled meeting with PAEC. Matters raised by PAEC are to be addressed by the audit team within 10 working days of the meeting. However, the Victorian Auditor-General is not obliged to incorporate PAEC's comments into his work;
- (v) A similar meeting may be arranged if required with the auditee (contact officer within a department and CEO in other agencies) to discuss the draft audit specification;
- (vi) Following consultation with the auditee and PAEC, the audit team revises the draft audit specification and forwards it to the Assistant Victorian Auditor-General, Chief Operating Officer ("COO") and Victorian Auditor-General for consideration;
- (vii) Proposed changes to the draft audit specification are approved by the Victorian Auditor-General. A copy of the final audit specification is provided to the auditee and PAEC by the audit team and to PAEC by the Policy and Coordination Directorate;
- (viii) VAGO then conducts the audit and preliminary findings are discussed with relevant auditee staff progressively;
- (ix) VAGO issues a "Preliminary" draft of the conclusions, findings and proposed recommendations. The auditee is asked for final confirmation of the factual accuracy of the report;
- (x) During VAGO's briefing to the auditee, VAGO issues the proposed audit report. The auditee may then respond to the audit findings and recommendations; and

Terms of Reference 1 (Cont'd)

(xi) The audit report is kept confidential by VAGO pending tabling to Parliament.

The Organisation Structure of VAGO is as follows:

Diagram 1: Organisation Structure of VAGO



Source: www.audit.vic.gov.au as at 14 June 2010.

Terms of Reference 1 (Cont'd)

VAGO also has established the following management committees:

Table 6: Management Committees of VAGO

Group/Committee	
Senior Management Group ("SMG")	<ul style="list-style-type: none"> Comprises the Victorian Auditor-General, Chief Operating Officer ("COO") and other leaders of the business groups; Meets monthly; and Provides advice and counsel to the Victorian Auditor-General.
Operations Group	<ul style="list-style-type: none"> Comprises the COO and other leaders of the business groups; Meets monthly; and Facilitates and oversees development of business improvements and projects.
Executive Remuneration Committee	<ul style="list-style-type: none"> Comprises the Victorian Auditor-General, Manager of People and Culture and an independent member; Meets as required; Responsible for the remuneration policy to support strategic goals; and Responsible for the annual performance review process and salary review of executive officers.
Learning and Development Steering Group	<ul style="list-style-type: none"> Comprises the Manager of People and Culture and senior representatives from business groups; Meets as required; and Responsible for promoting learning and development.
Staff Consultation and Development Group	<ul style="list-style-type: none"> Comprises representatives from all business divisions and SMG; Meets as required; and Provides a direct channel of communication between management and staff on matters directly affecting the culture and business of VAGO. Aims to promote a spirit of cooperation in attempting to secure the efficiency of VAGO and the contentment of staff.
Audit Committee	<ul style="list-style-type: none"> All members are independent and are appointed by the Victorian Auditor-General; A total of 4 meetings per annum; The main responsibilities of the committee are to: <ul style="list-style-type: none"> review, assess and recommend to the Victorian Auditor-General the adoption of the annual financial report; review the policies and procedures in place for the development of the office's annual plan; determine the scope of the internal audit function and review its effectiveness; oversee the effectiveness of the risk management plan; review the scope and quality of the external audit; review and monitor related-party transactions; and review the committee's role and responsibilities.

Source: Annual Reports 2007-08, 2008-09 and various management reports and management committee charters.

There are no recommendations noted from this area of our work.

Terms of Reference 1 (Cont'd)

- *Whether VAGO conducts an appropriate level of consultation with stakeholders and incorporates outcomes into its Annual Plans.*

Through discussions with VAGO staff and sighting of evidence we have ascertained that VAGO:

- Has undertaken an appropriate level of consultation with PAEC in choosing the topics for audit and defining the scope of the performance audits. The consultation with PAEC is defined in the Protocol Statement between PAEC and the Victorian Auditor-General which was signed by the Chair of PAEC and the AG on 28 July 2008 and 11 June 2008 respectively. The protocol statement prescribes the following timelines for consultation between PAEC and the Victorian Auditor-General:

Table 7: Key Steps in Protocol Statement Between PAEC and Victorian Auditor-General for Timely and Effective Consultation:

Step	Timeline
Submission of the draft Annual Plan	Mid-November
Meeting(s) between the PAEC and Victorian Auditor-General to discuss draft Annual Plan	Late November – Early December
Further consultation with PAEC on the updated draft Annual Plan and draft Budget	February/March
Provision of formal comments by the PAEC to the Victorian Auditor-General on the draft Annual Plan and the government on the Victorian Auditor-General's Budget	March/April
Finalisation of the Annual Plan and Budget	May

Source: Protocol Statement between Public Accounts Estimates Committee ("PAEC") and the Victorian Auditor-General signed by the Chair of PAEC and Victorian Auditor-General on 28 July 2008 and 11 June 2008 respectively.

This consultative process meets the requirement of *Section 15(2)* of the *Audit Act 1994* for performance audits.

Section 15(2), Audit Act 1994:

Before conducting a performance audit, the Auditor-General, in consultation with the Parliamentary Committee and any relevant authorities, must prepare a specification for the audit that sets out the particular objectives of the audit and any particular issues to be addressed.

- Has undertaken an appropriate level of consultation with department or division heads. We have reviewed a sample of work papers indicating work completed across all sectors within selected performance audits and financial audits. An appropriate level of consultation is demonstrated in the topics selected for audit as well as the risk rating for prioritisation of audit activity.

We sampled five performance audit files to ascertain whether appropriate documentation was maintained in relation to consultation with stakeholders on the audit topics selected for audit. We found that minutes or notes and email documentation were maintained.

There are no recommendations noted from this area of our work.

Terms of Reference 1 (Cont'd)

- *Whether VAGO obtains Parliamentary approval of Annual Plans.*

To ascertain whether VAGO obtains Parliamentary approval for their Annual Plans, we have sighted the Parliament of Victoria Hansard report. The Annual Plan 2010-11 was tabled at the Parliament of Victoria on 5 May 2010.

There are no recommendations noted from this area of our work.

2.2 Key Performance Management Issues [Terms of Reference 2]

2.2.1 The adequacy and effectiveness of VAGO's audits in promoting improved performance and accountability as well as efficiency in the Victorian public sector; [Terms of Reference 2(a)]

Observations

In order to assess the adequacy and effectiveness of VAGO's audits in promoting improved performance and accountability as well as efficiency in the Victorian public sector, we considered the following:

- The coverage of financial audits (See also Section 2.4.2, Terms of Reference 4(b)) and performance audits (See also Section 2.3.2, Terms of Reference 3(b));
- The consideration by VAGO/Victorian Auditor-General of key risks for audits;
- Process adopted by VAGO to measure and assess the impact of audits across the Victorian public sector;
- The extent of follow-up procedures adopted by VAGO on past recommendations to auditees;
- The extent of acceptance and implementation of past recommendations of VAGO by auditees;
- Surveys to gauge auditee satisfaction of VAGO's audit activities (See also Terms of Reference 6);
- How Victorian and other jurisdictions measured the adequacy and effectiveness of their Auditor-General's office in promoting improved performance, accountability and efficiency in the public sector.

Audit Coverage and Consideration of Key Risks

The coverage of performance audits is guided by the Framework to Select and Prioritise Performance Audit Topics developed by VAGO/ Victorian Auditor-General. There are eight stages of work required to be undertaken by this framework, including:

Departmental Sector Risk Assessment

- Environmental scanning – identification of themes, outcomes and key issues through stakeholder consultations, relevant financial reports and Minister for Finance reports on audit findings;
- Identification of key initiatives or programs by auditees to meet Victoria's strategic priorities/objectives;
- Identification of inherent risks for key initiatives or programs and how they are addressed;

Identification and Prioritisation Areas of Audit Interest

- Prioritisation of areas of potential audit activities by applying a risk and materiality tool containing a five-category risk matrix (ranging from "Negligible" to "Catastrophic") taking into account financial or economic materiality and social and environmental materiality;
- Submission of a prioritised list of items of potential audit interest to Operations Group for consideration and approval;

Terms of Reference 2(a) (Cont'd)

Development of Audit Proposals

- Performance of research and consultation with potential auditees of the audit proposal to a prioritised list of selected audit interests;
- Submission of Audit Proposals (covering audit area, rationale for audit, objectives and scope) to Operations Group for discussion and approval;
- Development of Annual Plan (in consultation with PAEC).

This framework provides adequate guidance to VAGO to determine relevant topics for audit activities. Key risks are also identified and addressed.

Impact of Audits

To measure and assess the impact of audits across the Victorian public sector, VAGO conducts periodic client and parliamentary surveys. This mechanism provides feedback on standards of service to stakeholders and processes for improvement. Following the surveys, a report is provided to the Senior Management Group ("SMG") for consideration.

The latest survey results conducted by Orima Research on behalf of VAGO are provided below:

Table 8: Summary of Parliamentary and Client Surveys Conducted by VAGO

Surveys	2010	2009	2008
Parliament (% satisfied with VAGO's reports and services)	92%	92%	83%
Financial Audit (Overall Performance Index)	75.5	76.3	73.4
<i>Process (Performance index)</i>	76.8	77.7	74.9
<i>Report (Performance index)</i>	76.4	76.6	73.6
<i>Value (Performance index)</i>	73.2	74.8	71.7
Performance Audit (Overall Performance Index)	68.5	72.3	72.0
<i>Process (Performance index)</i>	70.3	76.8	74.2
<i>Report (Performance index)</i>	67.5	73.8	74.6
<i>Value (Performance index)</i>	67.8	66.4	67.1

Source: Memo from Director, Policy and Coordination to the Audit Committee dated 12 October 2009 and various other memoranda to the Audit Committee and Senior Management Group.

Survey of Parliamentarians

The result of the 2010 Parliamentary survey was predominantly positive, with most aspects of VAGO's reports and services attracting positive ratings. Other positives included comments on the role of the Auditor-General, the usefulness of the Parliamentary reports, the layout and design of reports being increasingly effective and that the reports are "non-political". Concerns included:

- Clarity of language around findings, conclusions and technical issues could be still improved;
- Inclusion of government responses made the report seem one-sided;
- Firmer critical conclusions may be needed.

Terms of Reference 2(a) (Cont'd)

Survey of Financial Audit Clients

The Financial Audit survey conducted in 2010 indicated that there was a marginal decline in the overall performance index from 76.3 in 2009 to 75.5 in 2010. There were minor declines in results in the areas of audit process, audit report and audit value. However, there was positive feedback provided on the professionalism and knowledge of audit staff, improved opportunity to comment on audit findings and handling of issues encountered by auditees during the audit reporting process. Areas identified for improvement included more detailed or timely explanations relating to the basis for the audit fee and more reasonable audit timeframes.

Survey of Performance Audit Clients

Performance audit also saw declines in the Overall Performance Index. Clients however noted the improvement that VAGO has made in the value of performance audits.

The survey also indicated that there was potential for VAGO's reports to improve the administration of the performance audit activity in the following areas:

- › Accuracy, balance and fairness of the final report;
- › Understanding of the organisation/operating environment;
- › Timeliness of advice on significant issues during the audit;
- › Delays to audit timelines;
- › Level of input into scope of audit; and
- › Appropriateness of the scope of audit.

PKF Interview with Victorian Government Department Secretaries

PKF interviewed three Secretaries of selected Victorian Government departments ("auditees") to obtain feedback on the relationship between Victorian Auditor-General and/or VAGO and the selected Government departments.

Responses from auditees were generally complimentary with regards to financial audits conducted by VAGO. The following table identifies potential areas for improvement raised by auditees during the interview process relating to performance audits:

Table 9: Opportunities for Improvement

Performance Audit	
Suggested Areas for Improvement:	
1	Scope of performance audits, at times, is amended mid-way through audit process. Auditees are not always appropriately consulted regarding changes.
2	Performance audit scopes are not discussed in detail with auditees to enable VAGO to fully understand auditee operations, There is a perception that performance audit scopes on occasions relate to "fishing expeditions" / identification of "newsworthy items".
3	Performance audit recommendations generally add little value in assisting auditee organisations improve their performance / operations.
4	Inappropriate performance measures / practices are applied to auditee organisations.
5	Contentious performance audit reports have led to unwarranted negative public reactions/impacts for some auditee organisations.
6	Performance audits conducted by VAGO, at times, strayed into a review of Government policy.
7	Incorporation of performance auditee comments in report appendix is considered inappropriate.
8	At times VAGO findings in performance audit reports do not include auditee responses.

Terms of Reference 2(a) (Cont'd)

Performance Audit	
Suggested Areas for Improvement:	
9	Performance audit findings are not always discussed with auditees in a collaborative manner.
10	Goodwill between public sector agencies and Auditor – General / VAGO has deteriorated due to contentious interaction approach adopted by Auditor – General / VAGO.
Performance Audit	
Areas Where Audit Processes Were Working Effectively	
1	The Victorian Auditor-General and VAGO adopt a collaborative approach toward conduct of performance audits.
2	Performance audits provide a current view of audit topics and enable the Department to implement an additional line of defence for good governance.
3	An agreed set of protocols centrally managed by the Department has provided a clear set of parameters from which the Victorian Auditor-General and the Department can work efficiently and effectively together to achieve mutually acceptable outcomes.

Source: Discussions with various auditees by PKF, July 2010.

FINDING / RECOMMENDATION 5: Fostering Productive Relationships with Audit Clients

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>Various consistent themes have been identified in relation to the practices adopted by the Auditor-General and VAGO to engage with auditees.</p>	<p>Recommendations:</p> <p>In order to meet the objective of “Fostering Productive Relationships with Audit Clients” (Strategic Plan 2010-11 to 2014-15), we suggest that VAGO consider addressing the matters identified in Table 9 above and those concerns identified by Orima Research’s survey, and Departmental Secretaries.</p>	<p>Comment:</p> <p>Accepted. Fostering of productive relationships with clients has been central to successive VAGO Strategic Plans.</p> <p>Proposed Action(s):</p> <p>Responsible Person (Title):</p> <p>Anticipated Completion Date:</p>

Terms of Reference 2(a) (Cont'd)

Other Jurisdictions

The United Kingdom National Audit Office (“UKNAO”) measures the extent of how their work leads to savings and other efficiency gains. In 2009 the UKNAO secured £768 million of financial impact, more than £10 for every £1 spent running UKNAO. The financial impact comprises detailed estimates of the net financial benefit of changes to government practice that arise from UKNAO’s audit findings. They compared this total to their actual net running cost for the relevant financial year. To ensure UKNAO’s financial impact figure is robust, they agree the impact estimates with the auditees concerned.

UKNAO’s internal and external auditors subsequently review impacts against the principles set out in the Statement of UKNAO Financial Impact.

Financial impacts may be *cashable* improvements, reducing expenditure, or increasing revenue through improved efficiency or effectiveness. They may also be *non-cashable* improvements in public sector efficiency through improved quality or service delivery, or benefits to third parties. UKNAO only claim an impact when the related benefit has been brought about, UKNAO have data to substantiate the value, and the audited body provides its agreement to the claim. As a result, there is usually some time lag between UKNAO’s recommendations and the impact claim. In calculating the value of impacts, UKNAO deduct any implementation costs incurred directly by the audited body or indirectly by other parties. Not all impacts can be quantified precisely in purely financial terms, for example, those that relate to qualitative efficiency gains and wider economic benefits. In these instances, UKNAO base any impact claim on their judgement and estimation.

UKNAO’s recommendations are not always separable from other influences and they agree a proportion of the overall impact with the audited body, based on an assessment of the likely level of influence of their work. Their statement of financial impacts had been prepared in accordance with internal guidance issued to all National Audit Office staff. Estimates are subject to internal quality assurance review by senior management and internal audit.

The UKNAO reports financial impacts on a calendar year basis, and has adopted the following principles for financial impacts:

- Prudence – only net savings can be claimed, after taking into account additional implementation / other costs;
- Attribution – there must be a causal link between the impact and the UKNAO recommendation;
- Realisation – the underlying saving must have been delivered at the time the impact is claimed;
- Delivery – the auditee must be able to provide confirmation that there has been a saving. There must be a clear “before” and “after” position;
- Agreement – all impacts must be agreed with auditees;
- Cost equivalence – where impacts represent lower costs or increased outputs, the policy for quantification is that UKNAO take either the costs saved, or what it would have cost to deliver the increased output;
- Qualitative impacts – for qualitative recommendations, the impact is limited to the cost that would have been saved had the client had to deliver that extra quality; and
- Matching – where impacts represent on-going savings, they will be claimed over as many years as the causal link to the UKNAO recommendation can be demonstrated.

Terms of Reference 2(a) (Cont'd)

This concept is also similarly used by the US Government Accountability Office (“USGAO”). Financial benefits included in USGAO’s performance measures are net benefits—that is, estimates of financial benefits that have been reduced by the estimated costs associated with taking the action that they recommended. USGAO converts all estimates involving past and future years to their net present value and uses actual dollars to represent estimates involving only the current year. Financial benefit amounts vary depending on the nature of the benefit, and they can claim financial benefits over multiple years based on a single agency or congressional action. USGAO limits the period over which benefits from an accomplishment can accrue to no more than 5 years. Estimates used to calculate their financial benefits come from non-USGAO sources. These non-USGAO sources are typically the agency that acted on their work, a congressional committee, or the Congressional Budget Office.

FINDING / RECOMMENDATION 6: Measuring Adequacy and Effectiveness of VAGO’s Audits

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>We are cognisant of the extent of detail the surveys that VAGO undertakes for Parliamentarians and auditees (financial and performance audits) each financial year in order to gauge the quality of VAGO’s service.</p> <p>Notwithstanding the above, there is no quantifiable measure being used to gauge the adequacy and effectiveness of VAGO’s audits in promoting improved performance and accountability as well as efficiency in the Victorian public sector.</p>	<p>Recommendations:</p> <p>We suggest that VAGO explore and consider adopting a quantifiable measure which could provide a more defined way to gauge the extent of adequacy and effectiveness of VAGO’s audits in promoting improved performance and accountability as well as efficiency in the Victorian public sector.</p> <p>A similar concept used by the UKNAO and the USGAO could be adapted for use in Victoria.</p> <p>The introduction of quantifiable measures may also enhance the relationship between VAGO and auditees as clarity may be provided to stakeholders as to the benefits of conducting performance audits. More importantly, the implications of the recommendations may be better understood and accepted.</p>	<p>Comment:</p> <p>Not accepted. Priority is accorded to the statutory mandate and a comprehensive suite of performance indicators, including a core developed in conjunction with ACAG, already exists.</p>

2.2.2 The adequacy and appropriateness of all audit methodologies, practices and procedures and improvements undertaken over the past three years; [Terms of Reference – 2(b)]

Observations

In order to ascertain the adequacy and appropriateness of VAGO's audit methodologies, practices and procedures we compared VAGO's work papers and Audit Method – Performance ("AmP") Policy and Guidance and AmP Library to:

- the Auditing and Assurance Standards Board's ("AuASB") Standard on Assurance Engagements ASAE 3500 Performance Engagements;
- the AuASB Standard on Assurance Engagements ASAE 3100 Compliance Engagements;
- the AuASB Standard on Assurance Engagements ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information; and
- *Audit Act 1994*.

VAGO's AmP is a software package used to:

- document the work performed and evidence collected during an audit;
- assist in the review and management of VAGO's audit; and
- link to other VAGO office systems such as Lotus Notes Email, VAGO's records management system ("TRIM") and VAGO's timecard recording system ("MARS").

We have reviewed VAGO's performance audit methodology, which includes the following elements:

- Policy and guidance material, which is reviewed annually;
- Process for identifying deficiencies or gaps in the methodology for the attention of the AmP governance committee;
- Detailed guidance on the planning and management of performance audits to assist in the timeliness and the effective management of audit costs;
- Project management focus so that audits will stay on track, deliver the work planned and promote accountability;

Terms of Reference 2(b) (Cont'd)

- ▶ Quality assurance ("QA") framework which includes:
 - standard process steps and tasks to guide the auditor through the audit;
 - use of standard letters and documents;
 - review and oversight functions;
 - approval functions;
 - quality control checklists and sign offs;
 - establishing a reference committee where required;
 - use of an engagement quality control reviewer;
 - processes to consult with audited agencies and the PAEC on audit objectives, scope and criteria;
 - cold reviews post audit;
 - assignment of roles as Engagement Leader / Engagement Quality Control Reviewer ("EQCR").
- ▶ Processes to be followed for the appointment of contractors, which states:
 - the roles and responsibilities of contractors engaged to assist the audit team;
 - the key deliverables expected from the contractor;
 - timeframes for delivery of work and reports; and
 - performance standards expected.
- ▶ A milestone template which manages the audit progress through 17 pre-established milestones;
- ▶ Roles and capability statement of staff profiles for performance audits;
- ▶ Independent review of work papers;
- ▶ Monitoring the conduct of the audit against the planned work program;
- ▶ Project management functions (time and cost criteria);
- ▶ Communication strategies, one for the overall audit and another for the audit report;
- ▶ Process steps and tasks to guide the auditor through the planning phase, etc. It also requires mandatory documents to be completed such as audit specification, audit plan, audit programs, strategies such as risk management strategies, etc;
- ▶ Requirements to manage changes to the audit plan. This includes obtaining the Auditor-General's approval for changes which impact on the achievement of the proposed tabling date or audit budget;
- ▶ Steps which require:
 - consultation with the agency and PAEC on the audit specification and make amendments where required;
 - consultation with the Victorian Assistant Auditor-General (Performance Audit) and the Victorian Auditor-General on the draft specification and any subsequent amendments following discussions with the agency and PAEC.
- ▶ Requirement for the auditor to sign off the audit program on the completion of each program step and for the auditor's manager to evidence his/her review of the work.
- ▶ Progressive drafting of report material as the audit work is completed, through the use of an issues paper;
- ▶ Outlines the review, editorial and clearance processes for the draft report and proposed report;
- ▶ Requirement for the final report to be cross referenced to the supporting work papers;
- ▶ Preserves "natural justice and procedural fairness" in the conduct of the audit and provides guidance on what natural justice and procedural fairness means;

Terms of Reference 2(b) (Cont'd)

- › Resource plan and staff training requirements, including roles and responsibilities for each staff function (e.g. Engagement leader, team manager, etc);

From reviewing the documents above, we have noted various opportunities to improve the AmP which are provided on the following pages for VAGO's consideration.

