

# PAEC Report on the Review of the Performance Measurement and Reporting System

## Summary of recommendations relating to VAGO

Received 9 September 2014

Page	Recommendation	Response
5	<p><b>Recommendation 11:</b></p> <p>The Victorian Auditor-General's Office review the performance measures listed in Appendix A4.11</p>	<p><b>Support</b></p> <p>VAGO is already in the process of developing a new Strategic Plan for the Office. This will likely involve a comprehensive review of all our budget paper performance measures.</p> <p>VAGO considers our measures regularly. We last conducted a wholesale review of our measures in 2011 and we make any necessary changes annually when submitting to the budget paper process.</p> <p>VAGO's response to PAEC's comments on specific measures is below.</p>
	<p>a) <u>Output:</u> Parliamentary reports and services.  <u>Performance measure:</u> Reports completed on time.  <u>Reason for review:</u> Are original milestones used?</p>	<p>Original milestones as reported in the business plan are used, with the exception being when VAGO purposely delays an audit, which is a rare occurrence. For example, the performance audit <i>WoVG Information Security Management Framework</i> was delayed as a number of serious security issues were identified that needed to be addressed before the audit could continue.</p>

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	<p>b) <u>Output:</u> Audit Reports on Financial Statements.  <u>Performance Measure:</u> External/peer reviews finding no material departures from professional and regulatory standards.  <u>Reason for review:</u> Could a more challenging standard be used?</p>	<p>The measure is challenging and appropriate and reflects the importance of the quality of audits. We expect that all VAGO audits result in an appropriate opinion being issued, and that audit work is performed in accordance with relevant professional and regulatory standards. We consider this is an important element of our performance, which should be externally communicated. A more challenging measure could not be used and we will continue to aim for 100% against this measure as we have a 'no exceptions' rule in relation to the accuracy and quality of our audit opinions.</p> <p>To better convey what this measures, we have reconsidered the wording of the measure to be more consistent with what we do. The proposed revised wording is:  'External/peer reviews identify no audits where the financial report was materially misstated or where there is not sufficient evidence to support the audit opinion'.</p> <p>PAEC's recommendation aligns with a current area of focus for VAGO, looking at this area and seeking to increase and enhance our activities. A separate Standards and Quality team has recently been established in order to improve our systems and processes that focus on audit quality. This performance measure is a key focus of the new Assistant Auditor-General who leads this team.</p>
	<p>c) <u>Output:</u> Audit Reports on Financial Statements.  <u>Performance Measure:</u> Management letters issued to agencies within established timeframes.  <u>Reason for review:</u> Can the technical term be explained? (for the benefit of the community, indicate what a 'management letter' is.)</p>	<p>A management letter is the commonly used term for the form of communication we use to inform those charged with governance about significant findings from the audit, in accordance with Auditing Standards ASA 260 <i>Communicating with Those Charged with Governance</i> and ASA 265 <i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i>.</p> <p>The purpose of management letters is explained in the letter of engagement issued to every audited agency, as well as VAGO's Audit Practice Statement.</p> <p>We will update Budget Paper Three to provide the definition of a management letter. This explanation will align with the description included in the Audit Practice Statement, which is 'management letters to audited agencies on matters arising from the audits, including observations about the quality of internal controls in place, accounting issues and compliance with applicable laws and standards'.</p>

Page	Recommendation	Response
104	<p><b>Recommendation 44:</b></p> <p>In undertaking the planned review of 'public sector performance measurement and reporting', the Auditor-General consider the issues identified in this report. The audit could identify and report on the reasons why Government guidance with respect to the performance measurement and reporting system is not always followed by departments and how this might be rectified.</p>	<p><b>Support.</b></p> <p>This performance audit has commenced. VAGO met with the Chair of the Committee on 6 May 2014 to discuss the audit and the audit considered this issue following this meeting. The final specification was issued to PAEC on 27 June 2014.</p>
104	<p><b>Recommendation 45:</b></p> <p>The Auditor-General, on a cyclical basis, review departmental objectives, departmental objective indicators, performance measures and targets to ensure that they meet with better-practice criteria.</p>	<p><b>Do not support.</b></p> <p>The role of cyclical review of departmental objectives, departmental objective indicators, performance measures and targets sits with the central agencies – the Department of Premier and Cabinet (DPC) as the author of the framework, and the Department of Treasury and Finance (DTF) as the agency responsible for administering this framework through the budget process.</p> <p>VAGO has conducted several audits in recent years on performance reporting including the roles of DPC and DTF. We conduct such audits as we determine necessary. One such audit is currently underway. VAGO will not, however, make any commitment to a cyclical program of performance audits. It is the Auditor-General's discretion to determine the audit work program and VAGO has a rigorous process to inform this including consideration of risk and materiality.</p>
107	<p><b>Recommendation 46:</b></p> <p>The Victorian Auditor-General consider the findings of this reporting when conducting the planned audit into 'compliance with non-financial requirements of annual reporting'.</p>	<p><b>Support.</b></p> <p>This audit has been removed from the audit work program. During initial planning, it was decided that given DTF's review of the Standing Directions, it was not an appropriate time to conduct the audit. Subsequently, the full audit work program was reviewed and this audit was removed. The decision to remove audits is made in the context of VAGO's annual planning process.</p> <p>Issues raised by PAEC that led to this recommendation are being considered in the performance audit <i>Public sector performance measurement and reporting</i>, currently in conduct and scheduled to table in October 2014.</p>