

PAEC Report on the 2009-10 and 2010-11 Financial and Performance Outcomes

Summary of recommendations relating to VAGO

RECEIVED PAEC 01/06/12

Page	Recommendation	Response
157	<p>Recommendation 19:</p> <p>The Auditor-General consider conducting an audit of departments to identify whether their disclosure of expenditure on consultants in annual reports is being made in accordance with government guidance.</p>	<p>Current low level assurance is already obtained around departments' compliance with the Financial Reporting Directions, as part of the annual financial statements' audit.</p> <p>VAGO would be happy to explore this recommendation further with PAEC. We note, however, that other recommendations relating to this issue have been made to the appropriate authority, the Department of Treasury and Finance (DTF).</p> <p>Until those recommendations relating to DTF have been implemented, an audit in this area by VAGO would currently be of limited effectiveness.</p>
229	<p>Recommendation 48:</p> <p>The Victorian Auditor-General's Office conduct a performance audit of Major Projects Victoria to ensure that it:</p> <ul style="list-style-type: none"> (a) delivers value for money; and (b) has appropriate mechanisms in place to demonstrate that it delivers value for money. 	<p>This item has already been raised and acquitted as part of the consultation process with PAEC on the <i>Annual Plan 2012-13</i> on 26 March 2012. As a result of consultation a performance audit examining the <i>Management of Major Projects</i> was included in the final <i>Annual Plan 2012-13</i>.</p> <p>This audit will examine the effectiveness of Major Project Victoria's management of major projects including the achievement of outcomes and is scheduled to table in October 2012.</p>

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259	<p>Recommendation 53:</p> <p>The Victorian Auditor-General's Office to add to the information currently provided in its annual report:</p> <p>(a) the audit cost compared to the original budget for each audit; and</p> <p>(b) the anticipated tabling date for each performance audit report planned to be completed in the following year.</p>	<p>(a) Established budgetary control framework is at the output level and overall VAGO performs very satisfactorily when compared with other Victorian entities and peer offices.</p> <p>(b) Individual budget figures are working estimates based on an early understanding of the environment and cannot cater for unforeseen events during a performance audit. Accordingly, original budget estimates are internal management tools which are the subject of discussion with individual audit directors, and such detail is not appropriate for an annual report. Performance audit budget information was reviewed as part of the triennial performance audit of VAGO and information at this level is not reported by any other audit office in Australia, New Zealand, the UK or Canada.</p> <p>(c) Information relating to the following year's audit program is included in the Annual Plan and not the Annual Report. The anticipated tabling dates are published on the website once consultation with PAEC on the audit specification has been undertaken. The Annual Report is not the relevant vehicle to disseminate this information as it is a retrospective view of the operations of the preceding year and a forward view of the strategic items for the Office. Similarly, no other jurisdiction across Australia, New Zealand, the UK or Canada reports this detailed information.</p>

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261	<p>Recommendation 54:</p> <p>When publishing material on its website in relation to performance audits in progress, which includes information about when each report is expected to be tabled, the Victorian Auditor-General's Office also includes particulars of the year in which each audit was initially earmarked for completion.</p>	<p>The information available on VAGO's website about audits in progress currently contains information about when each report is expected to be tabled, as it indicates when the audit is scheduled to be tabled.</p> <p>Information about whether reports were tabled when scheduled is currently published in the Annual Report, which indicates which reports have been carried forward from the previous year. Further this information acquits against the annual plan, identifies which audit reports were late and provides explanations for this variance. This is considered the appropriate time and place to acquit operational management issues.</p> <p>Publishing the originally expected dates, whilst feasible, would detract from the primary purpose of the website. Further, it would reduce the flexibility that is often required with unforeseen events, such as 'drop in' audits conducted at the request of committees such as PAEC and not originally identified in the work program or complexities which can arise in the course of an audit.</p> <p>This information is currently not published by any other audit office in Australia, New Zealand, the UK or Canada on their website.</p>
263	<p>Recommendation 55:</p> <p>The Victorian Auditor-General's Office explores avenues for having a greater focus on the statutory requirements in section 3A(1)(b) of the <i>Audit Act 1994</i> in relation to examining effectiveness and economy in the conduct of performance audits in future.</p>	<p>Consistent with our Strategic Plan key result area for reports and advice, VAGO seeks to better target topics and direct audit reports to areas of public value. In determining performance audit topics for inclusion in the Annual Plan, regard is already given to examining effectiveness and economy. The potential areas of audit interest include programs or initiatives that are identified as having significant inherent risks, underperformance issues, or strong public interest.</p> <p>Should a robust framework of performance reporting, with cohesive performance indicators and outcome reporting be implemented across departments this would provide further assurance over the effectiveness and economy of government operations. Future performance audits could then measure compliance against such a framework and also enable a broader more systemic focus for VAGO's work program.</p>

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265	<p>Recommendation 56:</p> <p>In relation to the annual peer review of performance audit reports, the Victorian Auditor-General consider discussing with the Australasian Council of Auditors-General the possibility of expanding the criteria to include a focus on efficiency.</p>	<p>The Australasian Council of Auditors-General (ACAG) criteria already cover economy, efficiency and effectiveness. In error, the listing in the <i>Annual Report 2010-11</i> omitted efficiency. Regrettably this error was not identified by our quality assurance process.</p>