FINDING / RECOMMENDATION 7: Independence Declaration for Staff

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>VAGO's performance audit methodology (Section 1.1.4 of the AmP Library) requires independence declaration signed by all audit team members at the commencement of an audit and updated as required if circumstances change during the audit (introduced in July 2009).</p> <p>We noted however that the Victorian Auditor-General and Victorian Assistant Auditor-Generals' independence declarations were not included for each performance audit. VAGO's current practice only requires annual declarations to be submitted by the Victorian Auditor-General and Victorian Assistant Auditor Generals. Assignment specific independence declarations are provided where they are deemed to be required.</p> <p>Also, our sample tests of the following performance audits indicated that independence declarations did not appear to have been fully documented for staff:</p> <ul style="list-style-type: none"> › Achievement of literacy benchmarks in Victoria (Tabled 4/2/09); › Records management (Tabled 12/3/08); › Buyback of intra-state rail infrastructure from Pacific National (Tabled 24/6/09); › Irrigation efficiency programs (Tabled 9/6/10); › Family violence strategy (Tabled 10/6/09). <p>We acknowledge that all the above audits, referred to in the finding commenced before the introduction of this requirement in July 2009. All were completed and finalised before this date, except for Irrigation Efficiency Programs, which was Tabled on 9 June 2010.</p>	<p>Recommendations:</p> <p>In order to meet the requirements of the Standard on Assurance Engagements ASAE 3500 Performance Engagements and VAGO's AmP methodology, we suggest VAGO consider independence declarations for all staff, regardless of level, be fully documented in the audit files.</p>	<p>Comment:</p> <p>Not accepted. Existing annual declaration of interests are complemented by</p> <ul style="list-style-type: none"> • The Code of Conduct for Victorian Public Sector Employees of Special Bodies and • Audit standards and methodology <p>are considered adequate for the public sector context in which VAGO operates.</p>

Terms of Reference 2(b) (Cont'd)

FINDING / RECOMMENDATION 8: AmP Library and Checklists

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>For the AmP Policy and Guidance and Library, we noted that:</p> <ul style="list-style-type: none"> ▶ Compliance with the requirements of AmP is mandatory for all VAGO staff for all performance audit assignments. However there is no checklist to assist VAGO staff in performing a completeness check against meeting regulatory requirements; ▶ Para 19, Auditing Standard on Assurance Engagements ASAE 3500 Performance Engagements covering matters relating to confidentiality, integrity, objectivity, professional competence and due care and professional behaviour are not addressed in the AmP Library . 	<p>Recommendations:</p> <p>We acknowledge that VAGO has a comprehensive map of requirements of the <i>Audit Act 1994</i> and mandatory Auditing Standards to the AmP Policy and Guidance and Library.</p> <p>However, to further improve the methodology documentation and aid Performance Audit staff in complying with regulatory requirements, we suggest that VAGO consider:</p> <ul style="list-style-type: none"> ▶ implementing a checklist to aid in a completeness check against meeting regulatory requirements; and ▶ including requirements from Para 19, Standard on Assurance Engagements ASAE 3500 Performance Engagements for matters relating to confidentiality, integrity, objectivity, professional competence and due care and professional behaviour into VAGO's AmP Library. 	<p>Comment:</p> <p>Not accepted. Involves duplication as AmP already designed to acquit these requirements.</p>

We have also reviewed the following sample Performance Audit files and considered whether they have complied with the VAGO's performance audit methodology:

- ▶ Literacy and Numeracy Achievement;
- ▶ Review Victorian Curriculum Assessment Authority;
- ▶ Irrigation Efficiency Programs;
- ▶ Records Management in the Victorian Public Sector;
- ▶ Implementing Victoria's Police's Code of Practice for the investigation of Family Violence; and
- ▶ Buy-back of the Regional Intrastate Rail Network.

Terms of Reference 2(b) (Cont'd)

FINDING / RECOMMENDATION 9: Application of AmP

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>We noted the following in the sample Performance Audit files tested:</p> <p>(i) It is a requirement in the AmP Policy and Guidance that findings in the final report be cross referenced to supporting documentation (audit evidence) in AmP. We were unable to sight specific supporting documentation for each of the final findings in the absence of cross references;</p> <p>(ii) The final performance audit report for Administration of the Victorian Certificate of Education was not saved into AmP, i.e. only a web link to VAGO's website was included;</p> <p>(iii) The final performance audit report for Administration of the Victorian Certificate of Education did not include all findings, i.e. only material findings were included;</p> <p>(iv) We could not sight documentation in AmP noting the change of Engagement Leader for the performance audit on "Implementing Victoria's Police's Code of Practice";</p> <p>(v) We were unable to view evidence indicating that final audit specifications, particularly those with scope changes (E.g. "Achievement of Literacy and Numeracy Benchmarks in Victoria") were sent to the PAEC. Further, there is no procedure in the AmP Library prompting such action when there is a change in scope in an audit specification; and</p>	<p>Recommendations:</p> <p>We suggest the following for VAGO's consideration:</p> <p>(i) and (iv):</p> <p>Notwithstanding that hardcopy documentation is maintained in an Executive file, Management should remind staff to adhere to the requirements of the AmP to continue to maintain the high standards of audit work expected from the Auditor-General's office;</p> <p>(ii) A copy of the final performance audit report be retained in AmP (i.e., not just a web link as web links could be broken over time when the website page is updated or superseded);</p> <p>(iii) In cases where findings of VAGO which are considered not material and are excluded from the final performance audit report tabled to Parliament, VAGO should consider issuing "Management Letters", in accordance with AmP requirements, to the management of the auditee with a view to enabling auditees to improve operational processes;</p> <p>(v) AmP Library to be made consistent with AMP Policy and Guidance to prompt notification to PAEC should there be a scope change in audit specification of a performance audit; In addition, VAGO should consider sending performance audit specifications to all stakeholders, including PAEC for such events.</p> <p>(vi) To migrate audit evidence and audit work from hardcopy format into AmP (softcopy). This will minimise the risk of loss of audit evidence as hardcopies could be misplaced or damaged over time; and</p>	<p>Comment:</p> <p>Accepted.</p> <p>VAGO's continuous improvement process on an at least annual basis adopts refinements in light of the business need and risk.</p> <p>Proposed Action(s):</p> <p>Responsible Person (Title):</p> <p>Anticipated Completion Date:</p>

Terms of Reference 2(b) (Cont'd)

FINDING / RECOMMENDATION 9: Application of AmP (Cont'd)

Finding (Cont'd)	Recommendations (Cont'd)	Auditor-General Comments (Cont'd)
(vi) A significant proportion of audit work and evidence are still maintained in hardcopy format.		

In addition to reviewing the audit methodologies used by VAGO, we have also reviewed samples of performance audit reports and considered their structure and layout in the light of VAGO's audit methodology and work performed, taking into account of VAGO's overall objective to report clearly and unequivocally (Strategic Plan 2007-08 to 2009-10).

Terms of Reference 2(b) (Cont'd)

FINDING / RECOMMENDATION 10: Structure of Performance Audit Reports Tabled at Parliament

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>We noted the following for the report "Administration of the Victorian Certificate of Education" tabled at Parliament on 9 June 2010:</p> <ul style="list-style-type: none"> ▶ For each of the audit objectives, explanation of the work directly performed by VAGO to meet those objectives may be not clear. Further, there is a perception that conventional audit methodology of directly gathering audit evidence may not have been used, i.e. a self assessment tool used by the Australian Universities Quality Agency for auditing universities and other education institutions was adapted and used by VAGO; ▶ Findings may have been generally worded and may not be sufficiently specific to directly link them to specific recommendations. In addition, Findings included positive reinforcements that areas audited are functioning as expected, as opposed to identifying areas for improvement. 	<p>Recommendations:</p> <p>We suggest the following for VAGO's consideration in order that the strategic objective to "Report Clearly and Unequivocally" (VAGO's Strategic Plan 2007-08 to 2009-10) continues to be met.</p> <ul style="list-style-type: none"> ▶ We acknowledge that VAGO has reviewed the self assessment tool used by the Australian Universities Quality Agency ("AUQA") for auditing universities and other education institutions for its relevance and compliance with the relevant auditing standards and/or guidelines. The Performance Audit as well as Standards and Methodology teams incurred considerable time to map the AUQA tool to the AmP methodology. We also note that the difference between the AUQA tool and the conventional method of auditing only differs in the way the audit evidence may have been gathered. AUQA structures the gathering of the audit evidence in a checklist format which matches each of VAGO's audit objectives and may have contributed to an overall time saving of one month. <p>Notwithstanding the extent of the work done above, there may be a perception that a conventional method of auditing approach may not have been adopted by VAGO for this assignment. If a similar approach is used in the future for other audit assignments, we suggest that VAGO consider appending a detailed explanation of the steps VAGO has taken to ensure compliance with auditing standards and other regulatory requirements.</p> <p>We also refer to Finding 12 (Section 2.2.6 Terms of Reference 2(f)) on the familiarisation time charged by VAGO.</p>	<p>Comment:</p> <p>Not accepted. The diversity of audit topics and the nature of audit findings render a formulaic approach inappropriate.</p>

Terms of Reference 2(b) (Cont'd)

For financial audits VAGO uses an in-house audit toolset called IPSAM (Integrated Public Sector Audit Methodology) which was developed in conjunction with the Queensland Audit Office (QAO) and was formally launched in November 2005. IPSAM is an electronic financial audit tool that incorporates VAGO's audit methodology, the Office's policies, practices and guidance procedures into a centralised electronic database.

The IPSAM methodologies are progressively updated to reflect changes to legislative and audit accounting standards. In addition, prior to each update release, the IPSAM methodology is independently reviewed for compliance with auditing standards.

Changes to auditing standards are monitored at least annually as part of the Office's annual update of the Financial Audit Policy Manual. Where there are substantial changes to the auditing standards that impact on the methodology changes are applied to existing IPSAM policy, guidance and library. Discussions with Director Methodology & Standards noted the IPSAM auditing methodology was most recently reviewed and updated in May 2010 to reflect the revised Clarity auditing standards.

The Methodology and Standards Group is responsible for updating standards into IPSAM through the following process:

- ▶ Mapping of revised auditing standards to existing IPSAM policy and guidance is conducted by both VAGO and QAO technical area, highlighting required changes.
- ▶ A quality review of the areas of mapping conducted by both VAGO and QAO is cross reviewed by QAO and VAGO technical area respectively.
- ▶ Updating of policy and guidance material to incorporate amended black letter requirements
- ▶ A quality review of the updates to policy and guidance material conducted by both VAGO and QAO is crossed reviewed by QAO and VAGO technical areas respectively.
- ▶ Joint IPSAM Project Steering Committee members' consider final draft of the policy and guidance.
- ▶ Assistant Auditor-General Financial Audit approval of revised policy and guidance.

We reviewed the mapping of the IPSAM policy and guidance relevant as at 30 June 2009. It was sufficiently performed and our testing confirmed all the mandatory black letter requirements (audit requirements with the force of law) were included, a proper trail of recommendations and amendments were evident and appropriate approvals were made by the Auditor-General. In addition, we noted that as part of the quality assurance measure, an independent review of the amended policies and guidance was conducted by Associate Professor Grant Gay of Monash University.

2.2.3 The adequacy and effectiveness of internal systems to measure and improve productivity including cost and resource-use effectiveness within VAGO; [Terms of Reference – 2(c)]

Observations

In order to ascertain whether VAGO's internal systems were adequate and effective to measure and improve productivity, we reviewed the management reporting processes and systems used for the reporting of time charged to performance and financial audits.

The system used for recording of time charged to performance and financial audits is called "MARS". It is an enterprise version software for budget execution and financial/management reporting. Users may track costs relative to budgets for management analysis and reporting, including facilitating resource commitments to job assignments.

MARS is composed of a web-based business portal and interfaces with Microsoft Dynamics from which a common database is shared with Finance and Business Operations for financial reporting. The business portal is used by employees of VAGO to input timecards and generate reports for management reporting.

The Performance audit division of VAGO also uses a report produced from MARS, titled "Project Scorecard Report" to monitor each assignment in terms of actual costs against budgets, progress against milestones and the various stages of draft reports to meet the proposed Parliamentary tabling date.

In addition, management of VAGO through its Operations Group monitors the progress of its financial performance and Output Group key performance measures on a monthly basis.

Terms of Reference 2(c) (Cont'd)

The following is an analysis of performance audits completed and tabled to Parliament from 2007-2010 where their published cost exceed their allocated budget.

Table 10: Performance Audits: Budgets vs. Published Costs

Report Number	Title - Tabled Parliamentary Report	Tabled	Budget	Published Cost	Variance
2007-08:1	Program for Students with Disabilities: Program Accountability	19/09/07	\$282,270	\$287,000	-\$4,730
2007-08:2	Improving our schools: Monitoring and support	10/10/07	\$479,903	\$495,000	-\$15,097
2007-08:3	Management of Specific Purpose Funds by Public Health Services	10/10/07	\$130,000	\$150,000	-\$20,000
2007-08:4	New Ticketing System Tender	31/10/07	\$270,000	\$298,600	-\$28,600
2007-08:6	Discovering Bendigo Project	21/11/07	\$180,000	\$190,000	-\$10,000
2007-08:8	Parliamentary Appropriations: Output Measures	21/11/07	\$253,000	\$295,000	-\$42,000
2007-08:14	Accommodation for People with a Disability	12/03/08	\$400,000	\$412,000	-\$12,000
2007-08:17	Delivering HealthSMART—Victoria's whole-of-health ICT strategy	16/04/08	\$165,000	\$310,000	-\$145,000
2007-08:21	Patient Safety in Public Hospitals	28/05/08	\$199,000	\$202,000	-\$3,000
2007-08:22	Project Rosetta	28/05/08	\$165,000	\$200,000	-\$35,000
2007-08:24	Review of South-East Water's Works Alliance Agreement	28/05/08	\$148,800	\$190,000	-\$41,200
2007-08:26	Implementation of the Criminal Justice Enhancement Program	11/06/08	\$197,000	\$385,000	-\$188,000
2007-08:30	Performance reporting by Public Financial Corporations	25/06/08	\$150,000	\$206,000	-\$56,000
2007-08:32	The New Royal Women's Hospital-a public private partnership	25/06/08	\$256,800	\$285,000	-\$28,200
2008-09:15	Preparedness to Respond to Terrorism Incidents: Essential Services and Critical Infrastructure	21/01/09	\$490,000	\$510,000	-\$20,000
2008-09:16	Literacy and Numeracy Achievement	04/02/09	\$203,214	\$325,000	-\$121,786
2008-09:17	Administration of the Flora and Fauna Guarantee Act 1988	01/04/09	\$290,000	\$325,000	-\$35,000
2008-09:19	Management of School Funds	06/05/09	\$280,000	\$320,000	-\$40,000

Terms of Reference 2(c) (Cont'd)

Report Number	Title - Tabled Parliamentary Report	Tabled	Budget	Published Cost	Variance
2008-09:20	The New Royal Children's Hospital—a public private partnership	06/05/09	\$350,000	\$440,000	-\$90,000
2008-09:21	The Channel Deepening Project	06/05/09	\$539,000	\$555,000	-\$16,000
2008-09:23	Governance and Fraud Control in Selected Adult Educational Agencies	03/06/09	\$228,057	\$450,000	-\$221,943
2008-09:26	Connecting Courts - the Integrated Courts Management System	10/06/09	\$310,000	\$360,000	-\$50,000
2008-09:28	Effectiveness of Drought Assistance Measures	10/06/09	\$272,000	\$275,000	-\$3,000
2008-09:29	Buy-back of the Regional Intrastate Rail Network	24/06/09	\$190,000	\$455,000	-\$265,000
2008-09:30	Melbourne's New Bus Contracts	24/06/09	\$450,000	\$490,000	-\$40,000
2008-09:31	International Students: risks and responsibilities of universities	24/06/09	\$240,000	\$255,000	-\$15,000
2008-09:32	Funding of the Home and Community Care Program	24/06/09	\$212,127	\$360,000	-\$147,873
2009-10:3	Towards a 'smart-grid' - the roll-out of Advanced Metering Infrastructure	11/11/09	\$390,450	\$490,000	-\$99,550
2009-10:5	Management of the Community Support Fund	11/11/09	\$380,000	\$590,000	-\$210,000
2009-10:8	Maintaining the Integrity and Confidentiality of Personal Information	25/11/09	\$610,000	\$725,000	-\$115,000
2009-10:14	The Effectiveness of Student Wellbeing Programs and Services	03/02/10	\$308,487	\$320,000	-\$11,513
2009-10:17	Irrigation Water Stores: Lake Mokoan and Tarago Reservoir	10/03/10	\$303,845	\$310,000	-\$6,155
2009-10:18	Management of Safety Risks at Level Crossings	24/03/10	\$322,000	\$360,000	-\$38,000
2009-10:20	Performance Reporting by Departments	05/05/10	\$319,288	\$340,000	-\$20,712
2009-10:22	Managing Teacher Performance in Government Schools	26/05/10	\$495,916	\$540,000	-\$44,084
2009-10:25	The Community Building Initiative	26/05/10	\$297,583	\$300,000	-\$2,417
2009-10:26	Administration of the Victorian Certificate of Education	09/06/10	\$220,000	\$290,000	-\$70,000

Terms of Reference 2(c) (Cont'd)

Report Number	Title - Tabled Parliamentary Report	Tabled	Budget	Published Cost	Variance
2009-10:32	Managing the requirements for disclosing private sector contracts	23/06/10	\$255,000	\$260,000	-\$5,000

Source: Annual Plan Acquittals, 2007-2010

Total Number of performance audit reports tabled from 2007-2010	:	83
Total Number of performance audit reports which exceeded budget	:	38
% of number performance audit reports which exceeded budgets	:	45.5%
Total budgeted value of 2007-2010 performance audits identified above	:	\$11,233,740
Total published cost of performance audits identified above	:	\$13,550,600
Total value of performance audits which exceeded budget	:	\$2,316,860
% (by \$) of performance audits which exceeded budget	:	20.6%
Total budgeted value of 2007-2010 for all 83 performance audits	:	\$26,334,677
Total published cost for all 83 performance audits	:	\$27,022,600
Total aggregated net overrun of 83 performance audits which exceeded budget	:	\$687,923
% (by \$) of all performance audits which exceeded budget	:	2.6%

Terms of Reference 2(c) (Cont'd)

Of particular note is the broad performance audit review relating to the portfolio of the Department of Innovation, Industry and Regional Development on Biotechnology Development, which was originally scheduled for tabling to Parliament in 2009-10 but has not been completed as at end-July 2010. The budgeted cost for this review was \$590,000. Actual costs incurred at the time of our review totalled \$801,264 (or 135.8% of budget).

FINDING / RECOMMENDATION 11: Performance Audits: Budgets Costs vs. Published Costs

Finding	Recommendations	Auditor-General Comments
<p>Finding: From the above, we noted that 45.5% of VAGO's performance audits completed and tabled from 2007-2010 (in terms of volume) had exceeded their budgeted costs.</p> <p>In terms of value, the 38 identified performance audits had exceeded their budgeted costs by 20.6% or by \$2,316,860 over the same period.</p>	<p>Recommendations:</p> <p>VAGO to consider conducting a comprehensive review to identify ways to better manage costs / scope creep relating to performance audits.</p> <p>VAGO should also consider reviewing their budget setting practices to ensure more realistic budgets are prepared for performance audits.</p>	<p>Comment: Accepted. VAGO's continuous improvement process adopts refinements in light of experience and post audit reviews, business need and risk.</p> <p>Proposed Action(s):</p> <p>Responsible Person (Title):</p> <p>Anticipated Completion Date:</p>

2.2.4 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; [Terms of Reference – 2(d)]

Observations

VAGO undertakes the following process in developing corporate and business plans:

Diagram 2: Mapping of Strategic Plans to Corporate and Business Plans



The Strategic Plan for the next 5 years is as follows:

Table 10: Strategic Plan, 2010-11 to 2014-15

Vision		Purpose		Values	
To be a catalyst for continuous improvement in the accountability and performance of the public sector.		Provide assurance to Parliament.		<ul style="list-style-type: none"> • Integrity; • Personal accountability; • Teamwork; • Learning; • Outcome focused. 	
Key Result Areas					
Reports & Advice	Parliament	Audit Clients	People	Organisation	
<u>Objective:</u> Being Authoritative and Relevant	<u>Objective:</u> Being highly regarded by Parliament	<u>Objective:</u> Fostering productive relationships with audit clients.	<u>Objective:</u> Fostering a stimulating working environment.	<u>Objective:</u> Leverage our systems and processes to improve organisational performance.	
<u>Strategies:</u> <ul style="list-style-type: none"> • Better targeting topics; • Direct audit effort to areas of public value; • Promoting broader access to reports. 	<u>Strategies:</u> <ul style="list-style-type: none"> • Smoothing the flow of reports; • Better engage Parliamentary committees and individual Parliamentarians. 	<u>Strategies:</u> <ul style="list-style-type: none"> • Appropriately informing about audit plans, processes and activities; • Fostering professional relationships. 	<u>Strategies:</u> <ul style="list-style-type: none"> • Rigorous performance planning and management; • Supporting a safe and healthy workplace. 	<u>Strategies:</u> <ul style="list-style-type: none"> • Aligning systems and processes; • Investing in capability for long term sustainability; • Being a responsible corporate citizen. 	

Source: Strategic Plan 2010-11 to 2014-15.

Terms of Reference 2(d) (Cont'd)

A comparison of the Strategic Plan 2007-08 to 2009-10 and the 2010-11 to 2014-15 Strategic Plan identified the following changes:

Table 11: Comparison of Strategic Plans

Key Result Areas	Strategic Plan 2010-11 to 2014-15	Strategic Plan 2007-08 to 2009-10
People	<p><u>Objective:</u> Fostering a stimulating working environment.</p> <p><u>Strategies:</u></p> <ul style="list-style-type: none"> • Rigorous performance planning and management; • Supporting a safe and healthy workplace. 	<p><u>Objective:</u> Being an employer of choice.</p> <p><u>Strategies:</u></p> <ul style="list-style-type: none"> • Demonstrating the relevance of the Office to the public interest; • Continuously developing our people; • Providing an attractive and stimulating work environment.
Organisation	<p><u>Objective:</u> Leverage our systems and processes to improve organisational performance.</p> <p><u>Strategies:</u></p> <ul style="list-style-type: none"> • Aligning systems and processes; • Investing in capability for long term sustainability; • Being a responsible corporate citizen. 	<p><u>Objective:</u> Being innovative and cost effective.</p> <p><u>Strategies:</u></p> <ul style="list-style-type: none"> • Continuously improving our systems, methodologies and processes; • Valuing ideas and knowledge sharing; • Aligning tasks with office-wide objectives.

Source: Strategic Plan 2007-08 to 2009-10 vs 2010-11 to 2014-15

There are no recommendations noted from this area of our work.

2.2.5 The adequacy and effectiveness of the annual planning process, having regard to risk factors and governance arrangements within agencies; [Terms of Reference – 2(e)]

Observations

Performance Audit

To assess whether VAGO's annual planning process is adequate, and that risk factors and governance arrangements within auditees were considered, we performed the following:

- ▶ Ascertained whether the methodology used by VAGO included a planning process which considered the risks and governance factors within agencies;
- ▶ Interviewed selected Secretaries of departments/agencies to obtain feedback on the methodology used by VAGO for its annual planning process (This is covered in Section 2.2.1, Terms of Reference 2(a) above).

