PUBLIC ACCOUNTS
AND ESTIMATES COMMITTEE

SIXTY EIGHTH REPORT TO THE PARLIAMENT

Review of the report on the
performance audit of the Victorian
Auditor-General’s Office

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Parliament of Victoria
Public Accounts and Estimates Committee

Review of the report on the performance audit of the Victorian Auditor-General’s Office

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For this inquiry, the Committee was supported by a secretariat comprising:

Executive Officer:  Ms M Cornwell
Specialist Advisor:  Mr T Wood
Office Manager:    Ms K Taylor
DUTIES OF THE COMMITTEE

The Public Accounts and Estimates Committee (PAEC) is a joint parliamentary committee constituted under the *Parliamentary Committees Act 2003*.

The Committee comprises nine Members of Parliament drawn from both Houses of Parliament and all political parties.

The Committee carries out investigations and reports to Parliament on matters associated with the financial management of the state. Its functions under the Act are to inquire into, consider and report to the Parliament on:

- any proposal, matter or thing concerned with public administration or public sector finances; and
- the annual estimates or receipts and payments and other Budget Papers and any supplementary estimates of receipts or payments presented to the Assembly and the Council.

The Committee also has a number of statutory responsibilities in relation to the Office of the Auditor-General. The Committee is required to:

- recommend the appointment of the Auditor-General and the independent performance and financial auditors to review the Victorian Auditor-General’s Office;
- consider the budget estimates for the Victorian Auditor-General’s Office;
- review the Auditor-General’s draft annual plan and, if necessary, provide comments on the plan to the Auditor-General prior to its finalisation and tabling in Parliament;
- have a consultative role in determining the objectives and scope of performance audits by the Auditor-General and identifying any other particular issues that need to be addressed;
- have a consultative role in determining performance audit priorities; and
- exempt, if ever deemed necessary, the Auditor-General from legislative requirements applicable to government agencies on staff employment conditions and financial reporting practices.
CHAIR’S INTRODUCTION

In Victoria, the government and the public service are the guardians of public funds entrusted to them. One of Parliament’s most important roles is to hold the government to account for the results it achieves with taxpayer dollars. To do this effectively, parliamentarians need objective information they can rely on to scrutinise government activities and spending.

The Office of the Auditor-General is an independent source of such information, which is gathered in the course of carrying out hundreds of financial, special and performance audits each year. The reports that the Auditor-General gives to Parliament describe areas within government requiring attention, offer recommendations for improvement, and point out good practices.

As an officer of Parliament, the Auditor-General reports to Parliament and not executive government. Because the Office operates with a high degree of independence and in order to ensure accountability, it is a statutory requirement that the Office is independently audited every three years to evaluate its performance and to determine whether in discharging its functions it is operating economically, effectively and efficiently. This report reviews the performance auditor’s findings and recommendations, outlines the Auditor-General’s response, and contains comments and conclusions of the Public Accounts and Estimates Committee.

On behalf of the Committee, I thank the independent performance auditor, Mr John Phillips, and his staff for their constructive suggestions and the Auditor-General, Mr Wayne Cameron, for his positive response to the audit and for taking action to implement many of the recommendations arising from the audit.

I also thank all members of the Committee for providing Parliament with this unanimous report and their commitment to ensuring that Victoria has a highly professional and effective audit office.

The Office of the Auditor-General is an important link in ensuring the accountability of the government and more efficient and effective government administration; it is therefore essential that it continues to perform and deliver audit services that can draw attention to problems and propose solutions. The Committee’s comments are intended to build on the improvements suggested by the performance auditor.

Hon. Christine Campbell, MP
Chair
CHAPTER 1: BACKGROUND TO THE INQUIRY

1.1 Legislative requirements

Under the Audit Act 1994, the Public Accounts and Estimates Committee is responsible for recommending to Parliament a suitably qualified person to undertake an audit of the Victorian Auditor-General’s Office (VAGO).

Section 19 of the Audit Act, as amended, states in part that:

- an audit shall be conducted under this section at least once every three years to determine whether the Auditor-General is achieving his or her objectives effectively and doing so economically and efficiently and in compliance with this Act;
- an audit under this section shall be conducted by a suitably qualified person appointed by resolution of the Legislative Council and the Legislative Assembly on the recommendation of the Public Accounts and Estimates Committee.

1.2 Background


Following the last performance audit in 2001, the Committee recommended to Parliament that the Audit Act be amended to provide for the performance audit of the Victorian Auditor-General’s Office to be undertaken by a suitably qualified person. Until then the legislation provided for the audit to be undertaken by an auditor which had the practical effect of restricting tenders to the major accounting firms. The 2004 performance audit was the first undertaken by a national consulting firm, Acumen Alliance. This firm had previously undertaken a performance audit of the New South Wales Auditor-General’s Office.

The focus of the 2001 performance audit was limited in scope, as it was conducted in the environment of having a new Auditor-General, Mr Wayne Cameron, seeking to establish his mandate in conjunction with the integration of Audit Victoria back into the Victorian Auditor-General’s Office. Subsequent to that audit, the Auditor-General has now been in office for more than six years and has reorganised the Office to meet its legislative responsibilities. Consequently, the Committee decided it was now appropriate to undertake a more comprehensive performance audit of the Auditor-General’s Office to confirm whether its legislative responsibilities were being met.
The legislative responsibilities of the Auditor-General, as outlined in the *Audit Act 1994* are:\(^1\)

- to determine whether financial statements prepared in the Victorian public sector present fairly the financial position and financial results of operations of authorities and the state;
- to determine whether:
  - authorities are achieving their objectives effectively and doing so economically and efficiently and in compliance with all relevant Acts;
  - Victorian public sector operations and activities are being performed effectively, economically and efficiently and in compliance with all relevant Acts;
- to determine whether financial benefits given by the state or an authority to non-government bodies are being applied economically, efficiently and effectively for the purposes for which they were given;
- to ensure that the Auditor-General is held accountable for his or her performance and the performance of the Victorian Auditor-General’s Office.

It is the Parliament’s intention that, in pursuing these objectives, regard is had as to whether there has been any wastage of public resources or any lack of probity or financial prudence in the management or application of public resources.

The purpose of the Auditor-General’s Office as stated in the Auditor-General’s 2004-05 annual report is *‘improving performance and accountability in the Victorian public sector’*.\(^2\) The *Audit Act 1994*, as outlined above, does not specifically identify this purpose.

### 1.3 Appointment of a performance auditor

The Committee recommended to Parliament that Mr John Phillips, Managing Director of Acumen Alliance, be appointed to conduct the 2004 performance audit of the Victorian Auditor-General’s Office.\(^3\) The appointment was endorsed by Parliament in May 2004.

### 1.4 Committee’s directions to the performance auditor

The Committee directed Mr Phillips to conduct the performance audit as follows:

The appointed person should determine whether the Victorian Auditor-General’s Office is achieving its objectives effectively, economically and efficiently and in compliance with the *Audit Act 1994*, as amended. In this context and without limiting the scope of the audit, the following matters should be addressed:\(^4\)

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1. *Audit Act 1994*, as amended, s.3A
4. ibid., pp.13–17
• assess the appropriateness of the purpose and objectives set by the Auditor-General in his annual plan and determine the extent to which they are being achieved.

• review key management issues, including:
  – the adequacy and effectiveness of the annual planning process; having regard to risk factors and governance arrangements within agencies;
  – the adequacy and effectiveness of internal systems, including Information Technology systems, to measure and improve productivity;
  – the adequacy of the existing time recording and costing systems to ensure all recoverable costs are collected for government and that there is no cross-subsidisation between chargeable and non-chargeable functions of the Office; or between performance and financial audits, and special reviews;
  – the adequacy and appropriateness of all audit methodologies, practices and procedures;
  – the culture of management and its effect on performance;
  – the effectiveness of the relationship between the Office and its clients (particularly the Public Accounts and Estimates Committee and Parliament) and any factors influencing that relationship;
  – the extent to which best practice in public sector management and auditing has been adopted in the Office;
  – the appropriateness of performance measures and benchmarks against which the Auditor-General’s Office measures its performance both internally and externally;
  – whether the Victorian Auditor-General’s Office complies with Australian auditing standards, including the quality control process associated with contracted audits; and
  – whether audits are supported by adequate plans and work papers, appropriate audit evidence and appropriate quality control procedures.

• review the efficiency and effectiveness of the management and conduct of performance audits and special reviews undertaken by the Victorian Auditor-General’s Office, with particular attention to:
  – the extent to which the selection criteria for performance audits ensures key risk areas and major programs within the public sector receive adequate coverage;
  – the adequacy of the rationale supporting the selection of potential performance audit topics;
  – the effectiveness of the planning and management of performance audits;
  – the adequacy of the investigative process and quality control procedures to support conclusions arising from the performance audits;
Review of the report on the performance audit of the Victorian Auditor-General’s Office

- whether significant issues that arise during the course of a performance audit that were not identified in audit plans, are addressed;
- whether the existing practice of tabling a considerable number of performance audit reports should be varied to include large performance audit projects addressing significant issues of public interest;
- compliance with statutory requirements for the conduct and reporting of performance audits;
- the appropriateness of the mix between specialist expertise, contractors and suitably qualified in-house staff in undertaking particular performance audits; and
- the appropriateness of criteria against which the efficiency and effectiveness of performance audits and special reviews conducted by the Office are measured.

