



Public Accounts and Estimates Committee

Appointment of a person to conduct the performance audit of the Auditor-General and Victorian Auditor-General's Office

Report

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Laverton



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Nicholas McGowan
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About the Committee

Functions

The Public Accounts and Estimates Committee is a Joint Parliamentary Committee constituted under the *Parliamentary Committees Act 2003* (Vic).

The Committee comprises of nine Members of Parliament drawn from both the Legislative Assembly and the Legislative Council.

The Committee scrutinises matters of public administration and finance to improve outcomes for the Victorian community. Under the *Parliamentary Committees Act 2003*, the Committee is required to inquire into, consider and report to the Parliament on:

- any proposal, matter or thing concerned with public administration or public sector finances
- 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 has several key statutory responsibilities in relation to the Auditor-General and the Victorian Auditor-General's Office (VAGO). The Committee is required to:

- make a recommendation to the Parliament on the appointment of the Auditor-General
- make a recommendation to the Parliament on the appointment of the independent performance and financial auditors to review the Auditor-General and Victorian Auditor-General's Office
- consider the Auditor-General's budget every financial year
- consider the Auditor-General's draft annual plan and audit priorities
- be consulted on draft performance audit specifications.

The Committee also conducts follow-up inquiries into selected VAGO performance audits.

Secretariat

Dr Caroline Williams, Executive Officer
Dr Krystle Gatt Rapa, Lead Analyst
Caitlin Wu, Analyst
Jacqueline Coleman, Administrative Officer
Trish Brown, Advisor

Contact details

Address Public Accounts and Estimates Committee
Parliament of Victoria
Parliament House, Spring Street
East Melbourne Victoria 3002

Phone +61 3 8682 2867

Email paec@parliament.vic.gov.au

Web parliament.vic.gov.au/paec

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Chair's foreword


Parliament's Public Accounts and Estimates Committee has an essential role to play in ensuring the accountability of the Auditor-General and Victorian Auditor-General's Office (VAGO). At least every four years the Committee must oversee an independent audit of the Auditor-General and their office.

VAGO is responsible for providing assurance to the Parliament and the community about how effectively public sector agencies are delivering services and using public money. With a budget of \$49.1 million in 2023–24 and 185 staff, VAGO plans to undertake 17 performance audits, 5 limited assurance reviews, and financial audits of over 540 agencies. The Auditor-General's reports, published in Parliament, contain recommendations that promote government accountability and improved public sector performance.

This report recommends to both Houses that the firm MartinJenkins undertakes the independent audit of the Auditor-General and VAGO in 2023–24. The audit will determine whether the Auditor-General and VAGO are achieving their objectives effectively, economically, efficiently and in compliance with the relevant legislation. The findings will be tabled in Parliament in May 2024.

Auditing can be challenging work. Several areas will be examined including leadership, culture, staff engagement and staff wellbeing.

I would like to thank the Audit Sub-Committee, firms and individuals involved in the tender and selection process. I also acknowledge the Committee Secretariat's support.



Sarah Connolly MP
Chair

Appointment of a person to conduct the performance audit of the Auditor-General and Victorian Auditor-General's Office

1.1 Legislative requirements

The *Audit Act 1994* (Vic) (the Act) requires that an independent performance audit of the Auditor-General and the Victorian Auditor-General's Office (VAGO) be conducted at least once every four years.

The Public Accounts and Estimates Committee (the Committee) is responsible under the Act for making a recommendation to both Houses of Parliament on the appointment of a suitably qualified person to undertake the performance audit.

Section 82 of the Act states in part that:

- (1) On the recommendation of the Parliamentary Committee, a suitably qualified person may be appointed by resolution of the Legislative Council and Legislative Assembly as an independent performance auditor of the Auditor-General and the Victorian Auditor-General's Office other than the following—
 - (a) a person who has a conflict of interest by reason of being engaged by the Auditor-General under section 7;
 - (b) a person who has a conflict of interest by reason of holding a delegation from the Auditor-General under section 8;
 - (c) a person appointed under section 79 as the independent financial auditor of the Victorian Auditor-General's Office.
- (2) The independent performance auditor
 - (a) is appointed on the terms and conditions and is entitled to the remuneration determined by the Parliamentary Committee; and
 - (b) in conducting the audit, must comply with directions as to the audit given by the Parliamentary Committee.
- (3) Remuneration payable to a person appointed as the independent performance auditor is to be paid from money appropriated to the Parliament.

- (4) The independent performance auditor must conduct a performance audit at least once every 4 years to determine whether the Auditor-General and the Victorian Auditor-General's Office are achieving their objectives effectively, economically and efficiently and in compliance with all relevant Acts.