(ii) Planning Process

The “*Selection of Areas for Performance Audit Interest – Policy and Framework*” is used by VAGO to prioritise audits using a risk and materiality component after having considered the auditees' risks and governance arrangements. This was implemented in 2008 following a recommendation from the performance audit of VAGO in 2007. Risks are assessed in terms of economic, environmental and social materiality. Following the risk assessment, audit topics are then determined for inclusion in the Annual Plan, including a 3-year audit program strategy.

VAGO organises audit teams by industry sectors, as shown in Diagram 1 (Section 2.1, Terms of Reference 1 above). The audit team members are rotated periodically to provide opportunities for staff to build on their knowledge.

Industry sectors adopted by VAGO include:

- ▶ Whole of government / central agencies;
- ▶ Education;
- ▶ Health and Human Services;
- ▶ Justice;
- ▶ Local government;
- ▶ Transport; and
- ▶ Environment and water.

Additionally, a director is also assigned the task of preparing the Annual Plan for VAGO.

Terms of Reference 2(e) (Cont'd)

For each proposed topic for audit, VAGO's industry sector directors rank the topic in terms of their Risk Materiality Rating (See Table 12 below). Then, an agreed overall rating is arrived at and used as a basis to prioritise audits.

Table 12: Risk Materiality Rating Applied to Potential Audit Topics (Performance Audit)

Descriptor	Details
Negligible	Minor or insignificant risk. Minimal potential impact. Incidents involve no external effects and quick recovery.
Moderate	Moderate impact confined to specific areas or programs. No long term impact on achievement of government's objectives.
Significant	Major impact on community or specific community groups. Elevated risk due to greater vulnerabilities to fraud, waste, abuse and mismanagement. Program or service is central to achievement of departmental and government objectives. High risk of significant harm from service failure.
Critical	Very serious. Very important or dangerous. Critical to achievement of departmental and government's objectives. High risk of significant harm from service failure.
Catastrophic	A great and sudden disaster, causing great distress or destruction. Very high risk of significant and widespread harm.

Source: *Selection of Areas for Performance Audit Interest – Policy and Framework.*

A materiality rating used by VAGO measures (in dollar terms) the size of agency program or project from the perspective of economic, social and environmental impact. This takes into account resources over which the auditees have an influence (level of expenditure, asset base, etc), the reliability of controls, implementation of programs, number of agencies involved and the balance of coverage across portfolios.

Table 13: Economic Materiality Rating

Descriptor	Details
Minimal	Program/budget value is less than \$25 million; and/or risk has minimal financial impact.
Minor	Program/budget value of \$25-\$50 million; and/or risk has minor organisational impact.
Moderate	Program/budget value is \$50-\$250 million and/or risk may have substantial external and/or organisational impact.
High	Program/budget value is \$250 - \$500 million and/or risk has high organisational and external impact.
Major / Critical	High cost program / project with value in excess of \$500 million and/or risk has high organisational and state-wide impact.

Source: *Selection of Areas for Performance Audit Interest – Policy and Framework.*

Terms of Reference 2(e) (Cont'd)

With regards to social and environmental materiality, factors such as number of people affected, the percentage of (public sector) workforce involved, impact on community amenity as well as the social and/or environmental consequences are considered.

Table 14: Social and Environmental Materiality Rating

Descriptor	Details
Minimal	Negligible impact on community amenity, workforce or specific population groups. Can be fixed in short term. Minimal external effect.
Minor	Some impact on service delivery to specific client groups or workforce. Long term service and/or environmental effects are negligible. Some recent community interest.
Moderate	Major impact on community or specific vulnerable groups. May involve substantial proportion of workforce. Subject of community interest or activity. Moderate impact on longer term social and/or environmental wellbeing, safety or amenity.
High	High impact on service delivery to specific client groups. Long term service and/or social and/or environmental effects may ensue. May involve substantial proportion of workforce. May have significant safety implications.
Major / Critical	Major community-wide impact. Long term impact on community well-being, safety and environment.

Source: Selection of Areas for Performance Audit Interest – Policy and Framework.

There are no recommendations noted from this area of our work.

Financial Audit

Prior to the commencement of planning of financial audits, VAGO management collate information on potential audit issues that may affect upcoming audits. This information comes from a variety of sources including attending industry events and conferences, discussions with client audit committees and reflection of audit issues identified in the prior year. These issues are collated and documented in the annual plan, the financial audit policy manual and in financial audit policy alerts.

Included in the annual plan are key financial audit focus areas when conducting systems and controls assessments. This work complements the existing controls assessments performed as part of the audit strategy for each client. We were advised by VAGO that the focus areas are included to promote greater compliance by putting agencies on notice and are also used in supporting audit opinions issued.

There are no recommendations noted from this area of our work.

- (ii) Interview of selected Secretaries of departments/agencies – refer to Section 2.2.1, Terms of Reference 2(a) above).

2.2.6 The adequacy of the existing time recording and costing systems to ensure all recoverable costs are collected and that there is no cross-subsidisation between chargeable and non-chargeable functions of the Office; or between performance and financial audits; [Terms of Reference – 2(f)]

Observations

Performance Audit

In order to ascertain whether the existing time recording and costing systems were adequate to ensure all recoverable costs are collected and that there is no cross subsidisation between chargeable and non-chargeable functions of VAGO, we selected a sample of performance audit timecards and considered, whether:

- ▶ Staff charging time to the specific performance audit job was planned for in the Audit Plan;
- ▶ Time charged by staff to individual performance audits was authorised by an appropriate person;
- ▶ Financial auditors time allocated to performance audits was authorised and that adequate documentation is maintained to support the authorisation; and
- ▶ Adequate information is recorded to support the time costs charged by staff to the performance audit jobs.

Based on the work done above our recommendations, for VAGO's consideration are provided on the following pages.

Terms of Reference 2(f) (Cont'd)

FINDING / RECOMMENDATION 12: Time Costs for Performance Audit

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <ul style="list-style-type: none"> ▶ We noted that time charged to the performance audit of Administration of the Victorian Certificate of Education for planning work (758 hours) included significant time for the familiarisation of VAGO staff with a tool (Australian Universities Quality Agency ("AUQA") Approach) used by the Victorian Curriculum Assessment Authority. Notwithstanding that the training and familiarisation of VAGO staff with this tool may assist in the performance audit assignment, the significant time cost may more readily relate to training and development of VAGO staff and may be better treated as an internal (VAGO) cost. The cost of performance audits are currently disclosed as a lump sum in each of the reports tabled to Parliament. However, no analysis of the cost incurred is provided to PAEC. 	<p>Recommendations:</p> <ul style="list-style-type: none"> ▶ In order to further improve reporting practices, we suggest that VAGO consider charging time associated with auditee familiarisation/training to an internal cost centre as opposed to charging time to a performance audit. ▶ We propose that VAGO consider disclosing a cost analysis for each Performance Audit (e.g. analysed by each phase of an audit) to PAEC separately from the report tabled to Parliament. 	<p>Comment:</p> <p>Not accepted. Incidence does not warrant a change in audit costing policy.</p>

Terms of Reference 2(f) (Cont'd)

We reviewed a sample of performance audit time costs and noted the following:

Table 15: Performance Audit: Audit Phases as a Percentage of Total Time Incurred

Performance Audit	Scope	No. of agencies audited	% of Total Costs				
			Planning	Conduct	Reporting	Post-tabling	Total
Literacy and Numeracy Achievement	Limited	2	21.6	21.0	53.6	3.8	100
Buy-back of the Regional Intrastate Rail Network	Limited	1	6.4	38.9	54.7	-	100
Administration of the Victorian Certificate of Education	Limited	1	47.4	35.9	16.7	-	100
Records Management in the Victorian Public Sector	Broad	1	35.3	41.4	23.3	-	100
Irrigation Efficiency Programs	Broad	1	42.2	38.0	19.8	-	100
Implementing Victoria's Police's Code of Practice for the investigation of Family Violence	Broad	1	24.6	13.9	61.5	-	100

Source: Project Detail Reports from MARS

The proportion of time costs for each stage of limited scope and broad scope performance audits varied significantly between individual performance audits.

Terms of Reference 2(f) (Cont'd)

FINDING / RECOMMENDATION 13: Comparability of Costs Between Performance Audits

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>We acknowledge that VAGO currently manages time costs incurred for each performance audit. This management process incorporates timecards which are approved by Managers and/or Directors where appropriate. Actual time costs are compared to budget for each phase and are reported to the Senior Management Group on a monthly basis.</p> <p>Notwithstanding the above, we noted that there is no common yardstick used by management to gauge the extent of each performance audit's time costs relative to each job.</p> <p>The implementation of such a yard stick may assist management to further strengthen cost management initiatives.</p>	<p>Recommendations:</p> <p>In order to further improve systems and processes to meet VAGO's objective of "Being innovative and cost effective" (Strategic Plan 2007-08 to 2009-10), we suggest that VAGO consider developing a common yardstick to measure the comparability of time costs incurred for similar performance audits through each phase with a view to further strengthen cost management initiatives;</p> <p>The common yardstick may need to take into account the following criteria (<i>Note: This is not an exhaustive list</i>):</p> <ul style="list-style-type: none"> ▶ Number of agencies audited; ▶ Overall risk category of the audit, after considering <ul style="list-style-type: none"> – environmental risks (e.g. legal, reputation, market, etc); – process risks (e.g. financial, governance, operational, etc); and – information for decision making risks (e.g. reporting, strategic, etc). ▶ Maturity level of the auditee organisation's internal controls relating to business policies, business processes, people and organisation, management reporting, methodologies and systems and data; ▶ Scope of the audit; and ▶ Use of external expertise. 	<p>Comment:</p> <p>Accepted.</p> <p>VAGO's continuous improvement process adopts refinements in light of experience and post audit reviews.</p> <p>Proposed Action(s):</p> <p>Responsible Person (Title):</p> <p>Anticipated Completion Date:</p>

Terms of Reference 2(f) (Cont'd)

Financial Audit

For financial audits VAGO uses the time recording system (MARS) which captures the time allocated to financial audit engagements by all staff. This enables VAGO to track the recording of costs and drives the cost recovery for conducting financial audits. MARS interfaces with the finance system which allows for accurate and complete capture of cost for monthly and annual reporting.

In accordance with Section 10(1) of the Audit Act 1994, the cost of performing the audit is paid by the authority subject to audit. Our review also included an assessment of the effectiveness of the audit teams to complete audits within budgeted time allocations. Discussions with management highlighted that in most cases the costs charged against financial audits were completely recovered. Our review of the MARS project summary reports across 2007, 2008 and 2009 confirmed that the full cost of financial audits were recovered in the 2007 and 2009 financial years, where in 2008 99.6% of costs were recovered. We also noted that the amount of additional fees sought was minor and the vast majority of audits were completed within the agreed budgets.

We reviewed a sample of six financial audits undertaken over the last three years to assess the degree of cross subsidisation between performance and financial audit staff as evidenced by our review of staff utilised on respective audits. Our testing found there was no cross subsidisation between performance and financial audit staff. All staff allocated on the financial audits tested were identified to be part of the financial audit team.

We have not identified any recommendations relating to this area.

2.2.7 The culture of management and workloads and their effect on staff performance, work-life balance and retention rates over the past three years in all VAGO divisions; [Terms of Reference – 2(g)]

Observations

Staff Profile

The VAGO Workforce Profile prepared as at 31 December 2009 by People and Culture Division to support VAGO's Strategic Plan 2007-08 to 2009-10 reported that 34.7% of current employees had been working with VAGO for one year or less, with 76% of employees working for VAGO for 5 years or less. 14.4% of employees have worked with VAGO for more than 10 years.

Staff Turnover

In order to ascertain the culture of management and workloads and their effect on staff performance, work-life balance and retention rates over the past three years, we reviewed key statistics relating to VAGO personnel.

Table 16: Staff Turnover², 2007-2010

Business Group	2007-08		2008-09		2009-10 (As at 10 June 2010)	
	FTE	Turnover (No.)	FTE	Turnover (No.)	FTE	Turnover (No.)
Performance Audit	38	11	46	15	65	15
Financial Audit	79	16	75	16	75	8
Corporate Services	21	12	27	2	25	4
Auditor-General's Office	4	1	4	1	4	0
Policy & Coordination Directorate, etc ("PCD") ¹	12	4	4	5	8	0
Total	154	44	156	39	177	27

Source: Various management reports, VAGO;

¹ Includes Policy, Planning and Technical business unit.

² Includes Fulltime Equivalent ("FTE") for both fixed term and casual employees.

Overall, staff turnover has declined throughout the three years under review (2007 - 2010).

Staff turnover for the Performance Audit business unit has increased by 4 (headcount) from 2007 -08 to 2008-09, and had remained at 15 in 2009-10, being the highest within VAGO.

Terms of Reference 2(g) (Cont'd)

Staff turnover within the Financial Audit business unit was stable from 2007-08 to 2008-09 and thereafter halved in 2009-2010.

The Corporate Services business unit staff turnover had declined significantly from 12(headcount) in 2007-08 to 2(headcount) in 2008-09, but thereafter doubled to 4(headcounts) in 2009-10. Turnover of staff in the Auditor-General's office and Policy & Coordination Directorate had trended down to zero from 2007-08 to 2009-10.

In order to provide some perspective with regards to the staffing level at different Auditor-General's offices, we have compared VAGO to other jurisdictions (see table below).

Table 17: Selected Employee Statistics Compared to Other Jurisdictions

Auditor – General's Office	2007-08	2008-09	2009-10
No. of Employees (Headcount)			
Victoria	148.5	149.2	167.3
New South Wales	214	249	n.a.
Queensland	215.6	249	n.a.
Western Australia	106	108	n.a.
Staff Turnover (Headcount)			
Victoria	27.2	23.7	17.3
New South Wales	18.0	7.8	12.0 ¹
Queensland	18.0	n.a.	n.a.
Western Australia	33.0	12.0	n.a.
Salaries, Wages and Long Service Leave, etc (\$ '000)			
Victoria	14,333	14,405	n.a.
New South Wales	22,839	25,625	n.a.
Queensland	18,080	20,424	n.a.
Western Australia	8,478	9,163	n.a.

n.a : not available.

Source: Based on disclosed information from Annual Reports 2007-2010 for Victoria, New South Wales, Queensland and Western Australia.

¹ Target, not actual.

The above tables indicate that with the exception of 2007-08, VAGO's staff turnover was higher than the other jurisdictions. Some comparatives are not available for 2009-10 as at the date of this report.

Terms of Reference 2(g) (Cont'd)

Staff Remuneration

The VAGO Workforce Profile as at 31 December 2009 reported that 45% of employees are employed at VPSG4.1 or below, while 38% of employees are employed in the higher classification levels (VPSG6.1 and above). 12.0% of employees are employed under Executive contracts.

As at 31 December 2009, 47.3% of the VAGO workforce is paid \$80,000pa or more. The average salary per male employee is \$101,561 pa and for female employees the average is \$78,546 pa, with the overall average per VAGO employee \$89,158 pa.

Salary increases with age, with the 20-29 year age group earning an average of \$60,559 pa and the 60 years or more group earning an average of \$127,193 pa.

The number of executive officers, other than Accountable Officers, whose total remuneration exceeded \$100,000 during 2009-10 financial year, is shown in the first two columns of the table below in their relevant income bands. The base remuneration of executive officers receiving more than \$100,000 in total remuneration is shown in the third and fourth columns. Base remuneration is exclusive of bonus payments, long-service leave payments, redundancy payments and retirement benefits.

Table 18: Remuneration of Executives, 2009-10

Income band	Total remuneration		Base remuneration	
	2009-10	2008-09	2009-10	2008-09
	No.	No.	No.	No.
\$80,000 to \$89,999	-	-	-	1
\$90,000 to \$99,999	-	-	-	-
\$100,000 to \$109,999	-	2	-	2
\$110,000 to \$119,999	-	1	-	2
\$120,000 to \$129,999	1	1	1	-
\$130,000 to \$139,999	-	-	4	-
\$140,000 to \$149,999	7	3	6	4
\$150,000 to \$159,999	3	2	4	3
\$160,000 to \$169,999	4	3	1	1
\$170,000 to \$179,999	1	1	-	1
\$180,000 to \$189,999	-	2	-	1
\$190,000 to \$199,999	-	-	1	-
\$200,000 to \$209,999	1	-	-	-
\$210,000 to \$219,999	-	-	-	-
\$220,000 to \$229,999	-	-	1	1
\$240,000 to \$249,999	-	1	-	-
\$250,000 to \$259,999	1	-	-	-
\$260,000 to \$269,999	-	-	-	1
\$270,000 to \$279,999	-	-	1	-
\$280,000 to \$289,999	-	1	-	-
\$300,000 to \$309,999	1	-	-	-
Total numbers	19	17	19	17
Total amount	\$ 3,199,900	\$ 2,780,052	\$ 3,035,441	\$ 2,568,756

Source: Provided by VAGO's Finance Division to be made available in VAGO's Annual Report 2009-10.

Terms of Reference 2(g) (Cont'd)

We also compared the salary levels of VAGO (VPS grades 2.1 to 7.3) to the Hays 2010 Salary Guide for external audit personnel (professional firms). Generally VPS grades 2.1 to 4.1 were, on average, 9.4% to 30.3% above Hays average market rates. VPS grades 5.1 and above were, on average, 8.3% to 21.9% below Hays average market rates.

Staff Absenteeism

We had also analysed the staff absenteeism due to illness or other reasons.

Table 19: Staff Absenteeism (Sick Leave With/Without Certificate)

Business Group	2007-08			2008-09			2009-10 (as at 10 June 2010)		
	Hours	Man-days	% Total	Hours	Man-days	% Total	Hours	Man-days	% Total
Performance Audit	3,572.3	470	36	2,733.6	360	35	2,471.6	325	33
Financial Audit	4,577.3	602	46	3,687.9	485	48	3,540.5	466	48
Corporate Services	1,014.4	133	10	1,039.3	137	13	1,143.6	150	15
Auditor-General's Office	297.4	39	2	108.3	14	2	144.4	19	2
Policy & Coordination Directorate, etc ("PCD") ¹	601.3	79	6	0	22	2	0	19	2
Total	10,062.7	1,324	100	7,734.1	1,018	100	7,442.0	979	100

Source: Various management reports, VAGO

¹ Includes Policy, Planning and Technical business unit.

Absenteeism in Performance Audit and Financial Audit business units comprised more than 80% of sick leave of VAGO personnel. Overall, absenteeism due to illness continued to improve over the three year period under review.

Staff Leave Balances

As at 31 December 2009, recreation leave balances totalled 25,889 hours (3,406 days). The average balance per eligible employee is 155.68 hours (20 days). Sick leave balances totalled 85,333 hours (11,227 days). The average balance per eligible employee is 511 hours (67 days). Male employees have larger leave balances than female employees.

Terms of Reference 2(g) (Cont'd)

Sick and Carer's Leave

As reported in the VAGO Workforce Profile as at 31 December 2009, during FY 2009 - a total of 4,633 hours (610 days) of sick and carer's leave. This is an average of 27.74 hours (3.6 days) per employee.

The amount paid to current employees for sick and carer's leave during the 6 month period from 1 July 2009 to 31 December 2009 was \$206,675.

The 20-29 years age group (which made up 35% of the workforce) are the biggest per capita user of sick leave with a total of 36.39% of all sick leave taken. 28.45% of all sick leave/carer's leave commenced on a Monday and 58% of all sick leave/carer's leave commenced on Tuesday/Wednesday/Thursday. Friday has the lowest incidence of sick leave/carer's leave at 13% of all incidences.

We had also reviewed VAGO's statistics for staff who had taken WorkCover leave. In the financial period, 2009-10, two staff had taken such leave.

Table 20: WorkCover Leave

Business Group / Employee Name	2007-08	2008-09	2009-10 (as at 29 June 2010)
	Hours		
Performance Audit	0	0	661.9
Corporate Services	0	0	69.2
Total	0	0	731.1

Source: Meridian payroll records, VAGO

In an effort to improve occupational health and safety VAGO's Strategic Plan for 2010-11 to 2014-15 includes strategies to support a safe and healthy workplace.

Terms of Reference 2(g) (Cont'd)

Staff Promotion / Progression

We reviewed the promotion and/or grade re-classifications of VAGO staff, who were subject to the core terms and conditions of employment of the Victorian Public Service Agreement 2006 (2009 Extended and varied).

Table 21: Promotions / Progression, 2007-2010

Business Group	2007-08	2008-09	2009-10 (as at 10 June 2010)
Performance Audit	7	5	8
Financial Audit	33	13	20
Corporate Services	1	1	1
Auditor-General's Office	0	0	0
Policy & Coordination Directorate, etc ("PCD") ¹	0	0	0
Total	1	19	29

Source: Various management reports, VAGO

¹ Includes Policy, Planning and Technical business unit.

Staff promotions/progressions increased over the periods reviewed. VAGO staff progression occurs when an employee meets the key performance criteria, plus where appropriate other performance or achievement indicators agreed at the commencement of a Performance Development Plan reporting cycle. Staff promotion / progression occurs when an internal employee has successfully applied for an advertised internal vacancy at a higher level.

The input sources used when developing an employee's PDP plan include:

- › The VAGO Strategic Plan which includes VAGO's values;
- › The Business Group's Business Plan;
- › The Employee's Position Description; and
- › Previous year's performance plan (if employed with VAGO during that period).

VAGO's Performance Development Plan is in the process of being revised to further improve the process for the evaluation of the performance and development of employees.

Learning and Development (L&D)

As at 31 December 2009, approximately 80% of VAGO staff have participated in L&D activities during FY09/10, with a total of 4,482.7 hours (590 days) spent in L&D across the organisation.

Staff Survey

To further ascertain the workloads of VAGO staff and the impact on overall staff work life balance and retention, PKF has undertaken an independent survey of VAGO staff in June 2010.

The survey elicited 101 (55.2%) responses from a total of 183 VAGO staff surveyed. 15 of the 101 responses were anonymous.

Terms of Reference 2(g) (Cont'd)

There were 18 questions in the staff survey. The respondents generally answered most questions. Of the total of 1,818 answers, the responses were as follows:

- 19 % “Strongly Agreed”;
- 47% Agreed”;
- 10% “No Comments”;
- 16% “Disagreed”;
- 8% “Strongly Disagreed”.

Further analysis is included in Table 22 below and Graph 1 in Appendix 1. The PKF questionnaire is included in Appendix 2.