- determine whether there is value for the Auditor-General to actively assist public sector agencies through publication of good practice guides;
- survey a representative sample of users of the Auditor-General’s reports to the Parliament (Members of Parliament, Public Accounts and Estimates Committee, representatives of executive government and selected others) including key interest groups to determine whether the Auditor-General is meeting his objectives, particularly delivering value-added recommendations to agencies and providing value for money to the Parliament and the Victorian community;
- determine the adequacy of existing strategies within the Auditor-General’s Office to recruit, train, adequately remunerate and retain suitably qualified and skilled staff to achieve its objectives;
- ascertain whether the existing processes for evaluating tenders from private audit contractors and consultancies are conducted with due regard to probity;
- determine the scope, quality and effectiveness of the internal audit function within the Auditor-General’s Office; and
- identify clear recommendations capable of implementation to affect improvement in the Auditor-General’s Office where deemed possible/desirable.

The Committee further directs the person to:

- conduct the audit in compliance with the Audit Act 1994, as amended; and
- conduct the audit in compliance with Statement of Auditing Practice AUP 33 ‘Performance Auditing’, and other relevant auditing standards and professional statements.

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5 ibid., p.16
The report of the performance audit should:\(^6\)

- specify the performance measures and benchmarks (both qualitative and quantitative) against which the Victorian Auditor-General’s Office was measured and assessed;
- provide an opinion on the Victorian Auditor-General’s Office’s compliance with Australian auditing and accounting standards;
- detail conclusions and include clear recommendations capable of implementation to affect improvement where considered necessary; and
- provide an overall opinion as to whether the Victorian Auditor-General’s Office is achieving its objectives effectively, economically and efficiently and in compliance with the *Audit Act 1994*, as amended.

### 1.5 Timing of the report

Mr Phillips’ report on the 2004 performance audit of the Victorian Auditor-General’s Office was forwarded to the Presiding Officers of Parliament on 7 December 2004 and was tabled in the Legislative Council and the Legislative Assembly on that date.


### 1.6 Overview

The independent auditor’s report raises some serious issues regarding the operations of the Victorian Auditor-General’s Office. Major areas of concern raised by the performance auditor included: topic selection for performance audits, a lack of emphasis on risk when selecting performance audits, deficiencies in working papers and lack of quality control with financial audits, inattention to whole of government information technology systems, a high turnover of staff and a need to improve audit methodologies.

These matters are discussed in greater detail within this report.

The Committee acknowledges that the nature of an audit report requires reporting by exception on adverse findings, without a requirement to emphasise the many positive aspects of operations that have or are occurring. Positive developments identified by the performance auditor in the Auditor-General’s Office since the last performance audit included:\(^7\)

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\(^6\) ibid.

\(^7\) Acumen Alliance, *Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General’s Office*, December 2004, p.4
• introduction of a ‘plain English’ reporting style designed to improve the quality and clarity of audit reports;
• a strong commitment to strategic audit planning; and
• a commitment to continuous improvement initiatives across the Office, including the Performance Audit Business Improvement Project.

Audit staff were also seen as having a better understanding of the business operations of agencies, along with a general willingness amongst staff to improve relationships with agencies and ‘add value’ where possible.\(^8\)

The Committee considers that if the issues raised by the independent performance auditor are addressed, such actions would improve the operations of the Auditor-General’s Office and strengthen the focus of the Office in discharging its legislative mandate to undertake financial audits, special and performance audits on behalf of Parliament.

Given the wide range of areas of concern within the Auditor-General’s Office that were identified by the performance auditor, particularly in relation to core functions such as financial and performance audits and human resource management, it is important that effective action is promptly taken to address the recommendations made. The Committee considers that failure to effectively do so could have a serious impact on the quality of auditing undertaken by the Auditor-General’s Office on behalf of Parliament and the public.

The cost of this inquiry is estimated at $22,904.

\(^8\) ibid.
CHAPTER 2: REVIEW OF THE PERFORMANCE AUDIT REPORT

2.1 Process followed by the Committee

The Public Accounts and Estimates Committee sought a written submission from the Auditor-General on the findings and recommendations in the report of Mr Phillips. The submission was subsequently followed through with a private hearing involving the Auditor-General and officers of the Victorian Auditor-General’s Office.

2.2 Key findings and recommendations

In forwarding his report to the Presiding Officers of the Parliament, Mr Phillips thanked the Auditor-General and his staff who participated in the review, the members and secretariat of the Public Accounts and Estimates Committee, the members of Parliament who responded to the performance auditor’s survey and the senior staff of public sector agencies who provided valuable input to the review.

Mr Phillips concluded that in his opinion the Victorian Auditor-General and the Victorian Auditor-General’s Office are:

- complying with the legislative objectives, undertaking the audit mandate in accordance with the *Audit Act* 1994 and Australian Auditing Standards and substantially achieving the corporate objectives;

- by reference to Audit Offices in other Australian jurisdictions, the Victorian Auditor-General and the Victorian Auditor-General’s Office are largely operating effectively, economically and efficiently.

Mr Phillips made a number of recommendations in his report to address areas of operation where improvements are required. The Auditor-General subsequently advised that he largely accepted those recommendations that fell within his responsibility to implement.

Further comment was made that the Victorian Auditor-General’s Office:

...new corporate plan focuses on being more responsive and collaborative in using our knowledge to shape awareness and direction on emerging issues and to stimulate better performance in the public sector. All our efforts are directed toward improvement, whether in providing Parliament with assurance about the accountability of public sector agencies, or in

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9 ibid., p.6
10 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.2
making recommendations on ways in which agency performance can be more efficient, effective and economic.

In response to Mr Phillips’ recommendation that the Auditor-General’s Office work program and effort should give more formal attention to whole of government risks including information technology risks, the Auditor-General responded that his:12

An Auditor-General’s primary role is to provide assurance to the Parliament and ultimately the community across the full ambit of the Victorian public sector’s activities. My legislative mandate requires me not only to focus on areas of risk, but also areas aimed at identifying opportunities to improve performance and responding to issues of high public interest. My Office will continue to balance the consideration of risk with the broader mandate of the Auditor-General.

The Committee understands from the above comments that topic selection for performance audits and special reviews will be influenced by seeking opportunities for performance improvements, as well as looking at areas of high risk to the government and the public.

The Auditor-General’s corporate purpose ‘improving performance and accountability in the Victorian public sector”13 reflects the above approach. The focus on opportunities to improve public sector operations is not specifically referred to in the audit legislation. The legislative objectives as recorded in the Audit Act 1994 are:14

- to determine whether financial statements prepared in the Victorian public sector present fairly the financial position and financial results of operations of authorities and the state; and
- to determine whether:
  - authorities are achieving their objectives effectively and doing so economically and efficiently and in compliance with all relevant Acts;
  - Victorian public sector operations and activities are being performed effectively, economically and efficiently and in compliance with all relevant Acts.

Findings and recommendations contained in the report of the performance auditor along with responses from the Auditor-General and comments from the Committee follow.

12 ibid.
13 Victorian Auditor-General’s Office, 2004-05 Annual Report, inside front cover
14 Audit Act 1994, as amended, s.3A
2.3 Governance

2.3.1 Business planning

(a) Performance auditor’s findings

The Victorian Auditor-General’s Office in conjunction with an annual plan, prepares a business plan which is supported by individual plans for each operating unit. It was observed that the Branch business plans that support the overall VAGO business plan were not consistent in format.\(^{15}\) The performance auditor also found that some business plans at individual business unit level omitted key information which would be expected to be in such plans.\(^{16}\)

(b) Performance auditor’s recommendation

Business plans prepared by operational units should be prepared on a consistent basis that includes strategies, activities, timelines and milestones, budget and resource requirements, revenue projections where applicable and key performance indicators.\(^{17}\)

(c) Auditor-General’s comments

The 2005-06 business plans will adopt a consistent approach.\(^{18}\)

(d) Committee’s comments

The preparation of individual business plans on a consistent basis which complement the overall VAGO business plan should be a key factor in monitoring the performance of individual operational units in meeting VAGO’s objectives, strategies, milestones, timelines and quality of performance.

\(^{15}\) Acumen Alliance, *Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General’s Office*, December 2004, p.34

\(^{16}\) ibid., p.9

\(^{17}\) ibid.

\(^{18}\) Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.2
2.3.2 Performance against office scorecard

(a) Performance auditor’s findings

The Victorian Auditor-General’s Office monitors its performance against an internal scorecard. The scorecard is a document which forecasts performance in each area of operations against pre-determined targets. At the end of each year actual performance is recorded for subsequent assessment by the Senior Management Group. The usefulness of the scorecard as a management improvement tool was found to have been impacted by some discrepancies in the data reported. The Victorian Auditor-General’s Office in assessing its performance against the Office scorecard, has acknowledged that significant improvement is required in the project management of performance audits and special reviews.19

(b) Performance auditor’s recommendations

The processes which are used to prepare the internal scorecard should ensure that data and reports used are accurate. Recent initiatives by the Victorian Auditor-General’s Office to improve project management, particularly in respect of budgets and timelines, should be regularly monitored and reinforced by appropriate training.20

(c) Auditor-General’s comments

Accepted. Action is in progress.21

Monthly reports are provided to the Senior Management Group.

(d) Committee’s comments

The adoption of an internal scorecard to measure performance is a very positive initiative by the Victorian Auditor-General’s Office. The Committee endorses the performance auditor’s recommendation that in order for use of the scorecard to be maximised, data contained in the scorecard must be relevant, accurate and complete.

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20 ibid.
21 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.2
The Committee reinforces the importance of managing performance audits and special reviews within budgets as provided for in the Office scorecard, unless circumstances change, such as variations to the scope of audits. The performance auditor reported that of nine performance audits that had been tabled since 30 June 2003, six of these performance audits exceeded by more than 10 per cent the original cost estimate provided to the Public Accounts and Estimates Committee. The Committee, when preparing its Report on the 2004-05 Budget Outcomes, further observed that of ten performance audits tabled in 2004-05, five exceeded the initial or revised budgets, thereby indicating that budget overruns remain frequent occurrences.