1.2 Specification for the Performance Audit

In the context of section 82 of the Act and without limiting the scope of the audit, the Committee has directed the person to conduct the performance audit of the Auditor-General and VAGO to consider and assess the following areas:

- Independence and objectivity
- Contribution to an effective and efficient public service
- Professional and respectful relationships
- Contemporary methodology, tools and techniques
- Focus on quality and continuous improvement
- Strong practice management
- Participative leadership and inclusive culture
- Engaged staff and a focus on wellbeing

These are discussed in further detail below.

1.2.1 Independence and objectivity

An Auditor-General plays an important role providing independent and objective assurance on financial reporting and the efficient and effective management of public resources.

Determine whether VAGO has an effective and efficient framework for assuring the independence and objectivity of the Auditor-General and his staff. Consider whether:

- VAGO has codified policies, standards or guidance that clarify the concept of 'independence' as it applies to the Auditor-General, VAGO staff and the full range of activities they engage in that interface with the public sector and audited agencies.
- VAGO has defined:
 - the nature and domain of acceptable activities with audited agencies and those which should be avoided under all circumstances in order to preserve VAGO's actual and/or perceived independence and the reasons why
 - the risks to VAGO's actual and/or perceived independence arising from all functions and activities that interface with the public sector and audited agencies, and the actions and mitigation strategies to be followed by all staff

- VAGO has effective arrangements for systematically monitoring and assuring the adherence of all staff and contractors to any defined minimum standards, strategies and/or processes designed to assure VAGO's independence
- VAGO has effective arrangements for engaging with stakeholders to ensure they understand the nature and domain of acceptable collaborative and/or 'value-add' activities that VAGO will engage in with audited agencies and the reasons why.

1.2.2 Contribution to an effective and efficient public service

An effective and respected audit office works collaboratively with agencies and authorities to deliver its mandate in a way that engages productively and supports the public sector's ability to operate in a more effective and efficient manner.

Determine if VAGO is effectively leveraging appropriate opportunities to support and improve the effectiveness and efficiency of the public sector. Consider if:

- VAGO has a transparent strategy that clarifies, both for staff and agencies, the nature, variety and limits of collaborative initiatives it will employ to support the public sector to operate more effectively and efficiently
- VAGO's focus on collaborative initiatives is appropriate having regard to its mandate, objectives and core functions
- the public sector and VAGO staff (across both performance and financial audit) have both a reasonable and shared understanding of the limits of acceptable collaborative activities between agencies and VAGO, and if this aligns with the Parliament's expectations for VAGO
- VAGO is effectively mitigating the risks to its independence and self-review from current and/or planned collaborative initiatives by its financial and performance audit teams with agencies
- VAGO has a sound evidence-based approach to determining its performance audit and assurance review effort in terms of, but not limited to, the mix between 'in-flight' vs completed programs/projects, and broad vs limited scope audits and whether this demonstrates audits and reviews are optimally focused on supporting the effectiveness and efficiency of the public sector
- VAGO's performance audit and limited assurance review effort and mix is appropriately risk-based, targeted and demonstrably reflects an effective and efficient use of its resources
- changes to the number and mix of performance audits and limited assurance reviews delivered by VAGO since 2020 reflect improvements to VAGO's efficiency, productivity and extent of scrutiny of public sector activities.

1.2.3 Professional and respectful relationships

Open, honest and effective consultation with stakeholders is fundamental to an effective audit office. At the same time, audit offices must maintain the right balance between consultation and preserving their independence and objectivity.

Determine if VAGO engages professionally and respectfully with stakeholders, and if it is striking the right balance between consultation and preserving its independence and objectivity. Consider:

- if VAGO has an effective stakeholder engagement strategy, developed in conjunction with stakeholders, that demonstrates a mutual commitment to clearly defined standards of professional behaviour and engagement between VAGO and the public sector
- if VAGO regularly assesses stakeholder's and its own performance against the engagement strategy and if this is discussed with stakeholders and demonstrates that both parties are effectively and efficiently discharging their obligations
- a representative sample of financial and performance audit engagements and assurance reviews and determine if VAGO conducts audits and reviews professionally and respectfully. In so doing:
 - balance any feedback received from agencies against the perspectives of relevant VAGO staff, and validate any findings by reference to evidence on VAGO files
 - consider if VAGO's correspondence, communication and approach to engagement demonstrates that it is receptive and responsive to agency feedback
 - determine if VAGO maintains its independence by fairly and critically evaluating the issue, feedback or concerns raised by stakeholders during audits, and if it has responded appropriately to agencies in response to these issues where they have arisen
- if VAGO has a transparent and effective framework for managing disagreements with agencies during audits and limited assurance reviews that assures its objectivity and independence is maintained. Consider if VAGO:
 - transparently records the basis of disagreements with agencies
 - rigorously and fairly evaluates the merits of agency perspectives
 - formulates appropriate responses that maintain the independence and objectivity of audits and limited assurance reviews
 - engages reasonably and effectively with agencies to explain the basis of its position in relation to any disagreements and proposed actions
 - ensures that any changes it makes to draft reports in response to agency feedback or disagreements are evidence-based, appropriate and uphold the independence of VAGO

- VAGO's office culture and the perspective of audit staff on how VAGO and its contractors balance the focus on agency relationships with the need to conduct audits and limited assurance reviews without fear, favour or affection.