Table 22: Analysis of VAGO Staff Responses (% of Total Responses)

Q	Topic	“Strongly Agree”	“Agree”	“No Comment”	“Disagree”	“Strongly Disagree”
1	Role expectation	17	56	6	14	7
2	Equipment	33	51	6	6	4
3	Change in roles	2	36	10	40	13
4	Work effort	32	52	6	5	5
5	Recognition/praise	22	44	6	18	11
6	Caring supervisor	29	43	7	11	11
7	Development encouragement	23	43	10	20	5
8	Opinions count	16	50	6	19	10
9	Job importance	28	54	5	7	6
10	Peer commitment	34	45	6	12	4
11	VAGO objectives	16	49	11	15	10
12	VAGO's reputation	11	31	39	10	10
13	Progress assessment	26	46	7	14	8
14	Learn & grow	21	50	11	14	4
15	Work enjoyment	10	50	17	13	11
16	Recommend VAGO as preferred employer	11	47	9	18	16
17	Financial rewards	8	50	7	27	8
18	Stress management	8	51	10	19	12

Source: PKF Survey of VAGO Staff, June 2010

66% of the responses to questions were in the “Agreed” and “Strongly Agreed” categories. However, comments from respondents have identified the following as issues:

- A third of respondents have doubt recommending VAGO as a preferred employer;
- About a third mentioned that their opinion did not count or they were not appreciated;
- A third mentioned stress due to insufficient staffing;
- A third said that there was favouritism when it came to promotion;
- One-fifth of respondents said that their roles were unclear;
- 13% said the quality of work suffered due to tight deadlines;
- 12% mentioned work commitment of colleagues negatively impacted them.

Terms of Reference 2(g) (Cont'd)

PKF received nine responses from former VAGO staff. The results of the survey are provided in the following table:

Table 23: Analysis of VAGO Former Staff Responses (% of Total Responses)

Q	Topic	“Strongly Agree”	“Agree”	“No Comment”	“Disagree”	“Strongly Disagree”
1	Role expectation	67	22	0	11	
2	Equipment	67	33	0	0	0
3	Change in roles	44	12	0	22	22
4	Work effort	67	22	0	0	11
5	Recognition/praise	22	11	0	11	56
6	Caring supervisor	33	23	0	0	44
7	Development encouragement	33	12	0	22	33
8	Opinions count	33	23	0	22	22
9	Job importance	67	11	0	11	11
10	Peer commitment	56	22	0	22	0
11	VAGO objectives	11	0	0	78	11
12	VAGO's reputation	12	0	22	44	22
13	Progress assessment	44	12	0	33	11
14	Learn & grow	44	0	0	23	33
15	Work enjoyment	56	11	0	22	11
16	Recommend VAGO as preferred employer	11	0	0	67	22
17	Financial rewards	44	0	0	34	22
18	Stress management	44	0	0	22	34

Source: PKF Survey of Former VAGO Staff, July 2010

54% of the responses to questions were in the “Agreed” and “Strongly Agreed” categories. However, comments from respondents have identified the following as issues:

- Lack of career progression;
- Negative attitude and management approach of VAGO senior management;
- Individual opinions not recognised by management; and
- Work life balance negatively impacted by significant workloads.

2.2.8 Whether the recommendations of the previous performance auditor on human resources issues such as workforce planning and people management have been addressed in an effective and sustainable manner (insight on progress achieved from strategies developed for implementing these recommendations should be gained from appropriate sources including original data gathered in staff surveys, an update in data on staff turnover rates since 1 July 2007 up to and including the year ending 30 June 2010 and the conduct of an appropriate confidential staff survey by the successfully appointed performance auditor; [Terms of Reference – 2(h)]

Observations

2007 Performance Audit Findings Relating To Human Resources Matters	Implemented?			Progress to Date
	Yes	Partly	No	
a) <u>Staff Survey</u> VAGO should conduct a full staff survey across the office as soon as possible and report the results back to staff without delay (ToR 6).	✓			<p>The following were completed:</p> <ul style="list-style-type: none"> - Organisation Alignment Profile" survey conducted by Insync Surveys depicting survey results (As at Feb 2009). - Cultural Survey 2009 - Cultural alignment survey update (May 2009) - Cultural alignment survey update (June 2009) - Performance Audit Client Survey Individual Agency Spreadsheet 2008-09 - Financial Audit Client Survey Individual Agency Spreadsheet 2008-09. <p>Any further surveys will be conducted in 2011.</p>
b) <u>Human Resource Strategic Plan</u> 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.	✓			<p>Revised Policies under the Strategic People and Culture Management Framework (Dated 20/4/2009) have been put in place.</p> <p>The Corporate Service Group's Business Plan 2009-2010 has incorporated the changes.</p> <p>A proposal for a new system for Human Resource (HRIS Review -May 2009) was completed and awaiting implementation.</p> <p>Training schedules posted into VAGO's intranet have incorporated changes.</p>
c) <u>Projections of Future Staff Profiles</u> The HR strategic Plan should incorporate specific forward projections of future staff profiles linked to innovative recruitment strategies and synchronised training programs.	✓			<p>In addition to incorporating the matter in the Strategic People and Culture Management framework, Finance has incorporated the projections of future staff profiles in the 2009-2010 Budget Pack.</p>

Terms of Reference 2(h) (Cont'd)

2007 Performance Audit Findings Relating To Human Resources Matters	Implemented?			Progress to Date
	Yes	Partly	No	
d) <u>Recruitment</u> 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 (ToR 6).	✓			VAGO had additionally taken the following actions: - VAGO Graduate Recruitment Program - Marketing Strategy (dated 10/12/2007); - Status Report on Graduate Recruitment Program (dated 16/02/2007); - Graduate Recruitment 2009 intake; and - Attendance at Graduate Careers Fair 2008 (dated 25/04/2008).
e) <u>Staff Remuneration</u> 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 (ToR 6).	✓			Additionally, VAGO had taken the following actions: - Raised a Business Case for Procurement of Additional Blackberries and Mobile Phones within VAGO (dated 24/10/2007), and approved by Victorian Auditor-General on 22/05/2009; - A new Learning and Development Policy (PMP01.03/08) was put in place for study assistance of staff; - Implemented the Strategic People and Culture Management Framework (dated 20/4/2009);
f) <u>Human Resource Management Information System</u> 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.		✓		HRIS System benefit assessment was completed and the contract was awarded in April/May 2010. There are 8 Modules within the HR management information system of which 4 modules (Stages 1 and 2) have been completed as at 19 May 2010 (Audit Committee update dated 19 May 2010). The 8 modules were: (i) Base; (ii) Reports; (iii) OH&S (iv) Recruitment; (v) Learning & Education; (vi) Performance reviews (May 2011); (vii) Succession planning (not needed);and (viii) Timesheets (not needed).

We have not identified any recommendations relating to this area.

2.2.9 The extent to which best practice in public sector management and auditing has been updated and adopted in the Office over the past three years; [Terms of Reference – 2(i)]

Observations

Through discussions with VAGO staff and VAGO's written representations and other audit evidence, we noted that efforts were made by VAGO to comply with applicable legislative requirements, auditing and accounting standards.

We have reviewed VAGO's benchmarking of its operations against the Australasian Council of Auditors-General ("ACAG")'s initiatives covering matters on:

- corporate relationships;
- governance (leadership and management);
- resource management (workforce management and development);
- information management (records management);
- information systems management;
- work environment;
- audit practice management (APES 320.7, Quality Control for Firms);
- leadership responsibilities for quality within VAGO (APES 320.9, Quality Control for Firms) ;
- ethical requirements – independence (APES 320.14 and APES 320.18);
- acceptance and continuance of client relationships and specific engagements (APES 320.28);
- human resource (APES 320.36);
- use of contracted firms (specific to Audit Offices) ;
- assignment of engagement terms (APES 320.42);
- engagement performance (APES 320.46);
- consultation (APES 320.51);
- differences of opinion with engagement teams (APES 320.57);
- engagement quality control review (APES 320.60);
- engagement documentation (APES 320.73);
- monitoring (APES 320.74);
- complaints and allegations (APES 320.89);
- documentation on quality control;
- performance audit – practice management (APES 320.36-41);
- performance audit methodology and policies (covered by our review of Section 2.2.2, terms of reference 2(b) above);
- performance audit quality assurance (covered by our review of Section 2.2.12, terms of reference 2(l) below);
- performance audit – audit management (covered by our review of Section 2.2.2, terms of reference 2(b) above);

Terms of Reference 2(i) (Cont'd)

In addition, we have also reviewed VAGO's operations against the recommended Best Practice Guide issued by the Australian National Audit Office in March 2007 covering initiatives for:

- › managing risks;
- › accountability of decision making;
- › managing regulatory performance;
- › managing probity;
- › information management – data management;
- › information management – documentation;
- › relationship management;
- › resourcing;
- › compliance monitoring - development of monitoring strategy;
- › compliance monitoring – managing the activity schedule;
- › compliance monitoring – planning activity;
- › decisions on compliance status;
- › Processes for addressing non-compliance – event notification, action planning and management and post-event management.

We have also reviewed ACAG's Survey of Victoria's Parliamentarians with regards to their satisfaction with the Victorian Auditor-General's office.

Table 24: 2009 ACAG Survey of Parliamentarians

Parliamentarian Audit Client Survey	Overall Parliamentarian Satisfaction (Index score)				
	Very Satisfied	Satisfied	Neither Satisfied nor Dissatisfied	Dissatisfied	Very Dissatisfied
VAGO (Victoria)	18.8	73.5	3.9	3.8	0.0
Audit Office 1	26.4	67.5	3.1	0.0	3.0
Audit Office 2	48.9	40.4	10.7	0.0	0.0
Audit Office 3	31.1	61.3	7.6	0.0	0.0

Source: 2009 ACAG Survey of Parliamentarians.

Note: Names of Audit Offices have been removed for confidentiality purposes.

The latest survey conducted by ACAG in 2009 indicates that VAGO has both the highest "Satisfied" rating and the highest "Dissatisfied" rating among the jurisdictions.

Terms of Reference 2(i) (Cont'd)

Table 25: 2009 ACAG Client Surveys -Performance and Financial Audits

2009 Performance Audit Client Survey (Index Score)				
Audit Office	Audit Process	Audit Reporting	Audit Value	Overall Satisfaction
VAGO	76.8	73.8	66.4	72.3
Audit Office 1	71.7	72.7	72.4	72.2
Audit Office 2	70.4	72.5	60.0	67.6
Audit Office 3	73.3	73.0	67.0	71.1
Audit Office 4	72.9	73.6	74.8	73.8
Audit Office 5	70.6	70.0	69.7	70.1
2009 Financial Audit Client Survey (Index score)				
Audit Office	Audit Process	Audit Reporting	Audit Value	Overall Satisfaction
VAGO	77.7	76.6	74.8	76.3
Audit Office 1	78.0	76.8	77.3	77.4
Audit Office 2	70.2	71.8	72.6	71.5
Audit Office 3	74.1	74.4	72.2	73.6
Audit Office 4	72.7	74.2	70.2	72.4
Audit Office 5	71.6	76.2	76.2	74.7

Source: 2009 ACAG Survey for Performance and Financial Audits.

Note: Names of Audit Offices have been removed for confidentiality purposes.

For Performance Audit, VAGO's performance indices compared favourably against other jurisdictions (see Table 25 above). Notwithstanding this, VAGO may have room to improve its "Audit Value".

For Financial Audit, VAGO's performance indices are within the top three jurisdictions.

We have not identified any recommendations relating to this area.

2.2.10 The appropriateness of performance measures and veracity of performance outcomes reported and benchmarks against which the Auditor-General's Office measures its performance both internally and externally; [*Terms of Reference – 2(j)*]

Observations

External Reporting

VAGO measures its performance utilising externally parties for Outputs 1 and 2. Output 1 comprises work performed by VAGO involving Parliamentary reports and services, whilst Output 2 includes work performed for audit reports on financial statements.

The performance measures used by VAGO for external reporting are classed into a) Quantity; b) Quality; c) Timeliness; and d) Cost.

Table 26: Performance Measures for Output Group 1

Performance Measures	Unit of Measure	2010-11 Target	2009-10 Expected Outcome	2009-10 Target	2009-10 Actual
Quantity					
Auditor-General's Reports (VAGO Annual Plan)	Number	37	34	34	32
Quality					
Overall level of external satisfaction with audits	Score	-	75	75	75
Overall level of external satisfaction score with audits – audit clients	Score	75	nm	nm	nm
Overall level of external satisfaction with audit reports and services - Parliamentarians	%	85	nm	nm	nm
Timeliness					
Inquiries from Members of Parliament and the Public responded to within 28 days	%	95	94	95	72
Reports completed on time	%	90	85	90	72
Cost					
Total output cost	\$, million	14.1	14.3	13.9	13.3

Terms of Reference 2(j) (Cont'd)

Table 27: Performance Measures for Output Group 2

Performance Measures	Unit of Measure	2010-11 Target	2009-10 Expected Outcome	2009-10 Target	2009-09 Actual
Quantity					
Audit opinions issued on non-financial performance indicators	Number	114	114	114	114
Audit opinions issued on the financial statements of agencies	Number	541	561	600	594
Quality					
Overall level of external satisfaction with audits	Score	-	75	75	75
Overall level of external satisfaction score with audits – audit clients	Score	75	nm	nm	nm
Timeliness					
Audit opinions issued within statutory deadlines	%	98	98	98	98
Management letters and reports to Ministers issued within established timeframes	%	90	90	90	92
Cost					
Total output cost	\$, million	20.3	19.9	19.8	19.8

Source: VAGO Annual Plan 2010-11; nm: new measure

External reporting performance measures are submitted by VAGO to the Department of Treasury and Finance on an annual basis and to the PAEC on a quarterly basis. In addition, these measures are also included in VAGO's published annual reports.

For the new performance measures proposed by PKF, please refer to:

- ▶ Finding Number 6 (Implementation of Past Recommendations), Section 2.1, Terms of Reference 1 and
- ▶ Finding Number 6 (Measuring Adequacy and Effectiveness of VAGO's Audits), Section 2.2.1, Terms of Reference 2(a).

Internal Reporting

VAGO benchmarks itself against similar jurisdictions in Australia by participating in the annual Australasian Council of Auditor-Generals ("ACAG") Macro Benchmarking Surveys.

The last ACAG Macro Benchmarking Survey was completed in October 2009 and covered the following matters for Auditor-Generals' offices from 9 jurisdictions including New South Wales, Australian Capital Territory, Australian National Audit Office, Northern Territory, Western Australia, Queensland, South Australia, Tasmania and Victoria.

Terms of Reference 2(j) (Cont'd)

- › Legislative framework;
- › Auditing Methodology;
- › Scope of Audit Activity;
- › Volume of Attest Audit Activity;
- › Extent of Contracting Out Financial Audits;
- › Volume of Non-Attest Audit Activity;
- › Resourcing and Operations
 - Total costs as a proportion of public sector transactions;
 - Total costs as a proportion of public sector assets;
 - Attest audit costs as a proportion of public sector transactions;
 - Attest audit costs as a proportion of public sector assets;
 - Percentage of Total (Whole-of-Office) Paid Hours Charged to Audit Activities;
 - Percentage of Total (Whole-of-Office) Paid Hours Charged to Attest Audit Activities;
 - Percentage of Total (Whole-of-Office) Paid Hours Charged to Non-Attest Audit Activities;
 - Percentage of Attest Audit Staff Paid Hours Charged to Attest Audit Activities;
 - Percentage of Non-Attest Audit Staff Paid Hours Charged to Non-Attest Audit Activities;
 - Cost per Audit Hour Charged to Audit;
- › Attest Audit Activity Measures
 - Cost per Unit Output – State/Commonwealth Financial Opinions;
 - Cost per Unit Output – Local Government Financial Opinions;
 - Timeframes for Issuing Financial Opinions;
- › Performance Audit Activity Measures
 - Cost per Unit Output – Performance Audit Projects;
 - Timeframes for Performance Audits;
 - Percentage of Recommendations Agreed;
- › Human Resources – Office Staffing, Gender Breakdown and Attrition
 - Fulltime equivalent (“FTE”) number of staff;
 - Gender breakdown;
 - Attrition as a percentage of FTE (permanent staff);
 - Office expenses by type;
 - Value of contracted audit work;
 - Client surveys (Parliamentarians, financial audit clients, performance audit clients, etc).

The ACAG Macro Benchmarking Survey identified some areas for VAGO’s improvement including:

- › Percentage of total paid hours of attest audit staff charging to attest audit activities – billable hours were on a decreasing trend;
- › Staff attrition as a percentage of FTE (permanent staff);

We have not identified any recommendations relating to this area.

2.2.11 Whether VAGO continues to comply with Australian auditing standards, including the quality control process associated with contracted audits in both financial and performance audits; [Terms of Reference – 2(k)]

Observations

All audit organisations are required to comply with Accounting Professional and Ethical Standards Board “APES 320”. The objective of this standard is for an organisation to establish and maintain a system of quality control designed to provide it with reasonable assurance that the organisation and its personnel comply with the professional standards and applicable legal and regulatory requirements. We have reviewed the VAGO’s governance framework against the mandatory requirements of APES 320 and noted no instances of non-compliance.

We have compared the methodology used by Performance Audit against the following auditing standards and legislation:

- ▶ Audit Act 1994;
- ▶ Standard on Assurance Engagements ASAE 3500 Performance Engagements, issued by the Auditing and Assurance Standards Board;
- ▶ Standard on Assurance Engagements ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by the Auditing and Assurance Standards Board.

We have also selected a sample of performance audit files to ascertain whether they have complied with Australian Auditing Standards.

Findings for this section have been included in Section 2.2.2 for Terms of Reference 2(b).

For financial audits we reviewed the compliance of auditing standards with VAGO’s IPSAM methodology and noted no issues (refer to Section 2.2.2 Terms of Reference 2(b)). We reviewed a sample of six audit files for audits performed over the last three years and reviewed the application of mandatory audit requirements against the work performed. We found no instances where VAGO failed to comply with their audit methodology in all material aspects.

We have not identified any recommendations relating to this area.

2.2.12 Whether audits are supported by adequate plans and work papers, appropriate audit evidence and appropriate quality control procedures; [Terms of Reference – 2(l)]

Observations

In order to assess whether audits are supported by adequate plans and work papers, appropriate audit evidence and appropriate quality control procedures we selected a sample of performance audit files and ascertained whether VAGO's policies and procedures have been carried out.

The current policy and procedures of VAGO are as follows:

Audit Plans

Audit plans are developed for all VAGO's performance audits. The plan addresses the same matters included in the audit specification, but in greater detail and provides additional material. The plan should include:

- audit objectives;
- audit scope;
- audit methodology to be applied (in reasonable detail);
- budget (hours and dollars) and its constituent elements (e.g. staff, contractors);
- consultation arrangements with relevant organisations and stakeholders;
- timelines for the major milestones of the audit;
- resourcing for the audit (including in-house staff, temporary staff or contracted experts);
- quality management strategies, including the use of a reference committee (if proposed);
- risk management, covering the identification of risks, their likely impacts and proposed treatments.

The Victorian Assistant Auditor-General (Performance Audit) is responsible for approving audit plans. The engagement and team leaders are responsible for implementing the approved plan. Information in the plan is communicated to senior management of VAGO and the auditee so that there are no misunderstandings as to the work planned and the auditor's responsibilities.

Audit Work Papers

Audit documentation should be sufficiently complete and detailed to provide an understanding of the audit and should:

- outline the audit purpose and proposed process;
- record the work undertaken and the evidence gathered;
- support audit findings and conclusions; and
- facilitate the effective management of the audit.

Terms of Reference 2(l) (Cont'd)

Audit Evidence

The audit team must prepare and maintain documentation to:

- record the audit purpose and proposed process;
- provide a record of the work undertaken and the evidence gathered;
- support findings and conclusions; and
- aid in the conduct and supervision of the audit.

Documentation should be obtained electronically and stored in AmP . Hard copies should only be retained if they are relevant to the above items and where electronic or scanned versions cannot be feasibly obtained. (See PKF's Finding No 9 – Application of AmP, Section 2.2.2., Terms of Reference 2(b)).

Internal Clearance

The Victorian Assistant Auditor-General (Performance Audit) is closely involved in the development of the preliminary draft. Revisions required by the Victorian Assistant Auditor-General (Performance Audit) are made before the preliminary draft is signed off by the Victorian Assistant Auditor-General (Performance Audit), for forwarding to the Chief Operating Officer ("COO") and Victorian Auditor-General (concurrently) for review.

Comments on any contentious issues in the preliminary draft or other factors which may impact on the report and its tabling, are outlined in a memo attached to the preliminary draft forwarded to the COO and Victorian Auditor-General. The memo also outlines:

- the elapsed time of the audit
- actual expenditure to date against budget
- the date by which the preliminary draft is required to be returned to the team for formal issue.

The report is then amended as required by the COO and Victorian Auditor-General, returned to them for approval and issue.

Quality Control Procedures

VAGO's post-audit review mechanisms have been established to assess the outcome of individual audits, the level of compliance with Auditing and Assurance Standards Board ("AUASB") standards and procedures, as well as the overall quality of the VAGO's performance audit function. They include:

- surveys of client agencies (See Section 2.6 of this report, Terms of Reference 6);
- cold reviews by other audit offices and reviewers;
- reviews of reports by academics or Australasian Council of Auditors - General ("ACAG");
- team debriefs; and
- periodic performance audits of the VAGO (2007: Oakton; 2010: PKF).

Terms of Reference 2(l) (Cont'd)

FINDING / RECOMMENDATION 14: Performance Audit –Cold Reviews

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>(i) We noted from our review that the sample performance audit files selected for cold reviews performed by the Australasian Council of Auditors-General (“ACAG”) were not independently selected.</p> <p>The samples for cold review by ACAG were selected by VAGO’s Standards and Methodology unit.</p> <p>(ii) We noted that the checklist used by ACAG for cold reviews was prepared by VAGO.</p> <p>(iii) Although ACAG cold reviews are planned to be conducted annually there was no such review of the 2007/08 performance audit files.</p> <p>(iv) In the last 3-year period, no cold review was conducted on the “Justice Sector” of the Performance Audit Division.</p>	<p>Recommendations:</p> <p>(i), (ii): In order to further improve how cold reviews are conducted and further add value to cold reviews, we suggest sample files be selected by the ACAG reviewer rather than VAGO and that the checklist for the cold review be prepared by the ACAG reviewer.</p> <p>(iii), (iv): We are cognisant that ACAG cold reviews commenced from 2008.</p> <p>We acknowledge that the “Justice Sector” was previously part of another sector which was subject to audit.</p> <p>Notwithstanding this, we suggest that VAGO consider reminding staff that annual cold reviews on performance audit files be adhered to and that all sectors should be subject to a cold review every trimester.</p>	<p>Comment:</p> <p>Accepted.</p> <p>VAGO’s continuous improvement process adopts refinements in light of experience, business need and risk.</p> <p>Proposed Action(s):</p> <p>Responsible Person (Title):</p> <p>Anticipated Completion Date:</p>

2.2.13 Conduct a pricing review on VAGO's 2010-11 budget to determine adequacy of funding levels provided by Government. In so doing, ascertain whether the analysis and findings of separate independent pricing reviews undertaken by VAGO for its 2009-10 budget and the Department of Treasury and Finance for its 2010-11 budget can be reconciled in relation to the veracity of VAGO's budget pressures, the sources of those pressures, revenue sources and appropriate levels of fees and charges, efficiencies in VAGO's output deliveries and options for achieving efficiencies, productivity and possible savings in the future. Efficiencies will include any strategies to manage the future increased costs and the usual quantum of financial audits and performance audits; [Terms of Reference – 2(m)]

Observations

VAGO in consultation with Department of Treasury and Finance ("DTF") had contracted Thendara Green Pty Ltd to undertake a pricing review which was completed in October 2008. The review was conducted to provide an independent view of VAGO's funding requirements.