2.3.3 Internal audit

(a) Performance auditor’s findings

Although overall the Audit Committee and the internal audit function operated satisfactorily, certain aspects needed to be addressed including: a requirement for the Audit Committee’s charter to better reflect its responsibilities, ensuring that internal audit recommendations were implemented, a need for improvements in internal audit reports, more concentration of internal audit on high risk areas in operational groups and a potentially inappropriate composition of the Audit Committee.

(b) Performance auditor’s recommendations

The performance auditor recommended that the composition of internal audit reports be improved and the internal audit program include high risk areas within organisational groups. A need was also identified for the Audit Committee to amend its charter, systematically follow-up internal audit recommendations, and review the composition of the Audit Committee membership.

(c) Auditor-General’s comments

The Audit Committee charter has been revised and the composition of the Audit Committee is under review. The 2005-06 plan includes consideration of business group risks. Action is in progress to improve the quality of internal audit reports.

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23 ibid., p.10
24 ibid.
25 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.3
(d) Committee's comments

Comment was made in the previous report on the performance audit of the Auditor-General’s Office in 2002 that the internal audit function should focus on areas of risk within the Office. It would have been expected that this recommendation was implemented, along with the need for the Audit Committee to follow-up recommendations of the internal auditor.

The Committee acknowledges the importance of an Audit Committee having a charter that clearly sets out its role, responsibilities, structure, membership requirements and composition. With regard to the Committee’s composition, the observation of the performance auditor that the three member Audit Committee includes the Deputy Auditor-General who has responsibility for line management functions, including all areas within the internal audit program, warrants review as to whether a conflict of interest exists which could potentially compromise the independence of the Audit Committee.

The PAEC was informed by the Audit Committee in July 2004 that:

...the Audit Committee agreed to write to you (PAEC) requesting further information regarding our auditors (that is, Acumen Alliance and Pitcher Partners). In particular, the Committee would like a copy of both contracts, including their engagement details. This will enable my Audit Committee to monitor their progress.

This information was to be ‘forwarded to the Deputy Auditor-General as soon as possible’. Such a request was seen by the PAEC as totally inappropriate. No action was taken by the PAEC on the Audit Committee’s request. However, such a request supports the performance auditor’s view that the Audit Committee’s charter is in need of revision in order that their role is clearly defined.

2.3.4 Use of private audit contractors and consultancies

(a) Performance auditor’s findings

The policies and processes used by the Victorian Auditor-General’s Office for the contracting of audits and engagement of consultants to assist with audits were found to comply with Victorian Government Purchasing Board requirements. Some areas where efficiencies could be gained, such as bundling more audits together to make it more efficient for private firms to submit bids, were identified.26

26 Acumen Alliance, Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General’s Office, December 2004, p.10
(b) **Performance auditor’s recommendation**

It was recommended that the Victorian Auditor-General’s Office consider the establishment of a panel of service providers to which financial audits could be allocated based on a range of criteria.\(^{27}\)

(c) **Auditor-General’s comments**

The contracting of audits is under review.\(^{28}\)

(d) **Committee’s comments**

The Committee understands that where audits become available for tender, the Auditor-General prefers an open tender arrangement to encourage a wider field of applicants with suitable expertise. The Committee agrees with this policy.

2.3.5 **Potential conflict of interest with performance auditor**

(a) **Performance auditor’s findings**

Although the *Audit Act* 1994 specifically excludes certain persons from being appointed as the performance auditor for reasons of potential conflict of interest, the Act does not prevent a person appointed as the performance auditor from undertaking work on behalf of the Auditor-General. Such an action would also represent a conflict of interest.\(^{29}\)

(b) **Performance auditor’s recommendation**

To remove any perception of a conflict of interest, the Public Accounts and Estimates Committee could specifically exclude the performance auditor from undertaking work on behalf of the Auditor-General for a set period of years after completion of the audit. Such an exclusion could either be enshrined in legislation or specified as part of the contractual arrangements.\(^{30}\)

\(^{27}\) ibid., pp.10–11

\(^{28}\) Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.4


\(^{30}\) ibid.
(c) **Auditor-General’s comments**

The Auditor-General observed that the Audit Act provides no guidance on whether a previously appointed performance auditor could be engaged as a contractor. His preference was not to apply legislative or contractual control to manage any perception of a conflict of interest, which would likely to be very narrow in practice. It was considered that any potential conflicts of interest would be taken into account, both by the Auditor-General’s Office and the Public Accounts and Estimates Committee at the time of evaluating the auditor’s tender.31

(d) **Committee’s comments**

The Committee supports the performance auditor’s recommendation. Potential conflicts of interest with tenderers for future performance audits will be taken into account by the Committee through inclusion of a requirement to this effect in tender documentation.

2.4 **Strategic audit planning**

2.4.1 **Annual planning cycle**

(a) **Performance auditor’s findings**

Due to the long lead times involved in the Auditor-General preparing an annual plan, the plan only outlined potential performance audits and did not identify proposed special reviews. The performance auditor considered that in order to optimise the use of audit resources, excluding financial audit resources, there was a need for the Victorian Auditor-General’s Office to develop an understanding of emerging risks across the whole of government and to ensure that such risks are addressed as part of the annual planning process.32 The performance auditor considered that the identification of major risks (such as major capital works projects) would improve the relevance of the Victorian Auditor-General’s Office annual plan, better utilise resources and enhance accountability to Parliament.33 It was also emphasised that to do their jobs effectively, sector directors needed to be out in the field building an understanding of the risks inherent in the operations of their designated sectors.34

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31 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.4
33 ibid., p.12
34 ibid., p.52
(b) **Performance auditor’s recommendation**

The performance auditor recommended that the annual planning cycle be amended to provide for a three-stage approach allowing for the preparation of a draft annual plan, including whole of government risks and selection criteria, for discussion with the Public Accounts and Estimates Committee in January each year. The second stage would involve the development of sector plans and areas of audit interest in line with major risks identified at the whole of government level. The third stage would be the annual work plan which would be provided to the Public Accounts and Estimates Committee, for discussion around April/May each year.\(^{35}\)

(c) **Auditor-General’s comments**

The performance audit program is affected by changes between the time an audit is identified and the time an audit is eventually scheduled. It may be appropriate to disclose these changes in reconciliation in the annual report.\(^{36}\)

The proposal to break the consultation with the Committee on the annual plan into two phases is supported. The first stage would include the assessment of risks in the public sector, areas of audit interest and budgets. The second stage would involve the finalisation of sector plans, areas of audit interest and refinement of budgets. Protocols with the Committee would need to be revised to reflect a new timetable.\(^{37}\)

The third stage of the planning process, as suggested by the performance auditor was not supported. The Audit Act requires the Auditor-General to provide detailed performance audit specifications to the Public Accounts and Estimates Committee for discussion. It was not seen as cost effective to introduce a third stage of the planning process when the focus of the Office on areas of audit interest could be discussed in detail with the Committee during stage two.\(^{38}\)

(d) **Committee’s comments**

The Committee agrees that there should be a focus by the Auditor-General on major areas of risk across government, which to date has not been reflected in performance audit programs, with some limited exceptions. The Committee also recognises that while it can suggest performance audit topics to the Auditor-General, the final selection of areas to be examined is entirely the prerogative of the Auditor-General as an independent officer of Parliament.

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35 ibid., p.12
36 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.6
37 ibid., p.5
38 ibid.
The Committee agrees with the recommendation of the performance auditor while recognising the practical difficulties that are encountered by the Auditor-General in identifying areas of high risk across government. Many departments either do not have well developed risk management strategies from which areas of high risk can be identified or choose not to provide the Auditor-General with the information. The performance auditor was also informed by the Victorian Auditor-General’s Office that central agencies have not prepared a whole of government risk assessment.\(^{39}\)

The Committee does not agree that detailed work plans reflecting implementation of the annual plan need to be provided to the Committee, as implementation of the annual plan, after discussion with the Committee is the responsibility of the Victorian Auditor-General’s Office. Additionally, the submission of draft performance audit specifications to the Committee provides the opportunity for comment on major aspects of the intended work plan.

### 2.4.2 Selection of audit topics

#### (a) Performance auditor’s findings

The Auditor-General’s Office has a highly developed strategic planning process which is separate from audit operations and is unique in Australia. This process relies on gathering intelligence and an expert knowledge of each major sector within the public service such as health, education and transport. From this information three year sector plans are developed, updated annually and utilised for the purpose of identifying potential areas for detailed audit examination. Topics are selected on the basis of risk, materiality, potential for improvement and potential for enhanced accountability. Although recognising the very valuable contribution of the strategic planning process to VAGO’s vision and purpose, the performance auditor drew attention to a need to:\(^{40}\)

- more formally assess risks from a whole of government perspective;
- strengthen the relationship between the Victorian Auditor-General’s Office sector directors and portfolio executives with a view to further enhancing the directors’ knowledge of portfolio operations;
- more formally explain how areas of audit interest are prioritised according to the selection criteria. It was observed that certain matters/issues identified initially as of high importance were not ultimately included in the proposed audit coverage; and
- give more attention to information technology risks as computer systems become increasingly important and sophisticated.


\(^{40}\) ibid., p.13
(b) **Performance auditor’s recommendations**

The preparation and linking of portfolio sector audit plans with the annual plan require improvement though mechanisms such as:\(^{41}\)

- additional training and guidance for sector directors in liaising with portfolios;
- documenting whole of government major risks to assist in identifying risks and themes at a portfolio level;
- giving more attention to obtaining risk management plans from departments in order to assist the Victorian Auditor-General’s Office in understanding key risks within a portfolio;
- explaining how ‘areas of audit interest’ are prioritised, with high risk becoming the primary selection criteria; and
- identifying information technology risks within government with a view to preparing a specific IT audit plan to address such risks.