1.2.4 Contemporary methodology, tools and techniques

An audit office must ensure that it has access to methodologies that comply with relevant standards and legislation, supported by tools and techniques that assist the teams in the conduct of their audits and limited assurance reviews.

(a) Performance audits and limited assurance reviews

Determine if VAGO's performance audit and assurance review methodology, tools and techniques are sound and effectively applied to audits and reviews. Consider if:

- VAGO's performance audit and limited assurance review methodology, guidance and software is comprehensive, regularly reviewed and updated to ensure compliance with the Audit Act and requisite standards
- performance audit staff and contractors are systematically trained in the use of the performance audit and limited assurance review methodology
- VAGO has a sound quality control framework for performance audits and limited assurance review that is consistently and effectively applied by all staff and contractors across all phases of the performance audit lifecycle, and which assures compliance with the Audit Act and auditing standards
- performance audits and limited assurance reviews are subject to regular quality assurance reviews that are promptly and effectively acted upon by senior management to improve performance audit and limited assurance review practice
- an examination of a representative sample of performance audits and limited assurance reviews demonstrates:
 - the audit review plan, criteria and evidence adequately support the findings, conclusions and recommendations contained within performance audit reports
 - that reports are balanced and contain no material or unjustified omissions of adverse findings
 - recommendations are clear, specific and actionable and address the root causes of issues
 - VAGO's parliamentary reports are robust and developed through a rigorous process that is devoid of fear, favour and affection
- VAGO demonstrates effective financial management of budgets and associated costs with respect to its performance audits and limited assurance reviews.

(b) Financial Audit

Determine if VAGO's financial audit methodology, tools and techniques are sound and effectively applied to audits. Consider if:

- VAGO's financial audit methodology, guidance and software is comprehensive, regularly reviewed and updated to ensure compliance with the Audit Act and requisite standards
- financial audit staff and contractors are systematically trained in the use of the financial audit methodology
- VAGO has a sound quality control framework for financial audits that is consistently and effectively applied by all staff and contractors across all phases of the financial audit lifecycle, and which assures compliance with applicable legislation and auditing standards
- financial audits completed by in-house staff and contractors are subject to regular quality assurance reviews that are promptly and effectively acted upon by senior management to improve financial audit practice and compliance by in-house staff and contractors with requisite standards
- an examination of a representative sample of financial audits completed by in-house staff and contractors demonstrates compliance with all relevant statutory requirements and Australian Auditing Standards for the conduct and reporting of financial audits
- VAGO demonstrates effective financial management of budgets and associated costs with respect to its financial audits.

1.2.5 Focus on quality and continuous improvement

To maintain relevance and credibility, effective audit offices continually strive to produce high quality outputs as efficiently as possible. Their internal processes are geared towards continuous improvement.

Determine if VAGO has a strong continuous improvement culture supported by effective governance and accountability arrangements that drive the efficient and effective implementation of improvement initiatives. Consider if:

- VAGO has made adequate progress in addressing the recommendations of the 2020 Performance Audit Report, and whether the basis for any delays is reasonable and justified
- the work of VAGO's audit quality teams is adequately resourced, supported by senior management, and resulting in sustained improvements to audit quality and compliance with standards
- the leadership team has strengthened its focus on accountability for continuous improvement and project management, and whether this is reflected in the delivery of VAGO's audit program, data analytics strategy, improvement projects, as well as

VAGO's performance against Budget Paper No. 3: Service Delivery measures and staff survey results

- VAGO proactively leverages the results of staff surveys, client surveys (that is, of Members of Parliament and audited agencies) and its benchmarking activities with other audit offices to inform its continuous improvement initiatives.

1.2.6 Strong practice management

Effective audit offices employ appropriate tools, systems and processes to support the operational aspects of their offices.