The Thendara review was conducted in the context of VAGO's reported deficit of \$1.9 million for 2007-08, which was a negative turnaround of \$2.9 million from the \$1 million surplus reported in the previous year. The report indicated that increase in expenses was greater than the increase in income due to large increases in contract auditors and salaries. The salaries cost pressure arose from competition with both private sector firms and the broader public sector for new graduates and senior staff.

DTF also commissioned BDO to perform a second review (VAGO Output Price Review) in November 2009. Consequent to the issue of this latter report, VAGO registered its concerns about the methodology used. The additional funding was subsequently received by VAGO.

Our review of the Thendara and BDO reports indicated that each report had used different methodologies and were subject to differing scope. Consequently, direct comparison could not be fully made in a number of areas (detailed within the table provided on the following pages).

PKF has provided the result of its comparison of the two reports of the following pages.

Terms of Reference 2(m) (Cont'd)

Table 28: Pricing Reviews - Thendara Report vs BDO Report

Topic	BDO Review Commissioned by the Department of Treasury and Finance	Thendara Review Commissioned by VAGO	Consistent with VAGO's internal review
Assessment of VAGO as a whole	VAGO: VAGO's purpose is to provide assurance to Parliament on the accountability and performance of the Victorian public sector. VAGO provides its services under two output groups:- 1) Output 1 - relates to the provision of Parliamentary reports and services (funded through the annual general appropriation) 2) Output 2 - relates to the conduct of attest audits and provision of audit reports on financial statements of public sector entities (VAGO charges the audited agencies for these services)	VAGO: VAGO delivers services in two output groups: 1) Output Group 1: Parliamentary Reports and Services 2) Output Group 2: Audit Reports on financial statements Within those output groups, VAGO delivers individual outputs (i.e.- financial audits of government authorities) and within individual outputs, individual pieces of work.	✓
	VAGO's Financial Results: In 2007/08, VAGO achieved a net result of \$1.9m deficit, a change of approximately \$2.9m from the previous year. Costs increased by 22.5% relative to 2006/07 whereas revenue only increased by 11.4%.	VAGO's Financial Results: VAGO reported a surplus every year from 1999/00 to 2006/07. In 2007/08, VAGO reported a deficit of \$1.9m. This represented a turnaround of \$2.9m from the \$1m surplus reported in the previous year.	✓
	Key Cost Drivers: VAGO's cost profile shows that approximately 80% of VAGO's costs relate to employees (approximately 50%) and contract audits (approximately 30%). The remaining 20% are other costs, of which key items relate to:- 1) Accommodation, which includes rent and utilities; 2) Information technology and information management; and 3) Human resource & recruitment, which includes professional development and staff training costs, and recruitment expenditure	Key Cost Drivers: The cost pressures VAGO faces include salary, contract audit costs and increased regulation. The largest cost pressure that VAGO faces is salary. VAGO faces particular threat in attracting new graduates. VAGO have responded to the pressures on salary by re-classifying many of the audit positions. VAGO faces constraints in increasing audit fees to cover increase in salary expenses.	✓
	Employee Costs: VAGO's employee costs increased by \$1.76m over the 2006/07 and 2008/09 period (12.4%). The increase is driven by changes in the following:- 1) Number of Full Time Equivalent (FTE) employees; 2) Resource Profile; 3) Salary Values; 4) Staff Turnover; and 5) Performance Incentive Payment.	Employee Costs: In 2005/06 and 2006/07, the actual salary expenses were significantly less (about \$1m in each year) than the budgeted salary expenses.	✓

Terms of Reference 2(m) (Cont'd)

Topic	BDO Review Commissioned by the Department of Treasury and Finance	Thendara Review Commissioned by VAGO	Consistent with VAGO's internal review
Output Group 1 - Parliamentary Reports & Services	Contract Audit Costs: Total contract audit costs have increased from \$7.3m in 2006/07 to \$11.2m in 2008/09 (53% increase).	Contract Audit Costs: Private firms perform substantial numbers of financial audits. These private firms are facing the same difficulty in attracting audit staff and their salary cost pressures lead to them charging VAGO increased fees.	✓
	Other Costs: The largest increase occurred in 2007/08, mostly in Consultant Fees (increase by \$ 680k - include fees for internal audit, external audit, legal and other indirect consultants) and Capital Asset Charge (increase by \$570k - due to an error. Funding was received for payment for this item through the annual appropriation, therefore this is a book entry only).	Other Costs: No coverage	X
	Cost Allocation Method: A driver of costs at the output group level is the cost allocation method. Direct costs of producing outputs are costed to the respective output group whereas indirect costs are allocated to each output group.	Methods Of Attributing Income And Expenses To Output Groups: In both external reports and internal budgets, VAGO attributes income and expenses to output groups, not outputs and not individual audits. VAGO calculates budgeted cost for each financial audit and calculates actual hours x expected costs for performance audits.	✓
	Other Changes In VAGO: 1)The new Auditor-General came into office in October 2006. 2) VAGO's organisational structure was revised and a new Senior Management Group was in place in 2006/07. 3) Key business units in VAGO are:- i) Performance Audit; ii) Financial Audit; iii) Corporate Services; iv) Auditor-General's Office ("AGO") and the Policy & Coordination Directorate ("PCD")	Other Changes In VAGO: VAGO has reclassified many of its audit positions, which has resulted in employees moving from the top of one grade to the bottom of the next grade.	✓
	Financial Result: Output Group 1 had a \$1.23m deficit in 2007/08. Costs in 2007/08 increased by 19.4%, significant outstripping the 7.9% increase in revenue. In 2008/09, the net result is a deficit of \$1.15m.	Financial Result: No coverage	X
	Output Performance:	Output Performance:	

Terms of Reference 2(m) (Cont'd)

Topic	BDO Review Commissioned by the Department of Treasury and Finance	Thendara Review Commissioned by VAGO	Consistent with VAGO's internal review
	Quantity: Total number of reports within Output Group 1 has increased from 2006/07 to 2007/08. This is driven largely by the increase in the number of Performance Audit reports as a result of VAGO changing its approach to tabling reports. Previously, performance audit reports were published in a compendium style format, audits are now published as a series of discrete reports to ensure reports are current at the time of tabling. This has a marginal impact on cost.	Quantity: No coverage	X
	Quality: Quality is measured by the level of external satisfaction with performance audits. This is measured by feedback received from audited agencies through surveys and interviews on three key areas i.e., audit process, audit reporting and the value of the audit to the agency. The level of external satisfaction with Output Group 1 increased marginally over the years from a score of 71 to 72.	Quality: No coverage	X
	Timeliness: Timeliness is measured based on two criteria:- 1) Response to inquiries from Parliament and the public; and 2) Reports completed on time.	Timeliness: No coverage	X
	Costs And Cost Drivers: Costs for Output Group 1 have been rising at an increasing rate since 2004/05. The most significant increase in costs of Output Group 1 occurred in 2007/08 - an increase of approximately \$2.26m (or 19.4%) from the previous year, bringing total costs to \$13.9m in 2007/08. Costs remained above \$13m in 2008/09. Key cost drivers discussed above similarly applies to Output Group 1.	Costs And Cost Drivers: No coverage	X
	Contract Audit Costs: The general trend has been an increase of contract audit costs, exceeding budget, with the exception being 2006/07, where actual contract audit costs for Output Group 1 was substantially lower compared to prior years and subsequent years.	Contract Audit Costs: No coverage	X

Terms of Reference 2(m) (Cont'd)

Topic	BDO Review Commissioned by the Department of Treasury and Finance	Thendara Review Commissioned by VAGO	Consistent with VAGO's internal review
Output Group 2 Output Group 2- Audit Reports On Financial Statements	Resource Mix: A typical performance audit engagement involves a senior staff member (50% effort) and junior staff member (40% effort) on a full time basis, with some oversight by a Director (10% effort). This would imply a structure or resource profile that would be slightly biased towards senior level staff.	Contract Audit Costs: No coverage	X
	Unplanned Staff Departure: Unplanned staff departure has been cited as having a significant impact on output costs. In 2008/09, there were 15 (33% of FTE) departures from the Performance Audit business unit and 16 (23% of FTE) departures from the Financial Audit business unit.	Contract Audit Costs: No coverage	X
	Financial Result: Direct costs of Output Group 2 are recoverable through charging of fees to the audited agencies. Over the 2004/05 to 2006/07 period, Output Group 2 generated surpluses, the largest surplus being in 2006/07 (\$917k). The deficit of \$539k in the 2007/08 and \$260k in 2008/09 are due to some overhead expenses not being recovered. The 2008/09 annual report stated a 98% cost recovery (100% in all other years). Enquired about the reason for not achieving 100% cost recovery and were informed that this was incorrectly stated in the annual report.	Financial Result: No coverage	X
	Output Performance: Quantity: Quantity of Output Group 2 varies according to the number of entities in the Victorian public sector. Total audit opinions issued on non-financial performance indicators increased from 94 in 2005/06 to 114 in 2007/08 and remained constant since then. The number of audit opinions issued on financial statements of agencies has declined in 2008/09.	Output Performance: Quantity: No coverage	X

Terms of Reference 2(m) (Cont'd)

Topic	BDO Review Commissioned by the Department of Treasury and Finance	Thendara Review Commissioned by VAGO	Consistent with VAGO's internal review
	Quality: Quality is measured by the level of external satisfaction with financial audits. This is measured by feedback received from audited agencies through surveys and interviews on three key areas i.e., audit process, audit reporting and the value of the audit to the agency. The overall level of external satisfaction with Output Group 2 has improved over the years from a score of 72 to 76.	Quality: No coverage	X
	Timeliness: Timeliness of issuing audit opinions within statutory timeframes varies between 96% to 99%. This has been consistent at 98% in the two most recent financial years, achieving the set target.	Timeliness: No coverage	X
	Cost And Cost Drivers: Similar to Output Group 1, costs of Output Group 2 have been increasing over the period with the most significant increase occurring in 2007/08 (approximately \$3.67m or 23.8% relative to 2006/07). Key cost drivers discussed above similarly applies to Output Group 2.	Cost And Cost Drivers: No coverage	X
	Contract Audit Costs: For Output Group 2, contract audit costs have increased by \$2.8m between 2006/07 and 2008/09 (40% increase).	Contract Audit Costs: No coverage	X
Funding	Output Funding: The annual appropriation for Output Group 1 has increased by 6.9% over the two year period (2006/07 to 2008/09).	Output Funding: No coverage	X
	Trends In Key Cost Categories: VPS rate increase and CPI increases has price impacts beyond VAGO's control. In order for VAGO to be able maintain its operations, cost items subject to price increases beyond its control should be funded through increased appropriation. The 6.9% increase in appropriation for the two year period sufficiently covers for increases from both the VPS rate increase (6.1%) and CPI increases (6.4%) and would also adequately fund for the increase in rent, which is only 5% of VAGO's total cost base.	Trends In Key Cost Categories: No coverage	X

Terms of Reference 2(m) (Cont'd)

Topic	BDO Review Commissioned by the Department of Treasury and Finance	Thendara Review Commissioned by VAGO	Consistent with VAGO's internal review	
Efficiency and Benchmarking	Productive Hours & Average Cost Per Hour: VAGO's staff chargeable or productive hours have remained at a relatively consistent level throughout the 2006/07 to 2008/09 period. A comparison by output groups show that chargeable hours to Output Group 1 is increasing and chargeable hours to Output Group 2 is declining. This appears consistent with the trend of increasing number of reports being produced in Output Group 1.	The Quantum Of VAGO's Charge Out Rates: This section compares VAGO's charge out rates in four ways:- 1) Increases in VAGO's charge out rates compared with inflation; 2) Increases in VAGO's charge out rates compared with increases in VPS salary rates; 3) VAGO's charge out rates as a function of VPS salary rates; 4) Charge out rates of the Queensland Audit Office.	✓	
	Although total staff chargeable hours have remained at a consistent level, costs have increased substantially. Overall, cost per chargeable hour has increased from \$135 per hour to \$150 per hour. This cost excludes contract audit costs and includes overhead expenses. This implies that, on the whole, VAGO has become more costly in producing the same number of productive hours.			
	Staff Productivity: BDO have calculated VAGO's staff productivity based on chargeable hours as a percentage of available hours (total hours excluding leave) for 2004/05 to 2008/09 actual and 2009/10 target. VAGO's staff productivity across all staff declined in 2006/07 to below 60% and has remained at that level throughout the period reviewed. A comparison of staff productivity between the Audit Office of NSW and VAGO shows that VAGO has a lower staff productivity compared to the Audit Office of NSW for the 2008/09 financial year. When a comparison was done between the two key business units, it was found that the staff productivity of the Performance Audit Business Unit increased from 54% in 2006/07 to close to 62% in 2008/09. Productivity of the Financial Audit Business Unit remained at 62% throughout the period.	No coverage	X	

Terms of Reference 2(m) (Cont'd)

Topic	BDO Review Commissioned by the Department of Treasury and Finance	Thendara Review Commissioned by VAGO	Consistent with VAGO's internal review
	Staff Turnover: Staff turnover has increased substantially over the last few years, specifically in 2007/08, where turnover was 27%. A comparison of staff turnover against the Audit Office of NSW reveals that VAGO's staff turnover has been consistently higher than turnover in the Audit Office of NSW.	No coverage	X
	Average Staff Training Days: We also compared average staff training day per employee between the two offices over the 2004/05 and 2008/09 period and found that this has declined for VAGO in the last financial year, whereas the opposite is true for the Audit Office of NSW.	No coverage	X
Setting Charge Out Rates	No coverage	VAGO's charge out rates are not calculated, but are set iteratively so as to set total budgeted income to equal total budgeted expenses. For 2008/09, they were set such that Output Group 2 would break even and Output Group 1 is left with a budgeted deficit of \$2.1m. The current method of setting charge out rates effectively spreads all indirect costs across direct hours as a proportion of direct labour hours.	X
Using Charge Out Rates	No coverage	VAGO uses its charge out rates for 4 purposes:- 1) To report the cost to Government of individual performance audits after the audit is completed; 2) To establish a price to charge clients for financial audits before the audit commences; 3) To track progress in delivering outputs against budget during the year; 4) To calculate Work In Progress as at 30 June, so as to identify the financial audit fees payable to Government and the corresponding appropriation.	X
Cost of Parliamentary Outputs	No coverage	VAGO uses two methods of attributing costs and has not documented its methods of attributing income and expenses to output groups.	X

Terms of Reference 2(m) (Cont'd)

Topic	BDO Review Commissioned by the Department of Treasury and Finance	Thendara Review Commissioned by VAGO	Consistent with VAGO's internal review
Cost of Individual Audits	No coverage	VAGO attributes costs to individual audits and other activities by using the broad principle of; identifying the direct costs by element, identifying the indirect costs and spreading the indirect costs over each element.	X
Prices for Individual Audits	No coverage	VAGO sets prices for financial audits before the audit takes place. VAGO predicts the number of hours and grades of people required to do an audit. It multiplies this by the relevant charge out rates. To this, it adds the cost of any external audit service provider. For its internal management purposes, VAGO constructs a budget for each performance audit before work on the audit commences. VAGO sets prices for performance audits after the audit is completed.	X
VAGO's Sustainability	No coverage	Expected Level and Quantity of Outputs:	X
		There is a fundamental tension between the economic models of Output Group 1 and Output Group 2. This is because the nature of the work in VAGO's two output groups is quite different.	
	Cost Pressures	Cost Pressures:	✓
	BDO have provided a distinction between internal and external factors influencing VAGO's cost pressures. The factors beyond VAGO's control are the VPS rate increases for employee costs, the rate/fee increases for external service providers and volume impact on required effort where this is determined by standards and legislation, and general goods and services that are assumed to increase in line with CPI, with the exception of rent where increases are determined by the terms of the lease.	The largest cost pressure facing VAGO is for salaries.	
	No coverage	Cost of Performance Audits:	X
	Orima research found that the average cost of a performance audit at VAGO was \$385,945 in 2006-07. By comparison, the average for the Audit - Office of NSW was \$258,147.		

Source: Thendara Report, October 2008; BDO Report, November 2009

We have not identified any recommendations relating to this area.

2.3 Review the efficiency and effectiveness of the management and conduct of performance audits (both broad scope and limited scope) undertaken by the Victorian Auditor-General's Office [Terms of Reference 3]:

2.3.1 The adequacy and effectiveness of measures taken by VAGO since the previous performance audit of VAGO in 2007 to address specific areas contained in the significant finding that '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'. [Terms of Reference – 3(a)]

Observations

In order to address whether performance audits are conducted efficiently and effectively, the 2007 performance audit included a recommendation to VAGO to establish a performance measure on relative "acceptance" of its audit recommendations by auditees. This was in addition to the existing performance measures such as "Cost vs Budget", "Elapsed Time" and "Quality – Agency Satisfaction". This recommendation has been adopted by VAGO in their Senior Management Group monthly reporting pack since October 2009.

The following procedures are used by VAGO to address the key areas for improvement identified by VAGO at the time of the previous performance audit specifically relating to the planning and conduct of performance audits:

Scope

The scope of a performance audit is determined in the planning phase. During the planning phase, the following checks are maintained in the audit work papers in *Audit Method-Performance* ("AmP") database:

- › All team members sign independence declarations(See Finding 9, Section 2.2.2, Terms of Reference 2(b));
- › The Victorian Auditor-General approves the Performance audit topic;
- › The Victorian Auditor-General appoints a Reference Committee;
- › Senior management reviews and approves the audit specification – objectives, audit scope and criteria;
- › Senior management approves the audit budget;
- › Senior management approves audit timelines and milestones;
- › Senior management approves specialist resources for the audit;
- › Engagement Leader and Quality Control Reviewer review compliance with VAGO policy and guidance at each milestone date; and
- › Report editor reviews audit specification.

Terms of Reference 3(a) (Cont'd)

We have selected a random sample of five performance audits and considered the hours incurred for each during the planning phase, during which scoping is performed:

Table 29: Selected Performance Audits

Performance Audits	Year	Scope	Planning -Actual		Total Audit		% of Planning Cost to Total Published Cost
			Hours (Units)	Cost (\$)	Hours (Units)	Published Cost (\$)	
Literacy and Numeracy Achievement	2008/09	Limited	490.7	70,546	1,750	325,000	21.7%
Records Management in the Victorian Public Sector	2007/08	Broad	6.1	1,076	1,694	388,000	0.3%
Buy-back of the Regional Intrastate Rail Network	2008/09	Limited	178.1	28,800	2,258	455,000	63.3%
Administration of the Victorian Certificate of Education	2009/10	Limited	758.2	113,885	1,424	290,000	39.3%
Irrigation Efficiency Programs	2009/10	Broad	704.2	145,293	1,204	375,000	38.7%

Source: Project Detail Reports, MARS

The diversity of performance audits means that direct comparison cannot be made for “% of Planning Cost to Total Published Cost”. The table above provides an idea of the extent of the different levels of planning required for each assignment. However, further analysis in Section 2.2.6 (Terms of Reference 2(f)) suggests that the Planning phase included time for training of staff– see Finding 13: Time Costs for Performance Audit.

Definition of Assessment Criteria

VAGO maintains a Project Risk Register for each performance audit. The Project Risk Register details risks that could impact the job assignment for each phase, i.e. Audit Planning, Quality Assurance, SMG Approval and Audit Oversight, Audit Team Resourcing/ Management, Audit Approach / Methodology, Stakeholder Engagement and Audit Reporting. The assessment process is in line with the Australian / New Zealand Standard AS/NZS 4360: 1999 “Risk Management” and has been incorporated into VAGO’s Risk Management Guidelines.

Terms of Reference 3(a) (Cont'd)

The determination of the risk level is based on the following table:

Table 30: Determination of Risk Level

Consequence	Insignificant	Minor	Moderate	Major	Severe
Likelihood					
Remote	Negligible	Negligible	Low	Low	Medium
Unlikely	Negligible	Negligible	Low	Medium	Medium
Possible	Low	Low	Low	Medium	High
Likely	Low	Medium	Medium	High	High
Almost Certain	Low	Medium	High	High	Extreme

Source: VAGO Risk Management Guidelines

Treatment strategies are then developed for those risks rated as “Medium” or above. The Likelihood criteria is defined as follows:

Table 31: Likelihood Criteria

Scale	Criteria to establish rating
Remote	The event is likely to occur only in highly exceptional circumstances that are unlikely to exist in any planning period. “Once in a lifetime” event.
Unlikely	The event is not expected to occur in the planning period. A small, but remote chance of occurrence due to circumstances/situations that could arise.
Possible	The event could occur at some time. Could occur at least once but not expected to occur more than this in the planning period.
Likely	The event will probably occur in most circumstances. Likely to occur more than once in the planning period, but would not be an “everyday” occurrence. Preconditions will arise at times throughout the period.
Almost Certain	The event is expected to occur in most circumstances. Circumstances or situations are likely to arise often throughout the planning / project period in which provide the opportunity for crystallisation of risk

Source: VAGO Risk Management Guidelines

Terms of Reference 3(a) (Cont'd)

The Risk Consequence is then determined based on the following:

Table 32: Risk Consequence Criteria

Scale	Criteria to be used to establish rating							
	"Assets" subject to harm/loss					Other Impact Areas		
Descriptor	Employees	Physical	Financial	Information	Reputation	Outputs	Costs	Stakeholders
Severe – Threaten survival of office	Death of an employee or serious injury to a significant proportion of employees	Destruction/ loss or permanent impairment of majority of own assets and/or its administered assets.	Total loss or permanent diminution in value of financial assets (cash, investments).	Total loss/corruption of all information resources.	National public outrage/ condemnation and high level political criticism. Judicial inquiry. Breach of legislation.	Failure to deliver all or most outputs. Permanent loss of service capacity.	Additional costs of foregone revenue in excess of \$10M.	Death of a person. Financial loss and damages in excess of \$10M.
Major- Threaten major programs of Office.	Serious injury to some employees Widespread staff dissatisfaction, staff morale seriously impaired. Loss of large proportion of employees.	Destruction or loss of major cultural or heritage asset. Destruction/ loss of a large proportion of assets.	Loss of a significant proportion / significant diminution in value of financial assets.	Loss/ irrecoverable corruption of critical information resources, including heritage and "unique" holdings.	Local / public outrage / condemnation and local political criticism. Parliamentary inquiry. Breach of Regulations.	Failure to deliver some outputs, significant under achievement in other output targets. Loss of service capacity in excess of 1 month.	Additional costs incurred / revenue foregone in excess of \$1M.	Serious injury to member of public / VIP/ official. Financial losses and damages in excess of \$1 M.
Moderate – Threaten major programs /some minor programs.	No physical harm to some employees. Widespread poor staff morale and negative attitude toward organisation, management. Departure of key staff.	Damage to, or other impairment of, a significant proportion of assets.	Loss of financial assets. Temporary diminution in value of significant proportion of financial assets.	Corruption of critical information resources.	Criticism from significant segment of community. Parliamentary Committee questions.	Material (>5%) under achievement of targets for most outputs. Loss of service capacity for up to one month.	Additional costs incurred / revenue foregone in excess of \$100,000.	Minor injury to member of public / VIP / Official. Financial losses and damages in excess of \$100,000.
Minor- Impact on efficiency and effectiveness of programs	Poor staff morale and negative attitude toward segments of the organisation / management from segment of employees.	Damages to or other impairment of a small proportion of assets.	Temporary diminution in value of small proportion of financial assets.	Corruption of routine "administrative" information.	Criticism from minor community segment. Adverse press coverage.	Up to 5% under achievement on targets for one output. Loss of service capacity up to one week.	Additional costs incurred / revenue foregone in excess of \$10,000.	Minor injury to member of public. Financial losses and damages in excess of \$10,000.
Insignificant – No discernable impact.	A small number of disgruntled staff.	Loss of / reparable damage to small number of assets.	No material effect on value of financial assets.	Loss or impairment of small amount of "administrative" information.	Internal dissent/ criticism.	Less than 1% variance in achievement of output targets. Loss of service capacity of up to one day.	Additional costs incurred / revenue foregone up to \$10,000.	No identifiable impact.