(c) **Auditor-General’s comments**

Guidance has since been provided to sector directors on engaging with their portfolio counterparts, their role in strategic planning and a requirement that they attend all ‘high risk’ client audit committees.\(^{42}\)

A documented ‘whole of government’ scan of major risks has been completed. Attention was drawn to the legislative mandate of the Auditor-General to not only focus on areas of risk, but also areas aimed at identifying opportunities to improve performance and respond to issues of high public interest. The Office will continue to balance the consideration of risk with the broader mandate of the Auditor-General.\(^{43}\)

A review of risk management across agencies is currently underway which will identify all agencies that do not have an effective risk management plan.

After consultation with the Committee all areas of audit interest are to be prioritised against the established selection criteria.

A specific IT plan was prepared for 2004-05. The 2004-05 annual plan prepared in January 2004 was seen as taking into account the IT environment at the time. The Office will continue to monitor statewide IT initiatives and developments will be factored into the work program. The Auditor-General considered that VAGO had a full appreciation of the implications of the latest statewide IT plans and initiatives.\(^{44}\)

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\(^{41}\) ibid.

\(^{42}\) Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.7

\(^{43}\) ibid.

\(^{44}\) ibid., p.8
(d) Committee’s comments

The performance auditor placed high emphasis on risk as a determinant of areas of audit interest. The Committee agrees with this view, but notes the performance auditor’s comments that as departments cannot or do not provide the Auditor-General with detailed risk management plans, the Victorian Auditor-General’s Office does not undertake its own risk assessments. It was further stated that the availability of such plans was to assist in identifying risks and it was never the intention of the strategic planning section to undertake risk assessments as part of the strategic planning process.

Given the above situation, it is apparent to the Committee that risk has become a lower priority in determining audit topics, with greater weight being given to other factors such as potential for improvement and potential for enhancing accountability. This is consistent with the current ‘purpose’ of the Victorian Auditor-General’s Office, as outlined in its 2004-05 annual report. The Committee also considers that certain topics selected for performance audits are of low priority in the general context of government operations.

Australian Auditing Standards place considerable emphasis on risk assessment, in order that the audit can be planned and performed with a view to addressing areas of higher risk so as to reduce the likelihood of material misstatement when forming an audit opinion. This concept applies irrespective of whether it is a performance audit or a financial audit. Australian Auditing Standard AUS402 Understanding the Entity and its Environment and Assessing the risks of Material Misstatements, although primarily designed for financial audits, also contains a range of principles which can equally be applied to performance audits.

In this context the identification of high risk areas is a very important consideration when designing an audit program. Failure to identify and prioritise risk increases the likelihood of agency operations exposing the government to financial and operational mismanagement and wasting of resources.

The performance auditor acknowledged that under generally accepted auditing principles, the nature and extent of work performed in and around an audit subject ‘depends on a proper assessment of the risks facing that subject’. Accordingly, if the auditing standard is to be adhered to, areas selected for performance audits and special interest audits should be strongly influenced by the risks confronting the Victorian public sector.

The Committee also recalls various examples of where major performance audits addressing high risk areas are initially identified but are subsequently reduced in scope to a review of policies and procedures instead of addressing the core outputs.

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Chapter 2: Review of the performance audit report

The Committee accepts that legitimate changes to scope can occur between initially identifying performance audits and preparing specifications. However, there would appear to be a common trend to downgrading the scope of high risk areas to a review of peripheral issues. There is also a trend towards performance audits becoming more like compliance audits, rather than addressing matters involving economy, effectiveness and efficiency as is clearly intended in the Audit Act.

Examples include:

- **Out of Home care (including Foster Care)** – the Committee was informed in 2004 that the audit would review the efficiency and effectiveness of out of home care, including foster care, for children who for various reasons could not live with their own families. The scope of the audit was subsequently confined to reviewing the adequacies of the Department of Human Services’ approach to reforming out of home care. The key risk of whether effective out of home care is being provided was not addressed;

- **Health Purchasing Practices** – the Committee was advised that the proposed performance audit would review purchasing practices across public hospitals and health services in Victoria. The audit subsequently became a review of the purchasing strategies of Health Purchasing Victoria, a small agency which enters into contracts for the purchase of specialist medical consumables and pharmaceuticals;

- **Maintenance, replacement and extension of sewerage infrastructure** – this performance audit, which was identified in the Auditor-General’s 2005-06 annual plan, was intended to review the condition of sewerage infrastructure within the Melbourne and metropolitan area. The proposed audit subsequently became a review of septic tanks, the backlog in replacing septic tanks and the environmental impact;

- **Rail safety** – instead of determining the safety of the rail system, the performance audit revolved around the functions of the Rail Safety Regulator. The key issue of whether Victoria has a safe rail system, including comparisons with other states, was not addressed.

After acknowledging the comments of the Auditor-General as to his perception of his broader mandate, the Committee strongly supports the recommendation of the performance auditor that future audits concentrate on major areas of government and public risk, including information technology systems.
2.4.3 Stakeholder relationships

(a) Performance auditor’s findings

The Committee has certain legislative responsibilities under the Audit Act 1994, including reviewing the Auditor-General’s annual plan, recommending to Parliament independent auditors to undertake financial and performance audits of the VAGO, and commenting on draft performance audit specifications. The performance auditor considered that:

...the relationship between the Public Accounts and Estimates Committee and the Auditor-General could be further developed to allow the Public Accounts and Estimates Committee more opportunity to contribute to the debate on selection of appropriate audit topics, the development of the resulting annual work program, and monitoring the progress of the annual work plan throughout the financial year.

If the above communications were to occur, this was seen as removing the need to consult with the Public Accounts and Estimates Committee on individual draft performance audit specifications. The performance auditor was advised that the existing process required the Auditor-General to produce performance audit specifications earlier than might otherwise be effective and therefore did not produce optimal outcomes for either the Auditor-General or the Public Accounts and Estimates Committee.

(b) Performance auditor’s recommendation

The annual consultative process between the Auditor-General and the Public Accounts and Estimates Committee be amended to enable greater consultation on the development and ongoing status of the annual work program and the results of audits tabled in Parliament.

(c) Auditor-General’s comments

The recommendation was seen as being subject to discussion with the Committee. The Auditor-General advised that special reviews and investigations are less about efficiency, economy and effectiveness and more about probity, waste, compliance and governance. Concerns were expressed about inclusion of inquiries and investigations of a sensitive nature in a consultative process.

46 ibid., p.67
47 ibid.
48 ibid., p.14
49 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.9
(d) Committee’s comments

As an independent officer of Parliament, the Auditor-General can determine his work plan and undertake such activities as he considers necessary. Although the Auditor-General must consult with the Public Accounts and Estimates Committee on his annual plan and work plans he has no obligation to accept any of the Committee’s suggestions.

The suggestion that the Public Accounts and Estimates Committee should more actively participate in the planning process and topic selection may be outside of the Committee’s legislative mandate. The Committee should continue to be consulted on draft performance specifications, particularly given that the average cost of performance audits is around $500,000. The Committee aims to ensure that value for money is achieved from the audits and the audits are properly prioritised and address the major issues associated with the topic.

The Committee does not accept that the existing processes place pressure on the Auditor-General to produce performance audit specifications earlier than otherwise would have occurred and therefore the quality was compromised. It is the prerogative of the Auditor-General to choose when to consult with the Committee on specifications. The Committee also noted that the performance auditor’s report contained a chart which recorded that from a sample of nine performance audits, the time taken from discussion of the initial performance audit specification with the Committee to forwarding the final specification to the Committee ranged from 15 to 153 days. Further, as referred to earlier, performance audits identified in the annual plan do not always translate into the audits actually undertaken.

2.4.4 Good practice guides

(a) Performance auditor’s findings

During the period covered by the performance auditor, the Auditor-General published four Good Practice Guides. These guides were published as a result of audit activities and reflected the intellectual capital gained from such activities which was seen as beneficial to the wider public sector. The practice was consistent with other Australian Audit Offices and reflected the Auditor-General’s stated purpose of ‘improving performance and accountability in the Victorian Public Sector’.

The performance auditor established that agencies regarded the issue of the guides as positive, although their practical use was minimal and some agencies were unaware of their existence, even though the guides were distributed to departmental secretaries, chief executive officers and chief financial officers.

50 Acumen Alliance, Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General’s Office, December 2004, p.72
The Auditor-General also published an occasional paper on ‘measuring and reporting on sustainability’ arising from a performance audit on forest logging. The performance auditor considered the paper was justified, but expressed concern if the occasional papers were to be published regularly, without first ensuring there was sufficient external interest and value to be gained to justify continuing the publications.\(^{51}\)

**(b) Performance auditor’s recommendations**

In order to promote use of the *Good Practice Guides* the Auditor-General should survey agencies on use of the guides, relevance of contents and the best means by which they could receive future publications, including distribution to Audit Committees.

Stakeholder interest and potential benefits should be ascertained before expending resources on any further occasional papers.\(^{52}\)

**(c) Auditor-General’s comments**

The production of *Good Practice Guides* is under review. The Auditor-General’s Office is currently working with other Audit Offices to develop a revised survey instrument. Existing surveys include Audit Committee chairs where appropriate. Comments on occasional papers were noted.\(^{53}\)

**(d) Committee’s comments**

The Committee supports the performance auditor’s recommendations.

### 2.5 Financial audit

#### 2.5.1 Method and fieldwork

**(a) Performance auditor’s findings**

The performance auditor considered that:\(^{54}\)

*While VAGO’s financial audit methodology is consistent with Australian Auditing Standards, it is not fully supplemented by sufficient detailed guidance material to support the assessment and identification of inherent/control/audit risk, the selection of a particular audit approach (for*

\(^{51}\) ibid.

\(^{52}\) ibid., pp.72–73

\(^{53}\) Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.12

\(^{54}\) Acumen Alliance, *Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General’s Office*, December 2004, pp.18–19
example, compliance/substantiate/systems based), and the determination of
the level and type of audit work to be undertaken (that is, work program
steps).