Determine if VAGO has appropriate practice management systems, strategies and processes that efficiently and effectively support:

- planning for the number, mix and delivery of performance and financial audits and limited assurance reviews
- monitoring and oversight of the progress of audits, continuous improvement initiatives, and VAGO's performance against its strategic plan, Budget Paper No. 3: Service Delivery and outcome measures
- implementation of VAGO's quality control framework, including timely review and supervision of audits and reviews
- timely actions for addressing staff morale and engagement, including training and development needs
- the resourcing and scheduling of audits and limited assurance reviews
- the setting, management and monitoring of audit, divisional and office-wide budgets.

1.2.7 Participative leadership and inclusive culture

An Auditor-General, due to the independent nature of the position as articulated in relevant audit acts, has significant influence to set and enforce the direction and culture of an audit office. An effective Auditor-General drives a culture that makes stakeholders, clients and staff feel included and respected.

Examine the leadership team's impact on the organisation, and its progress in improving organisational culture and cohesion. Consider if:

- staff surveys, retention and turnover metrics demonstrate that the leadership group, including its behaviour and decisions has made a positive impact on improving perceptions of the leadership group and organisational culture; identify the nature, extent and drivers of residual issues and any opportunities for improvement
- the leadership team has taken appropriate and timely action in response to issues raised by staff to improve VAGO leadership and organisational culture

- the leadership team has taken appropriate and timely action in response to issues raised by staff regarding any negative workplace behaviours, workplace stress (including workload stress) and any concerns regarding inclusion and diversity
- robust whistle-blower policies promote and translate into a ‘speak up’ culture
- VAGO has a clear vision, strategy, values and a plan for building a strong inclusive culture that demonstrably resonates with its employees.

1.2.8 Engaged staff and a focus on wellbeing

An effective audit office needs high performing employees that are able to deliver quality outcomes often under pressure, under potentially difficult circumstances and with time constraints. An effective audit office focuses their staff engagement strategies around maintaining healthy and positive workplaces that support employees to be high performing, self-motivated and resilient.

Examine the leadership team’s progress in improving staff engagement, morale and wellbeing. Consider if:

- Human Resource metrics such as staff surveys, retention and turnover metrics, exit interview data, worker health and safety reports and internal audit reports demonstrate that the leadership group has made a positive impact on improving staff morale, engagement, safety and wellbeing
- the leadership team has made adequate progress in improving staff feedback and consultation, succession planning, as well as staff recognition and retention; identify the nature, extent and drivers of residual issues and any opportunities for improvement.

1.3 Timelines and key deliverables

The Committee expects the conduct and reporting of the performance audit to be completed in accordance with the following timelines:

- a proposed performance audit plan to be submitted to the Committee by 13 November 2023
- a performance audit progress report to be submitted to the Committee by 18 December 2023
- a preliminary draft performance audit report to be provided to the Committee by 1 April 2024
- final performance audit report to be tabled in Parliament on 30 May 2024.

1.4 Selection process

In May 2023, the Committee agreed to commence the process to appoint a person to undertake a performance audit of the Auditor-General and VAGO.

A request for tender invitation was sent out on 1 August 2023 to selected suppliers the Committee considered appropriate and did not appear to have any conflicts of interest. Tender submissions closed on 25 August 2023.

A PAEC Audit Sub-Committee was formed to evaluate tender submissions, comprising of:

- Sarah Connolly MP, Chair
- Nick McGowan MLC, Deputy Chair
- Lauren Kathage MP
- Michael Galea MLC
- Bev McArthur MLC.

Following an evaluation of the tender submissions, the Audit Sub-Committee held interviews with short-listed firms. The interviews were conducted on 11 September 2023. The Audit Sub-Committee consequently made its recommendation to the full Committee on the successful supplier on 11 September 2023. The Audit Sub-Committee recommended that MartinJenkins be appointed as the performance auditor of the Auditor-General and VAGO for 2023–2024. This recommendation was adopted by the full Committee at a meeting on 11 September 2023.

1.5 Recommended appointment

The Committee notes that MartinJenkins is a reputable service provider with experience in public sector auditing, organisational reviews and evaluation. The company has undertaken a wide range of projects, reviews and evaluations in complex, sensitive policy areas including ministerial and select committee reporting. MartinJenkins has completed evaluations and performance audits that have contained innovative, value-adding recommendations. The company has broad and varied experience utilising a wide range of quantitative and qualitative methodologies.

RECOMMENDATION: In accordance with section 82 of the *Audit Act 1994* (Vic), the Legislative Council and Legislative Assembly appoint MartinJenkins:

- (a) to conduct the performance audit of the Auditor-General and the Victorian Auditor-General's Office in 2023–2024
- (b) to act in accordance with the Terms, Conditions and Specifications as set out in the Request for Tender issued on 1 August 2023
- (c) at a fixed fee of AUD\$405,933 (excluding GST).

Adopted by the Public Accounts and Estimates Committee
55 St Andrews Place, East Melbourne
2 October 2023