Source: VAGO Risk Management Guidelines

Terms of Reference 3(a) (Cont'd)

Control of Cost and Timelines

Performance audit assignments are monitored against budgets and are reported to the Senior Management Group ("SMG") on a monthly basis. Each project is monitored for each phase of the audit, i.e. planning, conduct and reporting stage. In addition, productivity of each staff is monitored on a monthly basis with further reviews for each staff's Performance Development Plan ("PDP").

Management of Communications with Agencies

The Victorian Auditor-General meets with the Heads of Agencies or Departments on a regular basis, i.e. once every six months to improve VAGO's relationship with the auditees. We have sighted the timetable for meetings between the Victorian Auditor-General and the relevant Heads of Agencies and Departments.

Also, auditees are briefed on the progress of the audit and potential findings through each stage of the performance audit, i.e. 25%, 50% and 75% completion stages. We have also sighted sample audit files and ascertained that issues papers are discussed with auditees. Auditees are therefore made aware of findings and recommendations through each stage of the audit.

We have not identified any recommendations relating to this area.

2.3.2 The extent to which the selection criteria for performance audits ensures key risk areas and major programs within the public sector receive adequate coverage. *[Terms of Reference – 3(b)]*

Observations

This Section has been reviewed together with Section 2 (Terms of Reference 1) and Section 2.2.5, (Terms of Reference 2(e)) above.

The Annual Plan cycle: identifies and analyses public sector programs and initiatives with reference to Growing Victoria Together and other factors; identifies potential areas of audit focus; assesses risk and materiality to prioritise prospective audit topics; determines areas of performance audit focus (audit topics) for the Annual Plan and multi-year strategy. This process is undertaken in consultation with the PAEC, peak industry and sector bodies, portfolio department and other agencies.

The 2010-11 Annual Plan envisages a continuation of the process that ensures performance audit coverage across all Growing Victoria Together areas for the next four years, as has been the case for the last three years/

We are satisfied that there is a balanced approach to ensuring appropriate coverage of major programs and have not identified any recommendations relating to this area.

2.3.3 The adequacy of the rationale supporting the selection of potential performance audit topics;
[Terms of Reference – 3(c)]

Observations

This Section has been reviewed together with Section 2 (Terms of Reference 1) and Section 2.2.5, (Terms of Reference 2(e)) above.

All proposed topics and topics excluded or deferred, are supported by clear rationales consistent with VAGO's planning framework and, where appropriate, are adjusted to take account of relevant external factors outside VAGO's direct control.

In addition to the application of the framework, a number of other factors impinge on which topics are ultimately selected as proposed topics:

- ▶ input from PAEC and recommendations for audit coverage arising from parliamentary reviews and inquiries;
- ▶ requests for audits from correspondence;
- ▶ input from departments;
- ▶ the work of other oversight bodies (e.g. Ombudsman Victoria, Office of Police Integrity, State Services Authority) to minimise or avoid duplication of effort;
- ▶ the existence of timing of other reviews of proposed activities, and of proposed policy and legislative changes;
- ▶ external events (e.g. Bushfire Royal Commission leading to deferral of audits of emergency communications and volunteering strategies).

The final list of proposed topics reflects consideration of all these factors.

We have not identified any recommendations relating to this area.

2.3.4 The effectiveness of the planning and management of performance audits;
[Terms of Reference – 3(d)]

Observations

This Section has been reviewed together with Section 2.2.2 (Terms of Reference 2(b)) above.

We have not identified any recommendations relating to this area.

2.3.5 The adequacy of the investigative process and quality control procedures to support conclusions arising from the performance audits; *[Terms of Reference – 3(e)]*

Observations

This Section has been reviewed together with Section 2.2.12 (Terms of Reference 2(l)) above.

We have not identified any recommendations relating to this area.

2.3.6 Whether significant issues that arise during the course of a performance audit that were not identified in audit plans are adequately and effectively considered in a timely manner and addressed; [Terms of Reference – 3(f)]

Observations

The regular internal VAGO briefings process for all audits provides opportunities to consider any other issues that are outside the audit scope and objectives, and how these will be dealt with. Actions taken can include; vary audit scope and report issue, identify new audit topic, and prepare a 'management' letter. The latter two will feed into the Annual Planning process.

Where significant issues were identified either through the course of performance audits or through the specific identification of issues highlighted by Members of Parliament or the public, the relevant sector team in the Performance Audit Division may, together with Policy and Coordination Directorate, perform a risk assessment of the matter.

Significant issues are considered and if appropriate an audit of the related area(s) is considered for inclusion in the current or future year's Annual Plans.

The Audit Act also provides direction for matters arising during an audit warranting urgent investigation to be referred to other bodies such as the police, e.g. the Tendering and Contracting in Local Government report was provided to the Local Government Investigation and Compliance Inspectorate for attention in accordance with *Section 16F(1)* of the *Audit Act*.

We have not identified any recommendations relating to this area.

Terms of Reference 3(g) (Cont'd)

2.3.7 Confidentiality of audit processes (e.g. in terms of information leaks);
[Terms of Reference – 3(g)]

Observations

Employees of VAGO are bound by Section 12(2) and Section 20A of the *Audit Act 1994* with regards to “Access to Information” and “Improper Use of Information” respectively.

Section 12(2), Audit Act 1994:

The Auditor-General or any other person must not divulge or communicate, except in the course of duty to another person performing duties under this Act, any information which has come to his or her knowledge by reason directly or indirectly of subsection (1) if the person from whom that information was obtained could not, but for that subsection, lawfully have divulged that information to the Auditor-General or other person.

Section 20A, Audit Act 1994:

- (1) A person who is, or has been—
- (a) the Auditor-General; or
 - (b) an officer or employee of the Victorian Auditor-General's Office; or
 - (c) a person engaged under section 7F to assist the Auditor-General; or
 - (d) an officer or employee of a person or firm, or a partner of a firm, engaged under section 7F to assist the Auditor-General; or
 - (e) a person to whom functions or powers have been delegated under section 7G—
- must not make improper use of, or, except when carrying out functions under this Act, divulge or communicate, any information acquired during the course of, or as a result of, carrying out those functions.*
- (2) A person who receives a proposed report, or part of a proposed report, of the Auditor-General under this Act must not disclose any information contained in it except—
- (a) in the course of performing the person's official duties; or
 - (b) after the information has been made public in a report by the Auditor-General.
- (3) A person to whom information is given under section 16F must not disclose it except—
- (a) in the course of performing the person's official duties; or
 - (b) after the information has been made public in a report by the Auditor-General.

We reviewed the processes of VAGO governing confidentiality of information for audit processes. VAGO's employees are required to sign a statement, agreeing to VAGO's Code of Conduct as part of the induction process. VAGO uses the Code of Conduct for Victorian Public Sector Employees of Special Bodies (No.1) 2007 issued by the Public Sector Standards Commissioner.

Code of Conduct for Victorian Public Sector Employees of Special Bodies (No.1) 2007:**6.2 privacy and confidentiality**

Public sector employees of special bodies understand the importance of privacy and confidentiality. Confidential information requires special treatment and protection. Those people who provide confidential information to public sector demonstrating Respect code of conduct for Victorian public sector employees of special bodies employees of special bodies have the right to expect this information will be treated as confidential. Public sector employees of special bodies with access to confidential information ensure it remains confidential, and at all times act in accordance with legislation and policies relating to dealing with private information.

6.3 maintaining confidentiality

Public sector employees of special bodies receive and manage information in such a manner that its confidentiality will be maintained and that it will not be used to advantage a prospective employer or business, or disadvantage the public sector special body.

Terms of Reference 3(g) (Cont'd)

Records Management Policy (updated 26 August 2009)

The purpose of this policy is to document responsibility for the creation, capture, management and control of its operational and administrative records within the corporate Records Management System (TRIM).

This policy includes relevant sections on Classification of VAGO records. VAGO files are created and classified into categories based on business activities or functions. VAGO records classified as 'Highly Protected' may only be accessed by those staff who have the appropriate authority and all file storage areas must be secured at the end of each day.

Conduct of Audits and Database Management

Training and guidance material is provided to staff in order to maintain the confidentiality and safe custody of working papers. The guidance material is provided in the AmP Policy and Guidance database: G3.2 Nature and Purpose of Audit Documentation and G3.2.1 Documenting the audit in AmP.

These documents have been developed in accordance with the VAGO's disclosure policy (on the intranet) and the Auditing Standards ASA 230 (.A23 & .9) Audit Documentation, (www.auasb.gov.au).

Reports Register

VAGO maintains a Reports Register which tracks the dissemination of preliminary drafts and proposed reports to agencies. All copies are watermarked with a code that allows tracking of copies to specific persons. Thus inappropriate dissemination of documents can be linked back to the original source.

Clear Desk Policy (Updated 17 November 2009)

The purpose of this policy is to minimise the risks of unauthorised exposure of sensitive data in the workplace. It sets out specific requirements for VAGO staff to follow in relation to sensitive data.

Other confidentiality procedures in place at VAGO

- A Lotus Notes Security Incidents database/register is kept;
- VAGO's file server is setup so that confidentiality of information is maintained;
- The restriction functionality is used within the TRIM Record Management System to restrict access to confidential information and classification procedures in TRIM include "highly protected" documentation;
- Staff are made aware of confidentiality requirements via intranet policies and guidance and induction training and various guidance in audit methodologies. Training is conducted when new systems/software is introduced.
- Security passes and policies regarding entry into the Office.

We note that an unauthorised release of confidential information relating to the MyKi audit occurred in 2008. This unauthorised release of information was thought to have been initiated by a disaffected staff member and was referred to Victoria Police whose investigation failed to find sufficient evidence to support a criminal charge.

2.3.8 The impact of undertaking a considerable number of performance audit reports on sustaining staff motivation and whether 'in-house' benefits of gaining an in-depth knowledge on a subject area and related issues have been sustained; [Terms of Reference – 3(h)]

Observations

This Section has been reviewed together with Section 2.2.7, (Terms of Reference 2(g)) above.

The number of performance audits undertaken each year has not changed substantively when compared to the situation before the cessation of special reviews. Previously the results of a number of audits were included into one report. Current practice is to typically issue a separate report for each audit.

Resource planning, undertaken before each year, establishes that there are sufficient resources overall to deliver the annual plan.

Allocating VAGO staff to industry sector groups of around eight staff each, has created stability and certainty for staff in terms of the audits they will be working on, allowing them to foster team work, share resources within the team, and to gain better understanding of the industry sector.

A rotation policy consistent with professional standards operates so that staff do not become too familiar with a client.

We have not identified any recommendations relating to this area.

2.3.9 Flowing from point (h), any instances of pressures from adherence to time and cost budgets significantly curtailing planned audit activity and impacting on the depth of issues reported to Parliament; [Terms of Reference – 3(i)]

Observations

This Section has been reviewed together with Section 2.2.7, (Terms of Reference 2(g)) above.

When audit objectives and scope are approved the VAGO audit team must prepare an audit plan demonstrating how they will address each objective. This is approved by the Assistant Auditor-General for Performance Audit. Quality control processes (Refer also Section 2.2.12, Terms of Reference 2(l)) apply to check that all necessary work has been completed as planned and sufficient appropriate evidence obtained.

Any decisions to modify audit scope or curtail an audit are taken only as part of the briefing process to the Auditor-General/Chief Operating Officer which occurs regularly throughout audits.

During our review, we did not identify any instances where audit scopes were curtailed due to time and budget pressures.

We have not identified any recommendations relating to this area.

2.3.10 Compliance with statutory requirements for the conduct and reporting of performance audits;
[Terms of Reference – 3(j)]

Observations

This Section has been reviewed together with Section 2.2.2, (Terms of Reference 2(b)) above.

VAGO complies with the Audit Act 1994 including the following sections:

- ▶ PAEC and relevant authorities are consulted on audit specifications (S15(2));
- ▶ proposed reports are provided to department heads (S16(3));
- ▶ include submission / comments or agreed summary in the report (S16(4));
- ▶ reports do not question the merits of policy (S16(5)); and
- ▶ requirements regarding the transmission of reports to Parliament (S16AB).

The ASAEs (e.g. 3500) have replaced AUS 806 for audits starting after 1 January 2009, and require an audit opinion, but do not specify the form of the opinion.

VAGO now includes an overall conclusion in the audit summary against the audit objectives, to complement the specific conclusions in each detailed chapter relating to sub-objectives/audit criteria, to comply with this requirement.

We have not identified any recommendations relating to this area.

2.3.11 The appropriateness of the mix between specialist expertise, contractors and suitably qualified in-house staff in undertaking particular performance audits; [*Terms of Reference – 3(k)*]

Observations

Planning

VAGO's audit teams collectively are required to have appropriate capabilities, competence and time to perform audits. In some cases audits may require the use of specialist expertise. Policy and guidance, consistent with auditing standards, require the Engagement Leader and the Team Leader to assess the need for expertise at the inception of the audit to assist with planning, or for later conduct or reporting.

Consultants will be engaged where VAGO does not have the requisite level of subject matter expertise, or a particular skill set is lacking. These situations relate to capability issues, and are distinguished from using short-term contractors to augment the capacity of the audit team.

For various performance audits, external assessors are used to test the veracity of VAGO conclusions.

Use of specialist expertise

More than \$1 million (approximately 10-12% of direct costs) is incurred each year to engage experts on particular performance audits requiring specialist expertise and additional audit capacity.

Our review of the surveys completed by VAGO (of Parliamentarians) suggests general satisfaction with VAGO and most aspects of VAGO's reports and services. However our review of VAGO's client surveys (which was conducted by Orima Research on behalf of VAGO), provided a mixed response – see Section 2.2.1, Terms of Reference 2(a) above. Client surveys indicated that the overall performance index for Financial Audits declined fractionally whilst the overall performance index for Performance Audits and process, report and value indices continued on a downward trend.

Terms of Reference 3(k) (Cont'd)

Resource Allocation

A centralised annual resource plan is prepared to identify total skill and mix requirements for each group and across VAGO as a whole. Finance has overall responsibility for compilation of the resource. Details of the resource plan are entered into MARS as a basis to monitor actual work undertaken during the year against the planned resource hours and costs.

Performance and Financial Audit Divisions use the Roles & Capability document as a guideline for allocating resources. Financial Audit uses software ("RETAIN") to allocate its resources across the large number of audit projects under its responsibility. Performance audit uses MS Excel for allocating resources on a project by project basis.

A new Human Resource system is in the process of being implemented, which will facilitate links between resource allocation for assignments, performance development as well as training requirements.

Qualifications and Experience of In-house Performance Audit Staff

Our assessment of qualifications and experience of in-house performance audit staff were as follows:

Table 33: Qualifications and Experience of Performance Audit Staff

Grade of Performance Audit Staff	Number of Staff (Physical Number) ¹	Years in VAGO (Minimum to Maximum)	Total Work Experience (Years) (Minimum to Maximum)	Qualifications ²	Number of Professionally Qualified Accountants/Auditors
Executive Officers (EO3's to Victorian Assistant Auditor-General, Performance Audit)	10	< 1 to 37	19 to 37	Bachelor to Master degrees.	1 CA; 1 CPA
Senior Managers	9	< 1 to 26	5 to 34	Bachelor to Masters degrees	3 CPA; 1 CIMA
Managers (Grades 5.2 to 6.1)	9	< 1 to 9	n.a. to 19	Bachelor to PhD's	None
Team Leaders (Grades A3.1 to A5.1)	24	< 1 to 10	< 1 to 28	Bachelor to Masters degrees	None

Source: Resume information provided by VAGO; **n.a.**: some staff details could not be provided by VAGO as at time of this report; **1**: Includes secondees; **2**: 43% have Masters degrees or higher, and 43% have degrees in more than one discipline. The range of subject knowledge is broad covering Economics, Commerce, Arts, Health, Science, Law, etc. Many staff also have related professional memberships.

We have not identified any recommendations relating to this area.

2.3.12 The appropriateness of criteria against which the efficiency and effectiveness of performance audits conducted by the Office are measured; *[Terms of Reference – 3(l)]*

Observations

This Section has been covered by the review for Section 2.2.1, Terms of Reference 2(a) above.

There are no recommendations noted from this area of our work.

2.3.13 Assess, through the gathering of relevant evidential materials, the veracity of comments formally communicated to the Committee during the Audit Act Inquiry by the Department of Treasury and Finance that, 'recent audit practice has shown that the focus of audit reports has been on matters of compliance...(rather than) on matters of performance';
[Terms of Reference – 3(m)]

Observations

Through discussions with staff of VAGO and review of VAGO's notes and selected performance audit files, it was noted that VAGO's audit objectives and reported findings have focused predominantly on whether outcomes have been achieved (effectiveness).

In order to achieve the objective(s) of performance audits, consideration of auditees' compliance with internal control policies and procedures has been considered. This is to gauge auditees' ability to efficiently and effectively carry out their operations, their capability to meet regulatory requirements and their ability to reliably deliver reporting information.

In addition, in assessing the maturity level of the auditee organisations' internal controls, VAGO ascertained whether inherent risks of the auditee organisation have been adequately addressed. Subsequent to consideration of internal controls, residual risks were assessed for whether they have been adequately managed within the risk appetite of the auditee organisation. Consideration of compliance with internal controls may be an essential component of performance audits.

There are no recommendations noted from this area of our work.

2.4 Review the efficiency and effectiveness of the management and conduct of financial audits undertaken by the Victorian Auditor-General's Office [Terms of Reference 4]:

2.4.1 Initiatives taken by VAGO to expand the reporting to Parliament of financial audit issues [Terms of Reference – 4(a)]

Observations

In 2008-09 VAGO underwent an expansion of their reporting to Parliament with the roll out of financial audit issues by separating key financial audits and issues into six sector reports. We reviewed the Annual Financial Reports from 2006-07 through to 2008-09 to assess the relevance and effectiveness of the information presented in the Annual Financial Reports (AFR).

In the past key financial issues were presented in a single omnibus report where all sector specific information was collated and presented. Discussions with management highlighted that since the release of the sector reports there have been three key changes to the presentation of information:

- ▶ Reporting structure- adopting a sector based reporting regime;
- ▶ Scope of sector reviews- reports were previously prepared based on areas of focus; and
- ▶ Reflect the objectives of the annual plan- previously special reviews were prepared.

The first of the sector reports was released in November 2008 being a separate report for local government results for the 2007-08 financial year end audits. The remainder of the 2007-08 reports were tabled in two omnibus reports “Results of Audits for entities with 30 June 2008 balance dates” and “Results of Audits for Entities with other than 30 June 2008 balance dates”.

The full set of sector reports released in 2008-09 was positively received as a result of parliamentary surveys conducted in October 2009 which noted 92% of parliamentarians indicated that they were satisfied with the reports presented to Parliament.

Our review of the six sector reports released in 2008-09, covered sector specific results of the annual financial audits which cover common control weaknesses, trends noted across the sector and current issues affecting the entity.

There are no recommendations noted from this area of our work.

2.4.2 The extent to which the selection criteria for financial audits ensure key risk areas entailed with an entity's financial operations are addressed and the appropriateness of the criteria
[Terms of Reference – 4(b)]

Observations

At the commencement of each financial audit VAGO requires an audit strategy to be prepared and provided to each client. This strategy outlines the key audit risks for the entity, which is tailored for each specific audit. Industry specific risks are identified as part of the preparation of the financial audit policy manual updated each year. The audit entity has the opportunity to discuss the risks identified at the planning stage and highlight any additional risks prior to the commencement of the audit. All financial audits are undertaken in accordance with Australian auditing standards which require audits to be performed using a risk based approach. Complying with auditing standards ensures key risk areas are addressed.

There are no recommendations noted from this area of our work.

2.4.3 The effectiveness of the planning, management and resourcing for financial audits;
[Terms of Reference – 4(c)]

Observations

Financial audits are planned and managed in accordance with Australian auditing standards through the use of the Office's audit methodology IPSAM. The Office utilises the MARS time management system to capture cost and time of resources used to manage financial audits. The Financial Audit business unit also employs a supplementary system called RETAIN which is a staff management tool used to assist the allocation of staff resources. Financial audits are effectively managed via maintaining engagement budgets which are individually prepared and maintained by financial audit managers.

Discussions with key management found that financial audit costs are regularly monitored against budgets at monthly Senior Management Group ("SMG") meetings where staff utilisations and chargeable hours are reviewed, discussed and reported against monthly budgets and targets. Audit managers also meet regularly to ensure all staff utilisation is maximised and will reallocate staff between teams if required.

We reviewed a sample of financial audits across the 2006/07 to 2008/09 financial years and found that budgets were adequately prepared, there was evidence of the use of the RETAIN staff management tool, and that these processes has resulted in effective planning, management and resourcing.

There are no recommendations noted from this area of our work.