In a selective examination of audit files the performance auditor found a wide range of
inconsistencies. Taken individually, many of the inconsistencies might be seen as poor
housekeeping (instances of incomplete cross-referencing and loosely worded
conclusions, as well as the voluminous files of less than relevant copy documents) but
were too widespread to overlook, which raised questions about the precision of the
process. However, there was no evidence to suggest that any inappropriate audit opinions
had been issued.55

(b) Performance auditor’s recommendation

The Victorian Auditor-General’s Office needed to invest further in developing financial
audit methods, guidance material and training programs. Such an investment needed to
be undertaken in conjunction with the development of new financial audit technology.56

(c) Auditor-General’s comments

The recommendations were accepted. A new electronic toolset and accompanying
policies and standards were anticipated to be introduced in November 2005.
Development of training materials to support the roll-out has commenced.57

(d) Committee’s comments

The performance auditor’s review of a selection of audit files involving in-house and
external contracts disclosed a wide range of deficiencies, including a lack of audit
evidence to support work undertaken and/or audit conclusions, to the extent that further
substantive testing became necessary, resulting in additional time and cost being incurred
by the performance auditor in completing the project. Although it was judged by the
performance auditor that no inappropriate audit opinions were issued, on the basis of the
performance auditor’s findings the Committee considers there is a more than acceptable
risk that this could occur. The deficiencies in the working papers could also be a
reflection on the adequacy of quality control over audit files. The Committee is further
cconcerned that the performance auditor indicated:58

We do not believe that all financial audits were conducted as efficiently as
VAGO policies would dictate.

55 ibid., pp.80–81
56 ibid., pp.18–19
57 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.14
58 Acumen Alliance, Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General’s
Office, December 2004, p.81
The Committee strongly agrees with the recommendation that more comprehensive guidance and training is required of financial auditors. It is likely that the deficiencies in the working papers have been exacerbated by the high turnover of staff, particularly at the lower classification levels, which results in mainly inexperienced staff working on financial audits.

Other factors referred to by the performance auditor, such as a need for more training, detailed guidance on modern audit methodologies and poor quality assurance contribute to the above situation.

2.5.2 Financial audit technology

(a) Performance auditor’s findings

The existing financial audit technology used to support financial audits was developed over eight years ago and although effective, it lacks a range of features necessary in the current auditing environment. The Victorian Auditor-General’s Office has recognised these deficiencies and has been negotiating with the Queensland Audit Office to jointly redevelop the financial audit methodology and supporting technology.59

(b) Performance auditor’s recommendation

Prior to finalising any agreement with the Queensland Audit Office, the Auditor-General needs to be satisfied that all options for replacement of the audit technology have been considered, prior to developing a business case containing project scope, deliverables, timelines and financing arrangements.60

(c) Auditor-General’s comments

Recommendation accepted and acted on.61

(d) Committee’s comments

Along with more comprehensive guidance and training of financial auditors, the acquisition of new financial audit methodology should assist the Auditor-General in raising the standard of financial audits undertaken, both internally and externally by contractors.

59 ibid., pp.75–76
60 ibid., p.19
61 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.14
In September 2004 the Auditor-General advised the Committee of his intention to formally enter into an arrangement with the Queensland Auditor-General to upgrade financial audit methodologies in both Offices. The costs were estimated to be between $1 million and $2 million, to be shared equally. The Committee understands that at the date of this report the project is close to finalisation.

2.5.3 Use of internal audit

(a) Performance auditor’s findings

Although the Victorian Auditor-General’s Office does consider the work of internal auditors in the undertaking of financial audits, it does not always clearly document the impact of internal audit work on its audit approach and work programs.

(b) Performance auditor’s recommendation

The Victorian Auditor-General’s Office should provide training to ensure that audit files reflect the extent to which an agency’s internal audit function has been assessed and relied on in the conduct of financial audits.

(c) Auditor-General’s comments

Recommendation accepted.

(d) Committee’s comments

Under the Audit Act 1994, the general auditing standards as issued by CPA Australia and the Institute of Chartered Accountants in Australia must be applied. Accordingly, Auditing Standard AUS604 ‘Considering the Work of Internal Auditing’ must be adhered to. As part of the quality control function undertaken within the Victorian Auditor-General’s Office it would be expected that adherence to the above standard should be confirmed if quality assurance procedures were adequate.

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62 Letter, dated 20 September 2004, from Mr W Cameron, Auditor-General, to Hon. C Campbell, MP, Chair of the Public Accounts and Estimates Committee
64 ibid.
65 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.15
2.5.4 Independent quality reviews

(a) Performance auditor’s findings

A VAGO practice exists for external experts to conduct an annual independent quality review of a sample of financial audit files covering both in-house and contractual audits. An independent review was undertaken of a selection of audit files with financial periods ending at either June or December 2003. However, the results of the review were not reported until June 2004, by which stage most audits had already commenced and there was insufficient time to incorporate the recommendations from the review. As the external review was designed to cover the overall audit process, as distinct from a detailed examination of all work papers, the full extent of the deficiencies found by the performance auditor would not have been apparent.66 The external review identified the main weakness in VAGO working papers, apart from housekeeping errors and omissions, as the lack of a clear linkage between risks, work programs and audit steps.67

(b) Performance auditor’s recommendation

The performance auditor recommended that external reviews should be undertaken at an earlier stage in order that any recommendations could be incorporated in the current round of audits. It was also recommended that in view of the performance auditor’s adverse findings on work papers, that any future external reviews place particular emphasis on work paper consistency and clarity and the linking of risks to audit programs and audit evidence.68

(c) Auditor-General’s comments

Recommendation accepted and acted on.69

(d) Committee’s comments

The Committee agrees with the performance auditor’s recommendations. The Committee also observed that the more common issues identified in the limited external review undertaken by the practitioner engaged by the Auditor-General’s Office, were also detected in the performance auditor’s review of the working papers involving audits completed in 2004. The concerns raised by the previous practitioner engaged by VAGO involved financial audits completed in 2003. The similarity of the concerns raised by the external practitioner and the performance auditor regarding the standard of the working

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67 ibid., p.82
68 ibid., p.20
69 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, pp.15–16
papers suggests that long standing deficiencies have never been properly addressed by VAGO. As previously stated by the Committee, deficiencies in working papers and poor quality control increase the potential for an inappropriate audit opinion to be expressed on the financial papers.

### 2.5.5 Information technology audit

#### (a) Performance auditor’s findings

The Computer Risk Management Group consists of four staff who are involved in approximately 30 to 40 financial audits a year, as well as performance audits and special reviews as requested. Given the increasing sophistication of information systems across the public sector in conjunction with the risks associated with such systems, it is important that the Victorian Auditor-General’s Office has sufficient skilled resources, not only to undertake computer audits, but also to supervise contractors engaged to undertake specialist technology reviews.\(^70\)

#### (b) Performance auditor’s recommendation

Given the importance of the Computer Risk Management Group, a formal human resources strategy should be implemented that recognises the resources required to address areas of IT risk across government. Consideration should also be given to expanding the existing usage and range of computer interrogation packages.\(^71\)

#### (c) Auditor-General’s comments

Recommendation accepted. The specific needs of the Computer Risk Management Group will be an important part of the Human Resources Strategy which is to be developed. The group will continue to invest in and become accomplished in the use of appropriate software solutions.\(^72\)

#### (d) Committee’s comments

The Committee endorses the performance auditor’s recommendation. Reference is made to the previous recommendation in this report that topic selection should allow for reviews of IT systems across government which are seen as a high risk area. Acknowledgement should also be given to the appointment of the Chief Information Officer to oversee IT strategy and delivery across the public sector. This appointment is envisaged as leading to a rationalisation of IT systems with an emphasis on systems

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71  ibid.
72  Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.16
across whole of government. An example is Project Rosetta, which will link the directories of all government agencies to a whole of government directory. Projects such as this will provide new challenges for the VAGO which currently prepares IT audit plans on a sector basis only.

2.6 Performance audit

2.6.1 Methodology

(a) Performance auditor’s findings

The Victorian Auditor-General’s Office’s Manual for Auditing Performance was seen by the performance auditor as containing statements of theoretical principle based on Australian Auditing Standards as distinct from providing practical guidance in the conduct of a performance audit.

The Victorian Auditor-General’s Office has recognised that further work is required to develop its performance audit methodology and has established a Business Improvement Project for this purpose.\(^{73}\)

(b) Performance auditor’s recommendation

To improve consistency in approach and outcomes of performance audits, the revision of the performance audit manual, along with detailed guidance material, needs to be accelerated.\(^{74}\)

(c) Auditor-General’s comments

Agreed. The Business Improvement Project is planned for completion in June 2006.\(^{75}\)

(d) Committee’s comments

The Committee agrees that early finalisation of a contemporary performance audit manual and detailed guidelines are critical, particularly for recently recruited performance auditors.

\(^{73}\) Acumen Alliance, Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General’s Office, December 2004, p.21
\(^{74}\) ibid.
\(^{75}\) Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.18
2.6.2 *Management and size of performance audits*

**(a) Performance auditor’s findings**

The size and cost of performance audits varied considerably, dependent on the subject matters, issues, audit approach and resources available. The observation was made that a definitive guideline cannot be set for an appropriate size of a performance audit as case by case issues will ultimately determine the size.

The performance auditor considered that the critical factors to the success of a performance audit are well defined audit criteria, achievable audit timelines and use of appropriately skilled staff. Timeliness was seen as a critical factor, particularly in terms of reporting relevant issues while the issues were current and had not been superseded by subsequent events.

**(b) Performance auditor’s recommendation**

The Victorian Auditor-General’s Office should ensure that where performance audits are scheduled to run, for example, up to nine months from commencement to completion, then consideration should be given to conducting the audit in stages to enable recommendations to be progressively released and actioned.