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265	<p>Recommendation 57:</p> <p>The Victorian Auditor-General's Office reconsider establishing a performance measure that quantifies the impact that performance audits have had in terms of public sector entities generating efficiency gains from their operations.</p>	<p>This recommendation reframes an issue raised in previous PAEC Outcomes reports which sought the introduction of a quantifiable savings measure as part of VAGO's external performance indicators.</p> <p>The statutory role of the Auditor-General is to provide assurance to Parliament on the performance and accountability of the public sector. It remains the primary accountability of public sector entities to implement and report on change and improvements arising from audit reports - this cannot be enforced by VAGO.</p> <p>As such, quantifying the impact of audit reports on agency delivery in terms of financial efficiency gains is not an appropriate performance measure for the Office. Indeed it may well encourage VPS entities to rely overly on external audit activities and reports to acquit their performance responsibilities. Over time it could serve to unevenly bias the focus of audit activities.</p> <p>In August 2006, a review of public sector audit benchmarking and performance measures, conducted through ACAG, considered the merit of measuring the value of identified savings flowing from audit recommendations. At the time the participants expressed strong reservations because of the difficulty of establishing a dependable measure. It was also noted that the National Audit Office of the United Kingdom, which had been attempting to introduce an identified savings measure, were experiencing real difficulty with its effective implementation.</p> <p>Priority is accorded to the statutory mandate. Furthermore, a comprehensive suite of performance indicators, including a core subset developed in conjunction with ACAG already exists. Notwithstanding, VAGO's <i>Strategic Plan 2010-11 to 2014-15</i> seeks to "be a catalyst for continuous improvement in the accountability and performance of the public sector" and this is appropriately evaluated through existing performance information on VAGO's presentations, communications and professional liaison activities. It is reassuring that central agencies are using VAGO's recurring themes as they address service efficiency issues.</p> <p>In any event, it would be helpful for the committee to consider refinements of VAGO's measures in the context of the adequacy of extant governmental performance measures.</p>

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267	<p>Recommendation 58:</p> <p>The Victorian-Auditor General's Office obtain feedback on how briefing sessions on the key findings could be made more appealing or convenient to members of Parliament in order to increase the attendance rate in future.</p>	<p>VAGO understands and appreciates PAEC's motivation in raising this recommendation. In considering how best to engage with Parliamentarians on the key findings in reports a consultation process was carried out in the last five years. The lunchtime briefing, held on a day when both Houses are sitting, was found to be the best option.</p> <p>In proportional terms there is a small attendance at the briefings and it would be useful to identify how best to engage with the Parliamentarians. VAGO will incorporate this question in the next round of Parliamentarian surveys due to be undertaken in 2012-13. Exploring strategies for other means of communication will be considered as part of the 2012-13 Business Plan.</p> <p>Although current attendance reflects a low proportion of members, feedback from those who do attend indicates considerable satisfaction with the process.</p> <p>Across Australia, Canada and New Zealand only a small number offer briefings on tabling days to all Parliamentary members, and they too, also identify relatively low attendance. The majority of other audit offices in these jurisdictions provide briefings to committees equivalent to PAEC rather than all members of Parliament. The UK NAO has recently committed to providing briefings to MPs and Select Committees where the NAO's expertise coincides with their interests.</p>
269	<p>Recommendation 59:</p> <p>To assist in interpreting the overall quality of performance audits, the Victorian Auditor-General's Office supplement information reported against its performance measures by:</p> <p>(a) benchmarking the average score of audit reports by external assessors against other jurisdictions; and</p> <p>(b) disclosing the credentials of the external assessors.</p>	<p>In response to the individual elements of the recommendation:</p> <p>(a) At present there would be limited value in benchmarking the average score of audit reports by external assessors against other jurisdictions due to the small take-up of this peer review process by other offices. While many offices take part in the client satisfaction benchmarking, in 2011-12 only the Audit Office of New Zealand and the Tasmanian Audit Office took part in peer reviews. This therefore brings into question the validity of such a comparison. The nature and content of performance audits by other offices varies from those undertaken by VAGO and this further undermines the validity of any comparison.</p> <p>(b) It would be possible to include the criteria that are used in selecting the external assessors and the positions of those undertaking the quality reviews but not the names of the individuals as part of the independence of the process is that those persons remain anonymous.</p>