2.4.4 The adequacy of the investigative process and quality control procedures to support conclusions arising from the financial audits; [*Terms of Reference – 4(d)*]

Observations

All financial audits are undertaken in accordance with Australian auditing standards which have been incorporated into VAGO's audit methodology IPSAM. VAGO's policy requires an engagement quality control reviewer to be included on the audit team for larger, more complex and higher risk engagements. The role of the quality control reviewer is required to consider:

The engagement quality control reviewer assesses whether conclusions reached by the audit team are appropriate by reviewing documentation and discussing relevant issues with the engagement leader which usually includes reviewing the audit strategy, financial report, related party notes auditor's report, scoresheet, concluding memorandum.

A draft management letter is issued and working papers document the identification and resolution of significant accounting, auditing and financial reporting matters.

Post audit completion reviews are performed annually for each audit director for either in-house or contracted audits. The reviews are conducted by in-house staff and by auditors from other government audit offices in Australia and New Zealand. The reviews focus on compliance with all mandatory audit requirements and are undertaken using a standard checklist that covers all audit requirements. All audit directors have at least one file reviewed annually. Feedback is provided to audit teams to address any issues identified in future audits. The quality reviews performed in the last three years did not identify any incorrect audit opinions having been issued.

The more significant findings from financial audits quality assurance reviews performed in the first half of 2010 included instances of inadequate consideration of fraud risk, deficiencies in documentation held on file, and deficiencies in the testing of the valuation, completeness and existence of assets. These matters were included in a recent Financial Auditing Policy alert to all auditors aimed at meeting these matters are adequately addressed in all 30 June 2010 audits.

We performed a post audit review of six audit files randomly selected over the last three years. Each audit file was reviewed against all mandatory Australian auditing standard requirements. Based on the samples tested, we noted that for all audits reviewed a number of minor matters but no significant issues. For the files reviewed by PKF we are satisfied the audits were conducted in accordance with Australian auditing standards

Terms of Reference 4(d) (Cont'd)

FINDING / RECOMMENDATION 16: Expanding Quality Review of Completed Financial Audits

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>We note that VAGO is responsible for approximately 600 entities and 114 performance statements in 2010.</p> <p>There are currently six financial audit directors and two acting financial audit directors responsible for the conduct of these audits. There is also a director for Methods and Standards employed by VAGO.</p> <p>Quality review of completed financial audit files at present may not have adequate coverage.</p>	<p>Recommendations:</p> <p>Given the number of audits performed annually by VAGO, we suggest that the number of audits that have a completion review be increased. At present audit directors have one file (either contract or in-house) reviewed on an annual basis.</p> <p>We suggest VAGO consider expanding completion review coverage so that all audit directors have at least one file reviewed every six months.</p> <p>We suggest that each audit manager have at least one completed audit reviewed on an annual basis.</p> <p>VAGO could consider outsourcing some of the quality review process so that the additional work does not place undue burden on the current technical staff.</p>	<p>Comment:</p> <p>Not accepted. Our current level of quality review is significantly in excess of professional requirements and is rigorously monitored. Results do not warrant expansion.</p>

2.4.5 Whether significant issues that arise during the course of a financial audit that were not identified in audit plans, are adequately and effectively considered in a timely manner and addressed; [Terms of Reference – 4(e)]

Observations

Issues that arise during the course of the audit are initially referred to the engagement leader. The engagement leader then consults with their peer group or whole-of-government team (where there are material entities) for further guidance as considered necessary. In the case of a contentious issue such as non compliance with accounting standards or differences in accounting standard interpretations, the matter is referred to the technical issues committee. The technical issues committee's objective is to provide assurance that:

- ▶ there is a consistent approach to significant audit issues;
- ▶ the accounting policies considered are in accordance with the relevant accounting standards; and
- ▶ the audit opinion conforms to professional standards.

VAGO also consults with professional accounting bodies and other jurisdictions for additional support.

We reviewed a sample of six contentious issues referred to the technical issues group over the last three years. We noted that in all cases:

- ▶ the reason for the decision was documented;
- ▶ the committee's deliberations were documented; and
- ▶ all cases were signed off by the Audit Director, Technical Director, Assistant Auditor-General and Auditor-General.

There are no recommendations noted from this area of our work.

2.4.6 The impact of undertaking a considerable number of financial audit reports on sustaining staff motivation and whether 'in-house' benefits of gaining an in-depth knowledge on a portfolio area and related issues have been sustained; [Terms of Reference – 4(f)]

Observations

We held discussions with key management to discuss how the workload of a considerable number of audits impacts the motivation of financial audit staff. We have assessed that the financial audit business unit within VAGO operates as an effective functional unit. VAGO contracts out approximately 70% of all audits. The audit workload is allocated to specific sectors which each have a director, two managers and approximately 6 to 8 staff. Employees are initially assigned to a specific industry and over time will work in other industries. Each team promotes the retention of knowledge in a particular sector and assists in supervision and development of team members. Audit managers and directors are rotated between industries every five years to broaden their audit expertise.

VAGO is currently preparing a Financial Audit Resource Strategy in which a review of their business model is being undertaken. The strategy and criteria for determining whether to continue auditing in-house or contract out audits include maintaining expertise in the specific industry, ensuring capacity to undertake audits allocated and staff development. The preliminary findings suggested that the existing model of a mix of in-house and contract audits continue.

There are no recommendations noted from this area of our work.

2.4.7 Compliance with statutory requirements for the conduct and reporting of financial audits;
[Terms of Reference – 4(g)]

Observations

From our review of VAGO operations we noted no instances of non-compliance in relation to the conduct and reporting in relation to the Audit Act 1994 and other statutory requirements.

The progress of all financial audits is tracked and reported and discussed with VAGO's senior management on a regular basis.

The percentages of audits completed in accordance with required timeframes were as follows:

- 2007/2008 98%
- 2008/2009 96%
- 2009/2010 98%

A review of financial audit reports issued noted no instances of non-compliance with reporting requirements.

2.4.8 The appropriateness of the mix between specialist expertise, contractors and suitably qualified in-house staff in undertaking particular financial audits and the soundness of VAGO's quality review practices; [Terms of Reference – 4(h)]

Observations

An assessment of the use of specialist expertise is incorporated within each entities audit strategy. This includes engaging tax experts for Corporation Act engagements and actuaries for insurance and superannuation matters. The volume of work does not warrant the employment full time experts in these fields.

VAGO currently has effectively 2.1 full time equivalent staff dedicated to Information Technology ("IT") Audit. Of the three staff members employed for IT audit, one member is on secondment while another has 50% of his time allocated for IT audits.

FINDING / RECOMMENDATION 17: IT Audits

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>We note that there was limited use of computerised audit techniques in undertaking financial audits.</p>	<p>Recommendations:</p> <p>We have been advised by VAGO that the IT strategy is being reviewed and will be incorporated into 2010-11 business plans.</p> <p>We suggest that VAGO consider increasing the use of computerised audit techniques in future audits. An assessment of future IT staff audit requirements should be performed. From discussions with management, we understand that VAGO is considering outsourcing IT audit work for future audits. We would encourage an expanded use of IT resources in future engagements and that more consideration of the use of IT specialist be included in audit strategies in future years.</p>	<p>Comment:</p> <p>Accepted.</p> <p>A business improvement project to expand our IT capacity and the tools applied was included in the 2010-11 Financial Audit Group Business Plan.</p> <p>Proposed Action(s):</p> <p>Responsible Person (Title):</p> <p>Anticipated Completion Date:</p>

2.4.9 The appropriateness of criteria against which the efficiency and effectiveness of financial audits conducted by the Office are measured; [*Terms of Reference – 4(i)*]

Observations

VAGO use four key KPIs for external reporting purposes. These include:

- Quantity – number of audit reports/opinions issued
- Quality – overall external satisfaction of audit clients
- Timeliness – audit opinions and management letters issued within established timeframes
- Cost – based on actual costs versus budgeted costs.

In the past three years VAGO has achieved the following results in relation to these KPIs:

Table 34: Financial Audit KPIs

	2007	2008	2009
Number of audit reports issued (actuals)	631	619	587
Client satisfaction	72%	73%	76%
Timeliness			
• Reports issued within statutory deadlines	98%	96%	98%
• Management letters and reports to ministers issued within timeframes	77%	92%	90%
Cost – percentage of costs recovered	100%	99.6%	100%

Source: Annual Reports, 2007-2008

The financial audit team has improved in their key KPIs in recent years and is maintaining a high standard of output. These KPI measurements are generally accepted by financial audit firms and are appropriate measures by which to measure VAGO's financial audit performance.

There are no recommendations noted from this area of our work.

2.5 Review the newly introduced system of sector reports against financial audits performed, with particular reference to *[Terms of Reference 5]*:

2.5.1 Their usefulness and appropriateness as a reporting format; *[Terms of Reference – 5(a)]*

Observations

Discussions with three parliamentary secretaries provided feedback that overall sector reports were well received. The use of financial ratios and comparisons with “for profit entities” was queried as not being totally relevant as the government departments utilise a different funding model. Our review on sector reports is also covered within Section 2.4.1 (above).

There are no recommendations noted from this area of our work.

2.5.2 Their content, including possible overlap with performance auditing or evaluation / review activities of the State Services Authority or central agencies (e.g. Department of Premier and Cabinet and Department of Treasury and Finance); *[Terms of Reference – 5(b)]*

Observations

Within the last two years VAGO has identified areas of interest on which the financial audit team is required to focus to identify whether specific accounting control risks exist. By focusing on controls, VAGO is trying to promote tighter accounting controls in their audit clients. This work is also used to support audit conclusions. Previously VAGO had undertaken special reviews on areas of interest that may have arisen as part of planning, controls evaluation or audit execution. Included in the 2011 annual plan are the areas of interest planned for the next three years. Prior to finalising these areas, we were advised that VAGO consulted with various government authorities including the State Services Authority and Department of Treasury and Finance in order to avoid duplication of work.

There are no recommendations noted from this area of our work.

2.5.3 The budget implications of preparing such reports; [Terms of Reference – 5(c)]

Observations

We have confirmed that the cost for preparing the 2008/2009 sector reports for local government, water entities and public hospitals totalled \$544,000. The budget for 2009/2010 is \$531,000 however this will not be in the same format as 2008/9 due to the early reporting timeframe. The cost of preparing the reports represents less than 3% of the total output costs for all financial audits. We note that there is no direct budget implication for preparing these reports. The sector reports' costs are included in the overall cost of financial audits. Our analysis of financial audit costs noted no significant increases in audit costs as compared to prior years. We believe this is reasonable given its purpose.

There are no recommendations noted from this area of our work.

2.6 Assess the soundness of processes followed by VAGO for periodic client surveys (including members of Parliament and audit clients). Evaluate the results of such surveys and determine if an additional independent survey should be conducted [Terms of Reference – 6]

Observations

Our review noted that the Strategic Plans 2007-08 to 2009-10 commit to using survey feedback as key indicator in measuring VAGO's success across a number of objectives. To provide this business intelligence, VAGO participates in a joint national Parliamentary and client survey (financial and performance audit) coordinated through Australasian Council of Auditor-General ("ACAG") member offices, with results benchmarked with other participating audit offices. This survey comprises a questionnaire and a range of options for qualitative feedback.

For 2009-10 surveys, VAGO used broadly the same approach outlined a paper to the Senior Management Group in September 2008, including maintaining improvements in the timeliness and accessibility of information by audit groups.

No major changes in timing, sample, delivery or reporting are proposed for the Parliamentary or Financial Audit client surveys. Any changes to the respective questionnaires will be considered closer to the conduct of forthcoming surveys (October and February, respectively).

Some minor changes to the Performance Audit client surveys were proposed to clarify, refine the target groups and explore a new approach for delivery in 2010-11, the final year of the 3 year contract for this project.

The overall project cost for 2009-10 was estimated at \$86,000 which is in line with the costs included in the 3 year quotation. These funds were included in the Auditor-General Office's Budget.

The latest results from these surveys are as per Table 8 in Section 2.2.1 (Terms of Reference 2(a)).

Parliamentary Survey

All 128 Victorian Parliamentarians are invited to participate in the surveys (which are conducted in March every year). Participants are given about two months to respond.

Table 35: Response Rate to Parliamentary Surveys, 2005-2009

Financial Year	Response Rate (%)
2006-07	30%
2007-08	40%
2008-09	41%

Source: VAGO 2008-09 Client & Parliamentary Surveys, 3 August 2009, Orima Research

Terms of Reference 6 (Cont'd)

Financial Audits

For financial audits, surveys are sent to auditees every year including statutory authorities or corporations, local government councils, state government departments, hospitals, TAFEs/Universities and state owned entities or trusts.

Orima Research developed two questionnaires for financial audit clients, (i.e. – self completion questionnaires which are available in both hardcopy and online and contain the same questions). Data collection was conducted over three rounds.

The first round, conducted sometime in October of each year targets Chief Financial Officers of public sector entities with balance date of 30 June for which the financial audits had been finalised. Respondents are given 21 days to respond, sometimes with extension to early November.

The second round includes financial audit clients with a balance date of 30 June but for which financial audits had been only completed after the first round survey. These are conducted in the last week of November and clients are required to respond by the end of the first week of December. Extensions may take place to mid-December.

A third round is also conducted for auditees with balance dates other than 30 June. These are conducted in the following May. Follow-up interviews are also conducted by Orima Research to obtain further qualitative feedback from major audit clients.

Table 36: Response Rate to Financial Audit Surveys, 2005-2009

Financial Year	Participation Rate	
	Questions	Interviews
2005-06	69%	92%
2006-07	81%	55%
2007-08	63%	60%
2008-09	75%	84%

Source: VAGO 2008-09 Client & Parliamentary Surveys, 3 August 2009, Orima Research

Terms of Reference 6 (Cont'd)

Performance Audits

Performance audit surveys are conducted continuously every year based on hardcopy and online identical questionnaires. All auditees are invited to participate.

Table 37: Response Rate to Performance Audit Surveys, 2005-2009

Financial Year	Participation Rate	
	Questions	Interviews
2005-06	74%	72%
2006-07	71%	59%
2007-08	59%	51%
2008-09	79%	49%

Source: Figure 2, Page 14, Response Rates to VAGO Surveys of Performance Audit Clients, VAGO 2008-09 Client & Parliamentary Surveys, 3 August 2009, Orima Research.

All survey results are reported to the Senior Management Group.

We are of the opinion the surveys are adequate to assess auditee and Parliamentary satisfaction with VAGO's services. However, we would additionally suggest the following for VAGO's consideration:

- ▶ Track auditees' level of acceptance of VAGO's findings and the rate of implementation of action plans (see Finding 4 at Section 2.1, Terms of Reference 1);
- ▶ Implement a quantifiable yardstick to measure benefits that VAGO's recommendations could bring to the Victorian public sector (see Finding 6 Measuring Adequacy and Effectiveness of VAGO's Audits at Section 2.2.1, Terms of Reference 2(a)).

2.7 Evaluate the progress, adequacy and effectiveness of measures implemented by VAGO to address recommendations contained within the 2007 performance audit report of VAGO [Terms of Reference – 7]

Observations

We have reviewed the 2007 performance audit report of VAGO and have independently sighted evidence from the audit files provided by Oakton to determine the status of actions taken by VAGO against Oakton’s recommendations.

Of the twenty one recommendations of Oakton, the following are still in progress:

Table 38: Status of Actions Against Recommendations from 2007 Performance Audit of VAGO

Recommendation	Completion status as at 24 June 2010
<p><u>Objectives and Governance</u></p> <p>PAEC should formally consider the meaning and significance of <i>Section 15(3)</i> of the <i>Audit Act 1994</i> to ensure that the use of the all-embracing term “performance audit” does not create any misunderstandings in the future.</p>	<p>For PAEC’s consideration.</p>
<p><u>Business Continuity Plan</u></p> <p>VAGO should fully test its newly approved business continuity plan (“BCP”) and develop a regular testing program as soon as possible.</p>	<p>The BCP approved by the Operations Group on 15 May 2009 was submitted to the Senior Management Group for approval on 24 June 2010. Testing has yet to begin in collaboration with the Department of Treasury and Finance’s Government Services Group (“GSG”).</p>

Source: Work papers from Oakton on the performance audit of VAGO for 2007

We have not identified any recommendations relating to this area.

2.8 Ascertain whether the existing processes for evaluating tenders from private audit contractors and consultancies are conducted with due regard to probity and value for money [Terms of Reference – 8]

Observations

In order to ascertain whether existing procedures for evaluating tenders from private audit contractors and consultancies are conducted with due regard to probity and value for money, we carried out the following procedures:

- ▶ Ascertained whether there are any policies and procedures in place and considered whether the policies and procedures were adequate and appropriate; and
- ▶ Selected a sample of audit contractors for 2008-09 and 2009-10 and ascertained whether VAGO underwent a proper due process for selection in line with existing policies and procedures.

Policies and Procedures

Under *Section 7F* of the *Audit Act 1994*, the Victorian Auditor-General may engage any person or firm to assist in the performance of any function of the Victorian Auditor-General. However, the Act does not specify any particular manner of engagement.

VAGO's "Contract Manual", which has been updated and approved to 28 October 2009, provides detail guidance in engaging and managing external contractors. The Victorian Auditor-General may use any of the following methods for the appointment of a person or firm to undertake, assist on, or provide specialist services to financial or performance audits:

- ▶ Financial Audit selective tender involving a two-stage assessment process to evaluate submissions for Financial Audit Service Providers. An Evaluation Panel will first assess Registrations of Interest in order to determine a bidder's capability and capacity. Bids that are successful in this first assessment stage will proceed to a second stage of assessment, where the Request for Tender ("RFT") documentation will be considered.
- ▶ Appointment to a Panel of Preferred Suppliers involving an open tender to establish a Panel of Preferred Suppliers (i.e. Audit Service Providers and/or specialists with the capability and capacity to deliver on VAGO's general auditing requirements). VAGO then request a quote/tender from these suppliers on a case-by-case basis, subject to financial delegate approval.
- ▶ Victorian Government Purchasing Board quotation/tender process – where specialist(s) is/are required to assist Financial Audit or Performance Audit areas within VAGO, providing a specialisation not covered by the Panel contractors, which involves adopting the Victorian Government Purchasing Board's purchasing policies. VAGO has a "Guide to Procurement and Purchasing" which provides comprehensive guidance in this process.

The Victorian Assistant Auditors-Generals within VAGO are responsible for determining the most appropriate appointment process for any procurement, with subsequent approval from the Victorian Auditor-General.

Our review indicates that VAGO has a comprehensive set of policies and procedures for managing the process of appointment of private audit contractors and consultants.

Our review of sample audit contractors indicated the following matters:

Terms of Reference 8 (Cont'd)

FINDING / RECOMMENDATION 18: Evaluation of Private Audit Contractors and Consultants

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>(i) In VAGO's "Contract Manual", Section 5.1, if the Victorian Auditor-General is satisfied that an Audit Service Provider ("ASP")/specialist is not carrying out their duties and functions in accordance with the <i>Audit Act 1994</i>, the terms and conditions of the contract, or the performance standards and guidance statements issued by the Victorian Auditor-General, then the Victorian Auditor-General may, with notice in writing, terminate the appointment forthwith.</p> <p>We noted however there is no formalised evaluation policy and procedures for specialists engaged to support Performance Audit in Section 5.1 of the Contract Manual, other than discussion comments deposited in the AmP database.</p> <p>(ii) For Financial Audit, each of VAGO's tender evaluation panel members assess each tender in isolation of each member and then meet as a group to discuss and sign-off on the final evaluation matrix (signed by two panel members). There is however no documentation on recommendations of each tender panel member prior to the group discussion and agreement to indicate <i>independent</i> decision prior to the final decision;</p> <p>(iii) The Performance Audit quotations for the Irrigation Efficiency Program were based on key selection criteria but did not include scoring for each of these criteria. The evaluation document only specifies whether or not the criteria was addressed;</p>	<p>Recommendations:</p> <p>(i) In order to meet the strategy of continuously improving VAGO's systems, methodologies and processes (Strategic Plan 2007-08 to 2009-10), we suggest that VAGO consider formalising a criteria scoring basis for evaluation of specialists engaged by Performance Audit and to further provide defined documentary evidence for sanctions or terminations against contractors, where appropriate;</p> <p>(ii) We suggest that VAGO consider maintaining records of the individual <i>independent</i> decisions of tender panel members prior to the group discussion, consensus agreement and final sign-off. This may provide evidence that individual decision making was independently made before a consensus decision making is determined;</p> <p>(iii) We suggest that VAGO consider further enhancing the key selection criteria scoring process for selection of performance audit tenders and that the process be aligned to the methodology used for financial audit tenders;</p>	<p>Comment:</p> <p>Accepted.</p> <p>VAGO has a continuous improvement process and particular attention will be paid to more comprehensively documenting rationale for decisions.</p> <p>Proposed Action(s):</p> <p>Responsible Person (Title):</p> <p>Anticipated Completion Date:</p>

Terms of Reference 8 (Cont'd)

FINDING / RECOMMENDATION 18: Evaluation of Private Audit Contractors and Consultants (Cont'd)

Finding (Cont'd)	Recommendations (Cont'd)	Auditor-General Comments (Cont'd)
<p>Finding:</p> <p>(iv) In the case of Financial Audit tenders, we are cognisant that after a tender box has been closed, a memo is sent by the Victorian Assistant Auditor-General to the Chief Operating Officer to inform him of the tender process and his recommendation of the preferred tenderer. This memo (titled the Tender Evaluation Report") requests for COO's approval for Directors of Financial Audit to contact the relevant parties to confirm that there are no conflicts of interests. The Tender Evaluation Report also confirms that no late tender responses were received.</p> <p>In the case of tender TR13, there was no documentary evidence in the tender register to indicate that the tender box was closed at the advertised time, when the tender box was removed from its designated location.</p> <p>(v) The tender register for TR13 (see also [iv] above), did not correspond with TR13's tender evaluation matrix. The tender register included a submission which was not actually made by a professional firm. We have obtained evidence that that professional firm indeed did not submit a response for the TR13 tender.</p>	<p>Recommendations:</p> <p>(iv) We suggest that a time stamp and sign-off be indicated on the tender register to provide documentary evidence that a tender box had been closed, removed from its designated location at the appointed time and no late tender responses were received;</p> <p>(v) We suggest that VAGO consider cross-checking the tender register against the tender evaluation matrix to confirm that all tenders received have been accounted for and evaluated accordingly in the tender evaluation matrix.</p>	<p>Comment:</p>

Terms of Reference 8 (Cont'd)

Below is a matrix of financial delegations used by VAGO for meeting expenses and obligations relating to operational arrangements, i.e. including approving contracts or tenders.