**(c) Auditor-General’s comments**

Recommendation accepted in principle. The decision whether a performance audit is split into smaller parts is to be made at the time the specifications are considered.

**(d) Committee’s comments**

The recommendation has merit where large performance audits are planned. The Committee is aware however, that many performance audits become larger than planned as evidenced by the high number that exceed budgets advised to the Public Accounts and Estimates Committee by more than 10 per cent, with margins of up to 45 per cent. In these circumstances progressive reporting may not be practical as budget variations can occur for a wide range of reasons unrelated to the progressive examination of issues, such as underestimating the complexity of a project, inexperienced staff and high turnover, failure to properly define criteria, lack of knowledge of topic, extent of

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76 Acumen Alliance, *Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General’s Office*, December 2004, p.21
77 ibid., p.22
78 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.18
80 ibid., pp.90–91
agency communications, and absence of detailed guidance supplementing the performance audit manual. Conversely, where major issues arise that were not identified in the scope of the audit, it would be appropriate to amend a budget in order to accommodate such issues. The Committee considers it is incumbent on VAGO to thoroughly analyse all reasons for major budget overruns in order to take remedial action.

2.6.3 Scoping and planning

(a) Performance auditor’s findings

Significant time is spent scoping and planning performance audits. The Strategic Audit Planning, Policies and Standards Group (SAPPS Group) identifies medium to long term issues in the public sector, some of which are appropriate for performance audits. Potential performance audits are handed onto the Performance Audit Group for subsequent scoping. At times, the scope of the proposed audit as envisaged by the Performance Audit Group will differ from the original proposal from the SAPPS Group, necessitating additional work and cost by both groups on agreeing the final scope of the proposed performance audit.

Although the performance auditor observed that collaboration between the two groups had become more efficient and effective during the course of the review, further improvement was warranted.

(b) Performance auditor’s recommendation

To assist in making the process between the two groups more efficient and cost effective, it was recommended that a ‘change schedule’ be introduced to record and explain all modifications between the original proposal and the performance audit finally agreed on.

(c) Auditor-General’s comments

Accepted. Audit files will document reasons for changes to scope.

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81 ibid., p.114
82 ibid., p.91
83 ibid., pp.85–86
84 Acumen Alliance, Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General’s Office, December 2004, p.22
85 ibid.
86 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.19
(d) **Committee’s comments**

The performance auditor considered that the formation of the Strategic Audit Planning, Policies and Standards Group to be an excellent concept, unique in Australia. However, the need for the ongoing role of the SAPPS Group must be continually cost justified in identifying and shaping performance audits. Obviously where the scope of performance audits is substantially amended, or where identified performance audits are not accepted by the Auditor-General, these actions reflect on the ongoing value of maintaining the group.

The Committee has observed many instances, as referred to previously in this report, where performance audits identified to the Committee as part of the consultation process on the Auditor-General’s annual plan have either been discontinued or modified to the extent that only a component of the original project is undertaken as a performance audit. The concept of a ‘change schedule’ as proposed by the performance auditor would not only assist in improving collaboration between the two groups as to their respective requirements but would also provide accountability for decision making and the cost thereof, in amending proposals from the SAPPS Group.

### 2.6.4 Fieldwork and reporting

(a) **Performance auditor’s findings**

Some performance audits had not been conducted efficiently and effectively, particularly in the areas of scope, defining assessment criteria, control of cost and timelines and the management of communications with agencies. Accordingly, elements of the performance audit program have not been as efficient and effective as VAGO would have intended.87

(b) **Performance auditor’s recommendation**

To ensure further improvement in the performance audit program continued attention is required in relation to:88

- further development of the performance audit manual supported by detailed guidance material;
- establishing clear and relevant audit criteria;
- management of audit costs, monitoring progress against audit plans and adherence to agreed timelines; and

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88 ibid., pp.22–23
• ensuring communication with agencies as part of the audit progress is conducted at the appropriate levels, commensurate with the varying stages of the audit process.

(c) **Auditor-General’s comments**

Accepted.

(d) **Committee’s comments**

The need for an appropriate performance audit manual supported by detailed, practical guidelines is fundamental to the conduct of performance audits and should be given high priority by the Auditor-General’s Office. This is particularly relevant in view of the Auditor-General’s focus in the selection of performance audits that reflect the purpose of the Victorian Auditor-General’s Office ‘improving performance and accountability in the Victorian public sector’ as distinct from the selection of topics that often does not reflect high risk areas within the public sector.

The development of audit criteria to set the benchmark against which an agency’s performance can be judged is a difficult, but critical part of a performance audit. Failure to properly develop and agree on the criteria with the agency subject to audit, can be a major factor in determining the outcomes of performance audits.

The Committee agrees with the need to closely monitor performance audit budgets and progress, but is ultimately concerned about the outcomes achieved from performance audits. In this context, value could be obtained by speedily concluding performance audits already in progress that are not likely to produce any significant findings for Parliament. Conversely, the scope and budget of performance audits could be extended where matters of significance arise during the course of an audit which were not identified in the original scope. The Committee noted however, that such actions would need to take into account the Victorian Auditor-General’s Office scorecard, whereby the performance target provides for an average cost of performance audits of $500,000, and reporting to the agency within seven months of specification approval.

2.6.5 **Supporting technology**

(a) **Performance auditor’s findings**

The Victorian Auditor-General’s Office utilises a Lotus Notes database system known as EMPERA to provide a work paper and review framework under the various components of a performance audit, such as planning, management, implementation and reporting.

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89 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.20
It was observed that the system was not fully and consistently applied to all performance audits. EMPERA needed to be revised to better suit the new performance audit reporting structures being progressively introduced.\(^\text{90}\)

**Performance auditor’s recommendation**

The Business Improvement Project currently underway in the Performance Audit Group should include the updating of EMPERA to bring it in line with new methodology reporting frameworks and audit management techniques. Its use in documenting performance audits should be enforced.\(^\text{91}\)

**Auditor-General’s comments**

Accepted in principle.\(^\text{92}\)

**Committee’s comments**

The Committee supports the recommendation. Failure to consistently use the package, as observed by the performance auditor could be a factor in the failure to conduct certain performance audits with due regard to cost, timeliness, efficiency and effectiveness.

**Measuring efficiency and effectiveness of performance audits**

**Performance auditor’s findings**

The Victorian Auditor-General’s Office had recently introduced new key performance indicators (KPIs) to measure the efficiency and effectiveness of performance audits. The indicators related to cost versus budget, timeliness, and agency satisfaction with the quality of the audit report.

Although the performance auditor agreed with the measures, agency satisfaction (particularly if an audit report did not contain adverse findings) was not a complete measure of the quality of performance audits although it goes some way towards this.

The difficulty of determining KPIs relating to the efficiency and effectiveness of performance audits was acknowledged.\(^\text{93}\)

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\(^{91}\) ibid.

\(^{92}\) Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.20

(b) **Performance auditor’s recommendation**

It was recommended that any conclusions arising from the conduct of independent quality reviews of selected performance audits be considered as a potential source for the further development of KPIs measuring the efficiency and effectiveness of performance audits.\(^{94}\)

(c) **Auditor-General’s comments**

The quality assurance program referred to is an internal review process utilised as part of the Office’s continuous improvement activities. Conclusions from the program should not be used as a measure of effectiveness.

The effectiveness of an Auditor-General’s performance audit mandate is not easily measured because responsibility and accountability for the implementation of recommendations made in any audit rests with the agency being audited and, on some occasions, the executive government. In these circumstances the Auditor-General may use substitute measures of VAGO’s effectiveness. Client satisfaction is one such measure. Outcomes from quality reviews are not appropriate as future measures.\(^ {95}\)

(d) **Committee’s comments**

The Auditor-General periodically seeks comments from parliamentarians as to the quality of his reports. This is very important, as Parliament should be regarded as the primary client of the Auditor-General. It is apparent to the Committee that agency satisfaction primarily relates to whether the agency accepts the VAGO recommendations. Accordingly, there should be reservations as to the extent to which this key performance indicator is reflective of the overall quality of a performance audit.

Independent reviews of the quality of Victorian performance audits were undertaken in 2002 by the New South Wales Audit Office and in 2003 by a selection of academics. The recommendations arising from these reviews were predominately of a procedural nature and were not adaptable to KPIs.

Notwithstanding certain factors, such as funding, resources available and political will, probably the best indicator of the value of a performance audit still remains the quality of the recommendations made, irrespective of whether they are accepted or accepted in part by agencies. Non-acceptance of audit recommendations should never influence whether certain recommendations are made, provided they are evidenced by the audit. At times, recommendations may be adopted several years later, after circumstances change.

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\(^{94}\) ibid.  
\(^{95}\) Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, pp.9, 21
The Committee does not have any specific suggestions for ongoing KPIs measuring the quality of reports but draws attention to the annual report of the Australian National Audit Office for 2003-04. This Office publishes a scorecard on four key result areas, including human resources. The Office also provides extensive commentary on the operations of each of its output groups and their contribution to the Office, the public sector and Parliament.

The role of the Committee in periodically following up performance audit reports of the Auditor-General also provides a very useful independent measure of the quality of the Auditor-General’s work.

2.7 Special reviews

2.7.1 Methodology

(a) Performance auditor’s findings

Special reviews, as distinct from performance audits, are a substantial component of the audit activity. It was observed that due to the absence of supporting guidance material, a wide variety of approaches were applied to the conduct of special reviews.

Many reviews were undertaken on the understanding that the scope would be adjusted and redefined according to the circumstances encountered.