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271	<p>Recommendation 60:</p> <p>To strengthen relationships with audit clients, the Victorian Auditor-General's Office:</p> <p>(a) examine the reasons why particular performance audit clients considered that the audit approach had not been clearly explained to them; and</p> <p>(b) adopt appropriate means to improve communication with clients.</p>	<p>Fostering of productive relationships with clients has been central to successive VAGO Strategic Plans and is something that the office considers highly important. VAGO has implemented a range of communication and educative initiatives. In addition client surveys are undertaken on a regular basis, at the end of every performance audit and annually for all financial audit clients.</p> <p>In response to the individual elements of the recommendation:</p> <p>(a) The responses to surveys are currently followed up with individual agencies where necessary. The PAEC report can be misread because although the Annual Report is correct that 80 per cent agreed, of the remaining 20 per cent there were 13.3 per cent who responded that they neither agreed nor disagreed and only 6.7 per cent disagreed. The full context of the situation therefore, is not evident from the report.</p> <p>(b) Communication with clients had been identified as an action item from the client surveys in 2010-11. Where client comments are of concern they are followed up by individual directors and ways to improve communication are a constant focus in business planning. In addition surveys have been broadened to Audit Committee Chairs to obtain broader and more objective insight to agency views.</p>
273	<p>Recommendation 61:</p> <p>The Victorian Auditor-General's Office disclose in its annual report the level of expenditure incurred on staff training and development in each year.</p>	<p>This recommendation will be taken into account in compiling future years' annual reports, with a view to providing an appropriate indicator to disclose. While the level of expenditure may indicate the amount spent on training it is unlikely that this would be comparable with other agencies as the items included in the total value are not known. When implementing this recommendation the methodology will also have to be disclosed so that it is clear what is included in the figure. A review of other audit office reports indicates that there is variety in what is included in this figure without a valid descriptor. Much of the training at VAGO is undertaken in-house and many factors influence the cost of training including commercial factors and the seniority of people being trained.</p> <p>The number of hours devoted to training is a more powerful indicator of the investment that the Office makes to its staff and will continue to be included.</p>

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273	<p>Recommendation 62:</p> <p>The Victorian Auditor-General's Office disclose in its annual report key areas of organisational alignment identified through staff surveys as requiring improvement, together with strategies to address these areas of concern.</p>	<p>The VAGO strategic plan identifies improved organisational performance as a key objective, to be achieved through aligning systems and processes. It is acknowledged that the annual report only highlighted the areas where the Office was performing well in relation to the organisational alignment. Considerable work has been undertaken to implement activities in response to staff surveys and 360° feedback. These are part of VAGO's learning and development programs which include activities such as the strengthening of leadership capabilities through coaching, improving communication and providing a closer link between development activities and performance. In future years' annual reports VAGO will amplify its reporting in these areas.</p>
275	<p>Recommendation 63:</p> <p>The Victorian Auditor-General's Office consider surveying staff on a continuous basis about whether they would recommend the Victorian Auditor-General's Office as a preferred employer and, if not, the reasons for which they have not given positive responses. These matters should be addressed where appropriate.</p>	<p>The question as to whether the Office is a preferred employer is asked on a biennial basis as part of the cultural alignment survey. This survey is due to be conducted again in 2013. There is also currently a free text area enabling staff to suggest ways to improve VAGO, which provides an opportunity for staff to discuss any areas for improvement they have identified. These comments are analysed and the responses inform the forward program for the Office.</p> <p>Staff views are also surveyed through other mechanisms in the Office, such as during exit interviews. The VAGO Staff Consultation and Development Group is a further means of capturing this information as it is a catalyst between staff and senior management with a remit to propose improvements to the organisation.</p>
282	<p>Recommendation 64:</p> <p>To illustrate the breadth of audit activity and the way in which audit resources are deployed throughout Victoria, the Victorian Auditor-General's Office report on the geographic coverage of audits (both financial and performance). This may be disclosed in the Victorian Auditor-General's Office's annual report or on its website.</p>	<p>Reporting on the geographic coverage of audits would not provide anything meaningful for the reader, is impractical, resource intensive, and may give misleading impressions in terms of how audit resources are deployed. For example, such a report may show that a particular region has a large number of audits. A reader might conclude that that region was being "targeted" when it may have formed part of a random sample. Similarly, it is unclear how such a report could be meaningful for the number of performance reports which cover multiple agencies.</p>

31 May 2012

File No.: 13/26-3

Mr Philip Davis MLC
Chair
Public Accounts and Estimates Committee
Parliament House
Spring Street
EAST MELBOURNE VIC 3002

Dear Mr Davis

Re: Report on the 2009-10 and 2010-11 Financial and Performance Outcomes

As you are aware, the publication of the Public Accounts and Estimates Committee's 109th Report to the Parliament includes a number of recommendations for my Office. I attach VAGO's response to each of these recommendations.

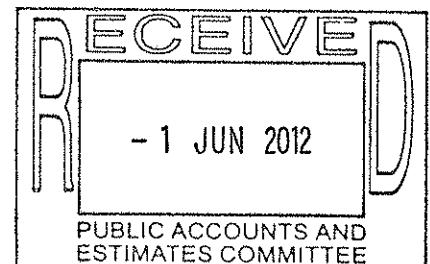
In view of our telephone conversation on Tuesday, I wanted to propose a meeting with you and the Committee to explore further our mutual engagement and communication. As I shall be on annual leave until Wednesday 27 June, I would be pleased to meet soon after at a mutually convenient time.

In the interim, should you have any other queries in respect to our attached responses, please contact either the Acting Auditor-General, Dr Peter Frost (☎ 8601 7122) or Mr Marco Bini, Director Policy and Coordination (☎ 8601 7061).

Yours sincerely



D D R Pearson
Auditor-General



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