Table 39: Financial Delegations – Other Delegations : Standard Form Agreements

Function	Person	Limit
Approve Contracts or Tenders	Victorian Auditor-General	Unlimited
<u>Approve Purchase Orders</u> for Contracts or Tenders Approved by the Victorian Auditor-General	Chief Operating Officer, Victorian Assistant Auditor-Generals, Executive Director Corporate Services	Unlimited
<u>Approve Purchase Orders</u> for Contracts or Tenders <u>Not</u> Approved by the Victorian Auditor-General	COO	<\$250,000
<u>Approve Purchase Orders</u> or Contracts for Tenders <u>Not</u> Approved by the Victorian Auditor-General.	Victorian Assistant Auditor-Generals, Executive Director Corporate Services	<\$100,000
<u>Approve Purchase Orders</u> or Contracts for Tenders <u>Not</u> Approved by the Victorian Auditor-General.	Directors	<\$20,000

Source: Fin14, Financial Delegations, Approved by Auditor-General on 22 June 2009.

This financial delegations matrix is in line with *Section 7D(3)* of the *Audit Act 1994*.

Section 7D(3), Audit Act 1994:

Despite anything to the contrary in the Financial Management Act 1994 or in regulations or directions under that Act but subject to any relevant appropriation Act, the Auditor-General may incur any expenditure or obligations necessary for the performance of the functions of the Victorian Auditor-General's Office.

The financial delegations for the Chief Operating Officer, Victorian Assistant Auditor Generals, Executive Director Corporate Services have no limits to their thresholds for creation of purchase orders for contracts approved by the Auditor-General ("AG"). As a matter of prudence, we suggest that this operating model be re-considered.

Terms of Reference 8 (Cont'd)

FINDING / RECOMMENDATION 19: Delegations of Authority – Threshold Limits

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>We note that VAGO has provided unlimited thresholds to the Chief Operating Officer, Victorian Assistant Auditor-Generals, Executive Director Corporate Services to approve purchase orders for tenders approved by the Victorian Auditor-General.</p> <p>Contract audit services in Victoria have continued to increase annually and has reached a total of \$11.2 million for the financial year ended 30 June 2009 (\$10.2 million for the financial year ended 30 June 2008), an increase of 9.9%.</p>	<p>Recommendations:</p> <p>We suggest that VAGO consider reviewing its financial delegation thresholds in particular.</p>	<p>Comment:</p> <p>Not accepted. The delegations of authority specifically separate out the approval to tender and the approval to purchase – the Assistant Auditor-Generals' approval to purchase is limited by the tender approval.</p>

2.9 Determine the scope, quality and effectiveness of the internal audit function within the Victorian Auditor-General's Office [Terms of Reference – 9]

Observations

In order to determine the scope, quality and effectiveness of the internal audit function within VAGO, we ascertained whether VAGO complies with the requirements of Directions 4 and 7 of the Minister for Finance under the Financial Management Act 1994, in particular:

a) Audit Committee

We ascertained that an Audit Committee has been properly constituted and has a membership that is consistent with the criteria specified in Standing Direction 2.2 of the Minister for Finance.

The Audit Committee has functioned within the parameters of a Charter, which has been approved by the Audit Committee and provided to each member of the Audit Committee. It has had direct access to:

- › Internal and external auditors;
- › The Victorian Auditor-General;
- › The Chief Financial Officer (“CFO”); and
- › VAGO’s Senior Management Group (“SMG”).

As at 5 February 2010, the Audit Committee members comprising Mr Mark Anderson (Chair), Ms Deirdre O’Donnell, Prof Kerry Jacobs and Ms Joanna Perry.

The Audit Committee Charter was last reviewed and revised in February 2010. The Audit Committee Charter is reviewed on an annual basis.

A self assessment by the Audit Committee was last completed and submitted to the Audit Committee on 24 October 2008.

Standing Direction 4 of the Minister for Finance under the Financial Management Act 1994:

A Public Sector Agency must establish robust and transparent financial governance policies and procedures directed to the oversight of its financial management which should be incorporated as fundamental elements of a Public Sector Agency’s overall governance framework.

Particular attention must be paid to the systems of financial reporting, risk management, internal control and the adequacy of management reporting.

Standing Direction 7 of the Minister for Finance under the Financial Management Act 1994:

Each Public Sector Agency must, unless an exemption has been obtained, establish and maintain an adequately resourced independent internal audit function appropriate to the needs of the Public Sector Agency. Government Departments are not eligible for an exemption.

Terms of Reference 9 (Cont'd)

b) Internal Audit function

An internal audit function exists and works within the parameters of a Charter and internal audit plan, both of which have been approved by the Audit Committee and are consistent with the requirements of the Directions of the Minister for Finance. Private meetings with the internal auditors have been held at least once in the last 12 months.

Our review of the scope, quality and effectiveness of the internal audit function within the Auditor-General's office found that there were some concerns raised by the Audit Committee (as per minutes of the Audit Committee meeting held on 19 June 2009) relating to:

- ▶ mismatch of ratings against summary reports;
- ▶ lack of overall rating in the reports;
- ▶ unclear meaning of "satisfactory" on a rating; and
- ▶ the appropriateness of applied ratings.

We have reviewed the minutes of the Audit Committee meeting held on 5 February 2010, and ascertained that the internal auditors confirmed that previous issues have been tracked and satisfactorily completed, apart from one low risk issue.

In addition, we have identified from the Strategic Internal Audit Plan 2007-2010 and minutes of the Audit Committee meeting held on 24 October 2007 that the following risks were specifically excluded from internal audit activity:

- ▶ Mismanagement of Occupational Health and Safety (Moderate Risk);
- ▶ Stakeholder Relationships (High Risk).

No reasons were provided to support their exclusion in both the Strategic Internal Audit Plan 2007-2010 and the minutes of the Audit Committee meeting held on 24 October 2007.

Terms of Reference 9 (Cont'd)

FINDING / RECOMMENDATION 20: Exclusion of High Risk from Internal Audit Activity

Finding	Recommendations	Auditor-General Comments
<p>Finding:</p> <p>We have identified the following as a “High” risk in the Strategic Internal Audit Plan 2007-2010:</p> <p><u>Stakeholder Relationships</u></p> <p>Inappropriate strategies in place to manage stakeholders, including Parliament, PAEC, central agencies, other clients and the opinions of the media and community groups may lead to declines in stakeholder confidence and result in a loss of credibility.</p> <p>“High” risk is defined by the VAGO Risk Management Guidelines as “Attention required in short term, preferably within 3 months. Executive management oversight. Reporting to Senior Management Group / Audit Committee on progress.”</p> <p>However, this “High” risk was excluded by the Audit Committee from internal audit activity as per minutes for meeting held on 24 October 2007. No reason was given for the exclusion.</p>	<p>Recommendations:</p> <p>In order to manage risk appropriately within the risk appetite of VAGO as per VAGO’s Risk Management Framework, mitigating controls and actions taken including audit activity should be adequately documented.</p> <p>Where residual risks remain, after mitigating controls and audit activity has been considered, then VAGO’s management should assess whether the residual risks are still acceptable.</p> <p>Full documentation should be maintained for high risks which are precluded from any internal audit activity, including reasons.</p>	<p>Comment:</p> <p>Accepted.</p> <p>VAGO has a continuous improvement process and particular attention will be paid to more comprehensively documenting rationale for decisions.</p> <p>Proposed Action(s):</p> <p>Responsible Person (Title):</p> <p>Anticipated Completion Date:</p>

Terms of Reference 9 (Cont'd)

The Internal Audit Status Report for June 2010 recorded the following management actions as outstanding:

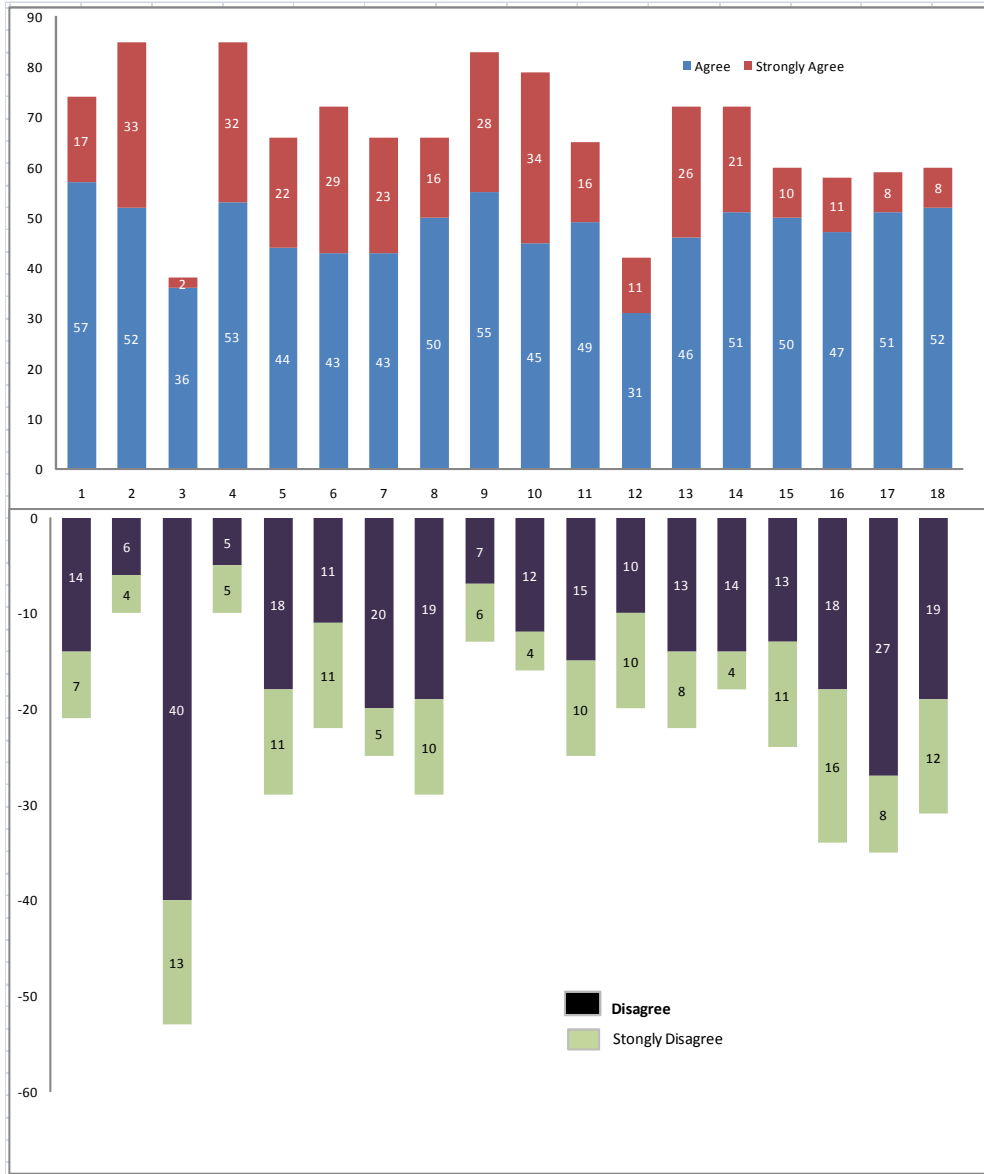
Table 40: Status of Internal Audit Recommendations

	Internal Audit Review	Risk Level & Number of findings	Status
1	Quality Assurance Process Review (2010)	Low - one	Management action not due yet.
2	Financial Controls Review (2008)	Low -one	Management action not due yet.
3	Key Financial Controls Review (2010)	High – one; Low - one	Management action not due yet.
4	Information Security Review (2010)	Not applicable	Review in progress
5	Human Resource Review (2009)	Low - one	Management action not due yet;

Source: Internal Audit Status Report for June 2010 prepared by Protiviti Pty Ltd

Appendix 1.

GRAPH 1: ANALYSIS OF SURVEY OF VAGO STAFF CONDUCTED BY PKF



Agree	47%
Strongly Agree	19%
No Comment	10%
Disagree	16%
Strongly Disagree	9%
Total	100%

Appendix 2.

SURVEY OF VAGO STAFF CONDUCTED BY PKF - QUESTIONNAIRE

2010

Dear Staff Member

Confidential Staff Engagement Survey June 2010

PKF Chartered Accountants & Business Advisers ("PKF") has been engaged by the Public Accounts and Estimates Committee ("PAEC") on behalf of the Victorian Parliament to undertake a performance audit of the Victorian Auditor-General and the Auditor-General's Office ("VAGO").

As part of the audit planning process, PKF has met with PAEC and also representatives of VAGO including the Auditor-General to discuss the performance audit process and this survey. An important aspect of the performance audit is gauge the level of staff engagement within VAGO and to address any concerns arising from the survey process.

It is important to note that this survey process will remain confidential within PKF and will only be reported as part of a consolidated report to PAEC. No information will be attributed to any individual within VAGO and individual surveys will NOT be provided to the Auditor-General, VAGO management or PAEC. PKF has established an email account external to VAGO to receive these surveys.

All staff members should forward their survey response to vago.staffsurvey@pkf.com.au no later than Friday 25 June 2010. Alternatively, please send your completed form to:

**VICTORIAN AUDITOR-GENERAL
STAFF SURVEY
CONFIDENTIAL**

**Mr David Lee
Manager
PKF Chartered Accountants and Business Advisers
Level 14, 140 William Street
MELBOURNE VICTORIA 3000**

If you have any questions or queries please call David Lee (PKF Manager) on (03) 9603 1727 or 0413 808 998.

Appendix 2 (Cont'd)

Engagement Staff Survey

Name (Optional):

Title (Optional Information):

Business Unit (used to identify any systemic concerns or opportunities):

Survey Questions	Staff Response
<p>1. I know what is expected of my role.</p>	<p><i>Please include reasons supporting your response</i></p> <p><input type="checkbox"/> Strongly Agree</p> <p><input type="checkbox"/> Agree</p> <p><input type="checkbox"/> Disagree</p> <p><input type="checkbox"/> Strongly Disagree</p> <p><u>Comments:</u></p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>2. I have the materials and equipment needed to undertake my role.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>3. My role expectations do not change.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>4. My role requires reasonable effort to achieve required outcomes.</p>	<p><input type="checkbox"/> Strongly Agree</p> <p><input type="checkbox"/> Agree</p> <p><input type="checkbox"/> Disagree</p> <p><input type="checkbox"/> Strongly Disagree</p> <p><u>Comments:</u></p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>5. In the last 3 months, I have received recognition or praise for doing good work.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>6. My supervisor seems to care about me as a person.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>7. There is someone at work who encourages my development.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>8. At work, my opinions seem to count.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>9. I feel my job is important.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>10. My associates / peers are committed to doing quality work.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>11. VAGO is achieving what I believe it should.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>12. VAGO's role and standing has changed positively over the last 3 years since the completion of the previous performance audit (conducted in 2007).</p>	<p><input type="checkbox"/> Strongly Agree</p> <p><input type="checkbox"/> Agree</p> <p><input type="checkbox"/> Disagree</p> <p><input type="checkbox"/> Strongly Disagree</p> <p><u>Comments:</u></p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>13. In the last six months, someone at work talked to me about my progress.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>14. In the last year, I have had opportunities at work to learn and grow.</p>	<p><input type="checkbox"/> Strongly Agree</p> <p><input type="checkbox"/> Agree</p> <p><input type="checkbox"/> Disagree</p> <p><input type="checkbox"/> Strongly Disagree</p> <p><u>Comments:</u></p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>15. I have enjoyed working for VAGO over the last 3 years.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>16. I would recommend VAGO as a preferred employer.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

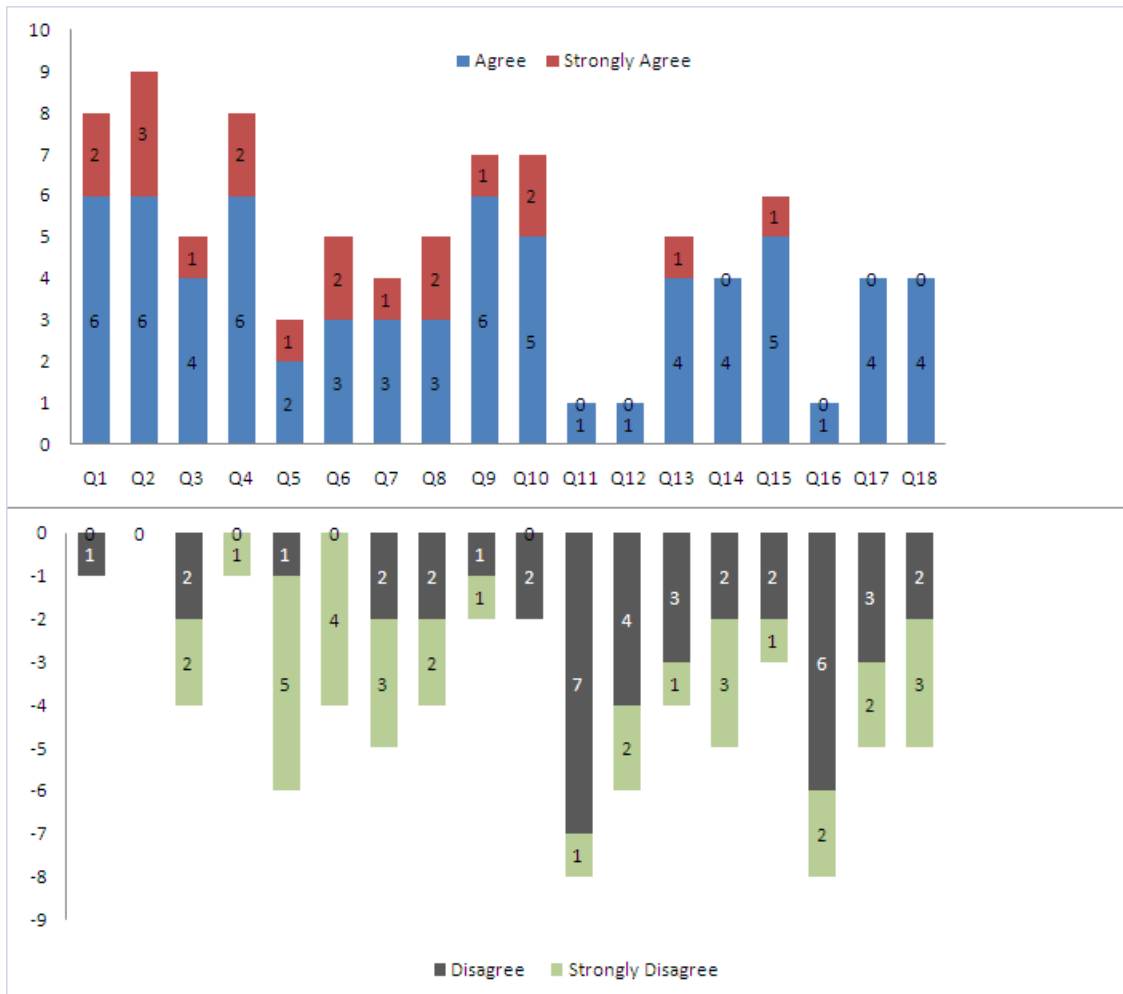
Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>17. My financial rewards meet my expectations.</p>	<p> <input type="checkbox"/> Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <u>Comments:</u> </p>

Appendix 2 (Cont'd)

Survey Questions	Staff Response <i>Please include reasons supporting your response</i>
<p>18. I operate in an environment where my stress levels can be adequately managed.</p>	<p><input type="checkbox"/> Strongly Agree</p> <p><input type="checkbox"/> Agree</p> <p><input type="checkbox"/> Disagree</p> <p><input type="checkbox"/> Strongly Disagree</p> <p><u>Comments:</u></p>

Appendix 3.

GRAPH 2: ANALYSIS OF EX-VAGO STAFF SURVEY CONDUCTED BY PKF



Agree	42%
Strongly Agree	12%
No Comment	1%
Disagree	25%
Strongly Disagree	20%
Total:	100%

Appendix 4.

LIST OF TABLES

TABLE NUMBER	DESCRIPTION	SECTION	TERMS OF REFERENCE
1	Audit Mix, Financial and Performance Audits	2.1	1
2	Average Cost and Average Hours per Financial Audit and Performance Audit	2.1	1
3	Performance Audit- Proposed Tabling Date vs. Actual Tabling Dates	2.1	1
3a	PKF Analysis of Performance Audit Reports Tabled to Parliament	2.1	1
4	Performance Audit Name Changes	2.1	1
5	Acquittals of Performance Audits from Annual Plans	2.1	1
6	Management Committees of VAGO	2.1	1
7	Key Steps in Protocol Statement Between PAEC and AG for Timely and Effective Consultation	2.1	1
8	Summary of Parliamentary and Client Surveys Conducted by VAGO	2.1	1
9	Opportunities for Improvement	2.2.1	2(a)
	Performance Audits: Budgets vs. Published Costs	2.2.3	2(c)
10	Strategic Plan, 2010-11 to 2014-15	2.2.4	2(d)
11	Comparison of Strategic Plans	2.2.4	2(d)
12	Risk Materiality Rating Applied to Potential Audit Topics (Performance Audit)	2.2.5	2(e)
13	Economic Materiality Rating	2.2.5	2(e)
14	Social and Environmental Materiality Rating	2.2.5	2(e)
15	Performance Audit: Audit Phases as a Percentage of Total Time Incurred	2.2.6	2(f)
16	Staff Turnover, 2007-2010	2.2.7	2(g)
17	Selected Employee Statistics Compared to Other Jurisdictions	2.2.7	2(g)
18	Remuneration of Executives, 2009-10	2.2.7	2(g)
19	Staff Absenteeism (Sick Leave With/Without Certificate)	2.2.7	2(g)
20	WorkCover Leave	2.2.7	2(g)
21	Promotions, 2007-2010	2.2.7	2(g)
22	Analysis of VAGO Staff Responses (% of Total Responses)	2.2.7	2(g)
23	Analysis of VAGO Former Staff Responses (% of Total Responses)	2.2.7	2(g)
24	2009 ACAG Survey of Parliamentarians	2.2.9	2(i)
25	2009 ACAG Client Surveys -Performance and Financial Audits	2.2.9	2(i)
26	Performance Measures for Output Group 1	2.2.10	2(j)
27	Performance Measures for Output Group 2	2.2.10	2(j)
28	Pricing Reviews - Thendara Report vs BDO Report	2.2.13	2(m)
29	Selected Performance Audits	2.3.1	3(a)
30	Determination of Risk Level	2.3.1	3(a)
31	Likelihood Criteria	2.3.1	3(a)
32	Risk Consequence Criteria	2.3.1	3(a)
33	Qualifications and Experience of Performance Audit Staff	2.3.11	3(k)
34	Financial Audit KPIs	2.4.9	4(i)
35	Response Rate to Parliamentary Surveys, 2005-2009	2.6	6
36	Response Rate to Financial Audit Surveys, 2005-2009	2.6	6
37	Response Rate to Performance Audit Surveys, 2005-2009	2.6	6
38	Status of Actions Against Recommendations from 2007 Performance Audit of VAGO	2.7	7
39	Financial Delegations – Other Delegations : Standard Form Agreements	2.8	8
40	Status of Internal Audit Recommendations	2.9	9