The undertaking by VAGO of a Business Improvement Project involving upgrading the Manual for Performance Auditing will also include special reviews.\(^{96}\)

(b) Performance auditor’s recommendation

As part of the inclusion of special reviews in the Manual for Performance Auditing it is essential that detailed guidance material for each type of special review undertaken be developed to supplement the special review methodology.\(^{97}\)

(c) Auditor-General’s comments

Accepted.\(^{98}\)

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\(^{96}\) Acumen Alliance, Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General’s Office, December 2004, pp.25, 103

\(^{97}\) ibid., p.25

\(^{98}\) Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.23
(d) **Committee’s comments**

The Committee supports the recommendation.

2.7.2 **Management and staffing of special reviews**

(a) **Performance auditor’s findings**

The majority of special reviews are conducted by staff from the Financial Audit Group. However, after the Auditor-General established a small rapid response team to quickly respond to urgent audit issues that arise, such as whistleblower tip-offs, the teams now include representatives from sector planning and performance audit groups. It is important that appropriate skills are used in the conduct of special reviews, including performance audit staff.99

(b) **Performance auditor’s recommendation**

In recognising the occasional involvement of performance auditors in special reviews, the recommendation was that greater emphasis be placed in the future on the importance of allocating appropriately skilled staff from all operational groups, in order to maximise outcomes from special reviews.100

(c) **Auditor-General’s comments**

Noted. The staffing of each audit is considered at the time the audit is being planned.101

(d) **Committee’s comments**

The nature of special reviews includes not only financial investigations and matters of a compliance nature, but also a range of matters such as wastage or misuse of public resources where issues involving economy, effectiveness and efficiency arise. Accordingly, it is important that appropriate skills best suited to the nature of the review are utilised.

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100 ibid.
101 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.23
2.8  Business management

2.8.1  Practice management system

(a)  Performance auditor’s findings

The Victorian Auditor-General’s Office has introduced a new practice management system called MARS. The system is intended to capture core information ranging from costs of audits to staff utilisation on an individual basis. The new system appeared robust, but would be subject to ongoing refinement. Although the system was capable of producing a comprehensive range of reports suitable for the effective management of business operations, this capability was under-utilised.

Observation was also made that the scheduling of financial audit staff is undertaken centrally, a practice which does not allow individual Audit Managers to view staff availability across the entire Financial Audit Group in order to maximise resource utilisation, especially in peak periods.102

(b)  Performance auditor’s recommendations

To assist directors and managers in effectively managing their operations, the capability of the MARS system should be further utilised by defining additional reports for this purpose. Ongoing training in the use of MARS will also be required in order to maximise use of the system for audit and business management purposes.103

It was also recommended that the Victorian Auditor-General’s Office consider obtaining a staff scheduling system to assist in optimising the allocation of financial audit staff to audit assignments across the Financial Audit Group.104

(c)  Auditor-General’s comments

Accepted in principle. A project to develop enhanced reporting to the Senior Management Group, operational groups and directors has been approved and was in progress. A staff scheduling system has been acquired.105

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103  ibid.
104  ibid.
105  Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.24
(d) **Committee’s comments**

Recommendations are supported. It would appear that the MARS system is a very efficient and effective system but is under-utilised for purposes such as job costing and resource scheduling. It is not clear whether the system is used for contract management, which is the major component of financial audit operations. A staff scheduling module would appear essential in order to minimise overheads and maximise staff utilisation on audits.

### 2.8.2 Costs and charges

(a) **Performance auditor’s findings**

Following a review of the basis on which costs are accumulated and charged to auditees and the Consolidated Fund it was noted that:

- the cost of obtaining some additional information from individual departments for the purposes of the audit of the *State’s Annual Financial Report* was being charged to the individual departments. The total cost of the audit of the *State’s Annual Financial Report* is meant to be borne by the Department of Treasury and Finance; and

- it was standard Victorian Auditor-General’s Office practice to offset budget overruns on some financial audits where the excess time could not be recouped from the agency, through adding the overruns onto audits that were completed under budget.

Attention was drawn to section 10(1) of the *Audit Act 1994* which allows for recoupment from an agency of the reasonable costs and expenses incurred by the Auditor-General in conducting an audit. The question of whether the recoupment of costs other than the actual costs directly attributable to the audit complied with the intent of the Audit Act was seen as questionable.\(^{106}\)

(b) **Performance auditor’s recommendation**

The Victorian Auditor-General’s Office practice of write-ons and write-offs needed to be reviewed in terms of legality.\(^{107}\)

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\(^{107}\) ibid., p.27
(c) Auditor-General’s comments

Practice is under review.108

(d) Committee’s comments

The practice of charging some agencies for costs associated with budget overruns on the audit of other agencies is viewed as inappropriate by the Committee, notwithstanding questions about the legality of the practice.

Although not reported on by the performance auditor due to the isolated instance detected, evidence was found whereby on 1 June 2004 a large proportion of the costs associated with a performance audit on the development of policy advice that had exceeded the budget by a wide margin were allocated by the General Manager, Performance Audit, with the authority of the Deputy Auditor-General, to three other performance audits that were in progress.

The Committee was initially advised of a budget of $371,750 for this audit. The budget was subsequently revised to $453,000, without notification to the Committee. After the adjustment, the actual cost was recorded at $358,450.

Apart from issues of budget control and the efficiency of performance audits undertaken, at the time this action was of little consequence as the total cost of performance auditing is met from an appropriation from Parliament and is not charged to individual agencies as occurs with financial audits. However, since the performance auditor’s report the Committee observed that the report’s recommendation, which reinforced a previous recommendation from this Committee, that the total cost of conducting individual performance audits be disclosed to Parliament has been adopted by the Auditor-General. As a result, Parliament needs to be satisfied as to the accuracy and integrity of the cost of performance audits as recorded in the individual reports that are tabled.

The Auditor-General and the Senior Management Group has a responsibility to ensure that the total costs of all audits are properly accumulated and accurately disclosed. Failure to do so will not identify any inefficiencies in the audit process that need to be addressed internally. The Committee considers that all journal entries transferring costs from performance audits to other audits should be documented as to the justification for the transfer and approved only by the Auditor-General or the Deputy Auditor-General.

108 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.24
2.8.3 Internal information technology systems

(a) Performance auditor’s findings

The Victorian Auditor-General’s Office’s internal information technology (IT) infrastructure and systems were reviewed. It was concluded that the Victorian Auditor-General’s Office has a relatively well developed IT infrastructure, which is managed in an organised way through a documented IT strategic plan. The disaster recovery plan is well developed and tested.

Attention was drawn to the distinction between a disaster recovery plan and a business continuity plan. A business continuity plan is generally accepted as dealing with the maintenance of business operations immediately following a disruption, whereas a disaster recovery plan deals with the restoration of infrastructure back to its original state after a disruption. Business continuity plans have a far wider focus than disaster recovery plans, addressing areas such as organisation morale and stress management, decision making and authorisation processes, secondary equipment failure and a range of other factors. The Victorian Auditor-General’s Office did not have a business continuity plan.109

(b) Performance auditor’s recommendation

A formal business continuity plan should be developed to ensure that in the event of a disaster, key functions and processes can be resumed without significant delay.110

(c) Auditor-General’s comments

A broad business continuity plan will be developed as a companion document to the disaster recovery plan. The plan will be in place by 31 December 2005.111

(d) Committee’s comments

Development of a business continuity plan would complement what is regarded as well managed internal IT infrastructure and systems.

110 ibid., p.27
111 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.25
2.8.4 Human resource policies and processes

(a) Performance auditor’s findings

Over recent years a range of human resource (HR) initiatives have been introduced, such as a revised graduate recruitment strategy, introduction of an induction program and significant policy developments in a range of areas.

The performance auditor, in acknowledging these initiatives, observed there had been a limited strategic analysis of the Victorian Auditor-General’s Office’s human resources. There was no comprehensive understanding of what actions or plans are required over a three to five year period to ensure that the Victorian Auditor-General’s Office’s human resources are suited to meeting its legislative and corporate objectives.

There was an increasing exodus of staff (overall 23 per cent in 2004) which exit interviews attributed to a lack of professional development planning, scheduling of work, lack of career progression and the personal pursuit of other career paths. The Office’s approach to human resource management was seen as operationally based, often at a micro level, as distinct from a more strategic and forward planning process.

It was also observed that although the reasons for staff leaving were known, no documentation was sighted to indicate a strategic analysis was undertaken on departures in order to better inform management in order that rectification strategies could be developed; both in the short and long term. Existing recruitment practices were effective and should be continued. The problem identified was the retention of staff.112

(b) Performance auditor’s recommendations

A Human Resources Strategic Plan be developed that links to the achievement of the current three year corporate plan. In making this recommendation the performance auditor observed that the current corporate plan did not place an emphasis on specific HR requirements, hence the need for a detailed strategic plan.

More attention needed to be given to analysing the reasons for the high rate of staff turnover, in order that the development of corrective strategies could progress. In conjunction with this process, the Victorian Auditor-General’s Office also needed to develop and adopt formal succession planning strategies to address the potential impact of the forthcoming departure of many senior staff in the near future.113

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113 ibid.
(c) **Auditor-General’s comments**

Recommendations accepted. A HR strategy is in place. A more detailed plan is currently being developed. Quarterly reports now provide a more strategic view of the nature of staff departures. A formal succession strategy that links job requirements and personal attributes is in place through the job description and performance plan process.\(^{114}\)

(d) **Committee’s comments**

The Committee is pleased that the Auditor-General has accepted the performance auditor’s recommendations. The Committee considers that the principles outlined in the VAGO’s December 2004 report on *Meeting our future Victorian Public Service workforce needs* would be a valuable tool in developing a detailed plan on workforce needs and staffing strategies for the Office.

### 2.8.5 Culture

(a) **Performance auditor’s findings**

Observation was made that the Victorian Auditor-General’s Office acknowledges the importance of developing a positive culture and conducts annual surveys to test the extent to which a positive culture exists. The most recent survey in 2004 confirmed a number of positive attributes within the Office, such as a commitment to quality service and meeting the expectation of stakeholders.

The survey also recorded that between 25 per cent and 30 per cent of staff were not necessarily aligned to the Auditor-General’s vision and values; the Senior Management Group did not set clear plans and directions, and staff were not kept informed about future plans.

The performance auditor concluded after various discussions with the staff of the Victorian Auditor-General’s Office that further work was required to develop a cohesive culture to ensure that all staff understand the Auditor-General’s vision, how it is to be achieved and their role in achieving that vision.\(^{115}\)

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114 Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, pp.26–27

(b) **Performance auditor’s recommendations**

To ensure that staff understand the Auditor-General’s vision and the impact of the vision on VAGO plans, more attention needed to be given by management to:

- acknowledging the results of staff surveys by demonstrating actions to be taken to address the issues raised;
- an improved focus on coaching/monitoring, counselling and honestly and openly assessing staff performance; and
- reinforcement through internal training and staff meetings of the Auditor-General’s vision, values and action plans to achieve.\(^{116}\)

(c) **Auditor-General’s comments**

Accepted in principle.\(^ {117}\)

(d) **Committee’s comments**

The Committee established from the performance auditor that the initial staff survey within the Auditor-General’s Office in 2004 was withdrawn because of a poor response, with only 42 per cent of staff responding to the survey questionnaire. As the survey firm considered that the response rate was too low to be representative of Office attitudes, the survey questionnaire was reissued. The response from 73 staff out of a possible 130 represented a 56 per cent return, which was considered adequate.

The Committee supports the performance auditor’s recommendations. Of serious concern to the Office should be the turnover of staff at the junior levels, in that over 40 per cent of new starters in 2002 had left the Office by July 2004. Although the performance auditor observed that turnover within similar audit offices was around 15 per cent, the rate of turnover within the Victorian Auditor-General’s Office averaged 23 per cent in 2003-04 and was increasing. The Committee is aware that the 2004 staff survey disclosed that only 14 per cent of audit managers and 31 per cent of auditors agreed that their career would benefit from staying at the Victorian Auditor-General’s Office rather than leaving. The high staff turnover reflects this attitude.

The performance auditor’s observation that up to 30 per cent of staff were not necessarily aligned to the Office’s vision and values was an aggregate figure across the Office and did not reflect areas of deep concern which must be addressed. For example, the survey questions reflected the following results:

\(^{116}\) ibid.

\(^{117}\) Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.27
• Does the leadership demonstrate the Office’s values and vision?
  – Only 41 per cent of performance audit staff and 31 per cent of financial audit staff agreed.

• Does the Office preserve its values and stimulate progress towards the vision?
  – Only 27 per cent of managers and 7 per cent of performance audit staff agreed.

• Is the Victorian Auditor-General’s Office improving working relations to ensure its success?
  – Only 14 per cent of performance audit staff agreed.

• Will the leadership team do something about the problems raised in the survey?
  – Only 13 per cent of audit managers and 14 per cent of the business support group were confident that the leadership team would bring about change.

As a general rule when interpreting survey results, where more than 20 per cent of respondents either disagree or strongly disagree, this is an indication that the areas identified need improvement. A generally favourable response relates to more than 60 per cent of staff agreeing.

Based on the above interpretation, the Victorian Auditor-General’s Office has some very significant problems, especially in the performance audit group, that cannot be ignored or explained away and must be addressed if the Auditor-General is to fulfil his legislative responsibilities.

By comparison with VAGO, the 2004-05 annual staff survey within the Australian National Audit Office recorded the following results:118

• office values and behaviours are demonstrated in the workplace
  – 91 per cent of staff agreed.

• workgroup members are helpful
  – 95 per cent of staff agreed.

• staff commitment to the office
  – 94 per cent of staff were committed to the office.

• staff desire to produce high quality work
  – 98 per cent of staff were fully committed to producing high quality work.

118 Australian National Audit Office, 2004-05 Annual Report, p.4
The Committee understands there was no VAGO staff survey in 2005. It was therefore not possible to determine whether senior management had undertaken any action to address the major concerns identified in the 2004 survey. While it is appropriate to reinforce the Office’s vision and values to the other classified officers, senior management within the Office should also demonstrate a commitment to such values in order to inspire staff.

The Committee considers there is a direct correlation between the culture of the Office and high staff turnover with many of the other observations contained within the performance auditor’s report. The Committee noted the comments of the performance auditor that although the increasing turnover of staff was acknowledged in the VAGO’s 2004-05 Business Plan, the rate of recruitment was seen to be keeping pace with the turnover rate.\textsuperscript{119} This is not a long term solution, particularly given the ongoing investment by the Victorian Auditor-General’s Office in training new recruits.

The business plan further stated that action plans would be developed to ‘recruit and retain a sufficiently skilled workforce’ without outlining what the plans may contain.\textsuperscript{120}

\textbf{2.8.6 Benchmarking and best practice}

\textbf{(a) Performance auditor’s findings}

Discussions were held with the Australian National Audit Office and the Queensland Audit Office for the purpose of comparing the performance of those offices with the Victorian Auditor-General’s Office. Although it was considered that the Victorian Auditor-General’s Office compared well to the above offices in most areas, it was observed that more attention was given by the other offices to evaluating their performance.

Initiatives undertaken elsewhere included undertaking independent surveys of stakeholders and the reporting of an extended range of key performance indicators. The Victorian Auditor-General’s Office currently conducts its own surveys of agencies and parliamentarians.

The performance auditor also noted the practice in other jurisdictions of disclosing the costs of the performance audits.\textsuperscript{121}

\begin{flushleft}
\textsuperscript{120} ibid.
\textsuperscript{121} ibid., pp.30–31
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(b) **Performance auditor’s recommendations**

It was recommended that:\(^{122}\)

- an independent survey of parliamentarians be undertaken every two years;
- an external independent survey be undertaken on a selection of agencies subject to performance audits;
- additional key performance indicators be developed by the Victorian Auditor-General’s Office and included in reports provided to the Committee; and
- costs of performance audits, within bands of $100,000, be disclosed in performance audit reports.

(c) **Auditor-General’s comments**

Accepted in principle. The Auditor-General’s Office is in the final stages of establishing a joint initiative with other audit offices to enhance the survey process through use of an independent firm.\(^{123}\)

It was accepted that there was a need to improve performance measures. The performance auditor’s suggestion to utilise the percentage of audit hours of audit staff charged against annual available hours for each operational group, along with the cost of performance audits, as performance measures are measures which are already in place and monitored internally. The measures are not reported externally.\(^{124}\)

The Auditor-General considered that certain of the performance measures identified by the performance audit, such as the percentage of administrative resources ($) devoted to audit support, percentage of audit hours (actual on job time) charged against available hours and the percentage of the annual budget invested in learning and development, were input measures. These measures were used to assist the Auditor-General in running the Office, as distinct from performance measures that reflect the outputs of the Office, such as the number of reports produced annually as compared with the target for reports to Parliament.\(^{125}\)

Accordingly, the Auditor-General considered that he did not need to be accountable for performance measures used internally to assist in managing operations.

Parliamentary reports will include their costs from 1 July 2005.\(^{126}\)

\(^{122}\) ibid.
\(^{123}\) Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.28
\(^{124}\) ibid., p.29
\(^{125}\) ibid., pp.7–8
\(^{126}\) ibid. p.29
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**(d) Committee’s comments**

The Committee notes that the Auditor-General has accepted the need for improved performance measures. The Committee also accepts that certain measures used to assist in managing the operations of the Office can be regarded as input measures and are not appropriate for external measurement purposes. However, the Committee questions whether the measurement of actual audit time versus total available hours should be excluded as an external measure.

Under the Audit Act the Auditor-General is held accountable for his performance and the performance of the Victorian Auditor-General’s Office. In this context agencies that are required to pay audit fees are paying the direct cost of audits plus a fixed percentage representing overheads.

It is incumbent on the Auditor-General in the interests of efficiency and economy, to maximise the direct time spent on audits and to minimise overheads. Publication of a performance measure indicating the extent to which this is achieved as compared with similar jurisdictions would be beneficial.

**2.8.7 Legislation**

**(a) Performance auditor’s findings**

Section 7A of the *Audit Act* 1994, as amended requires the Auditor-General to prepare a draft annual plan to be considered by the Committee. Section 15(3) of the Audit Act requires the Auditor-General in consultation with the Committee to determine the intervals at which performance audits are to be conducted and the number of performance audits to be conducted in any one year.

The performance auditor considered that the planning of performance audits was adequately covered by section 7A and therefore the need for section 15(3) should be reviewed.127

**(b) Performance auditor’s recommendation**

The need for section 15(3) of the Audit Act should be reviewed.128

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128 ibid.
(c) **Auditor-General’s comments**

Section 7A of the *Audit Act* 1994, as amended enables consultation with the Committee on all matters relating to the draft annual plan including priorities and budgets. Section 15(3) of the Act provides the specific authority to the Auditor-General to determine in consultation with the Committee, the number of performance audits and the intervals at which performance audits of a particular authority are conducted.

The above provision is particularly important as it determines the level and extent of performance audit coverage across the public sector, including audits that do not involve high risk activities.

The section was under review, but was a low priority.\(^{129}\)

(d) **Committee’s comments**

The Committee does not support the legislative change as recommended, due to the importance of retaining section 15(3) to provide for the specific identification of performance audits across the public sector. As previously referred to, performance audits identified in the draft annual plan may be changed in focus, deferred, or subsequently withdrawn due to emerging circumstances which may not have been apparent at the time of preparing the draft plan.

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\(^{129}\) Mr W Cameron, Victorian Auditor-General, submission, 4 October 2005, p.31