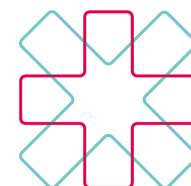


# Independent Performance Audit of the Auditor-General and the Victorian Auditor-General's Office

29 July 2024



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Ms Sarah Connolly MP  
Chair  
Public Accounts and Estimates Committee  
Parliament House  
Spring Street, East Melbourne  
Victoria 3002

Dear Sarah

**Performance Audit of the Victorian Auditor-General and  
Victorian Auditor-General's Office**

We are pleased to submit our final report from the recently concluded Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General's Office.

We would like to take this opportunity to thank the Public Accounts and Estimates Committee, the Auditor-General and his team, and the broader Victorian public service for the co-operation which we have received in performing this audit.

Yours sincerely



**Victoria Bowes**  
Director | Ringatohu



**Tom Gott**  
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# Preface

This report has been prepared for the Public Accounts and Estimates Committee, Parliament of Victoria by Tom Gott, Jo Smith, Chelsea Steen-Jones, Penny Fitzpatrick, and Victoria Bowes from MartinJenkins (Martin, Jenkins & Associates Ltd).

For over 30 years MartinJenkins has been a trusted adviser to clients in the government, private, and non-profit sectors in Aotearoa New Zealand and internationally. Our services include organisational performance, employment relations, financial and economic analysis, economic development, research and evaluation, data analytics, engagement, and public policy and regulatory systems.

We are recognised as experts in the business of government. We have worked for a wide range of public-sector organisations from both central and local government, and we also advise business and non-profit clients on engaging with government.

Kei te āwhina mātau ki te whakapai ake i a Aotearoa. We are a values-based organisation, driven by a clear purpose of helping make Aotearoa New Zealand a better place. Our firm is made up of people who are highly motivated to serve the New Zealand public, and to work on projects that make a difference.

Established in 1993, we are a privately owned New Zealand limited liability company, with offices in Wellington and Auckland. Our firm is governed by a Board made up of Partners and Independent Directors. Our Independent Directors are Sophia Gunn and Chair David Prentice. Our Partners are Sarah Baddeley, Nick Carlaw, Allana Coulon, Nick Davis, Michael Mills, and Richard Tait.

# Our approach to this performance audit

## About this audit

The Auditor-General is an independent officer of the Victorian Parliament. They provide assurance to Parliament and the Victorian community on the Victorian public sector's performance and accountability. The Victorian Auditor-General's Office (VAGO) helps maintain public trust in the government by enhancing the transparency of, and accountability for, public-sector agencies' financial and operational performance.

A performance audit of VAGO must be conducted at least once every four years under section 82(4) of the Audit Act 1994 (Vic) to determine whether the Auditor-General and VAGO are achieving their objectives effectively, economically, and efficiently in compliance with all relevant Acts.

The Public Accounts and Estimates Committee (PAEC) of the Parliament of Victoria is responsible, under the Act, for making a recommendation to both Houses of Parliament on the appointment of a suitably qualified person to carry out the performance audit. PAEC engaged MartinJenkins to conduct the 2024 performance audit of the Auditor-General and VAGO.

## Audit scope

The scope of the performance audit is detailed in the Specification/Terms of Reference (ToR) for the audit and spans the following:

1. **Independence and objectivity** – Determine whether VAGO has an effective and efficient framework for assuring the independence and objectivity of the Auditor-General and his staff.
2. **Contribution to an effective and efficient public service** – Determine if VAGO is effectively leveraging appropriate opportunities to support and improve the effectiveness and efficiency of the public sector.
3. **Professional and respectful relationships** – 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.
4. **Contemporary methodology, tools and techniques**
  - a. Performance audits and limited assurance reviews – Determine if VAGO's performance audit and limited assurance review methodology, tools and techniques are sound and effectively applied to audits and reviews.
  - b. Financial audit – Determine if VAGO's financial audit and limited assurance review methodology, tools and techniques are sound and effectively applied to audits.
5. **Focus on quality and 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.
6. **Strong practice management** – Determine if VAGO has appropriate practice management systems, strategies and processes.
7. **Participative leadership and inclusive culture** – Examine the leadership team's impact on the organisation, and its progress in improving organisational culture and cohesion.



8. **Engaged staff and focus on wellbeing** – Examine the leadership team's progress in improving staff engagement morale and wellbeing.

These areas are consistent with the 2020 review and were first set out in the 2016 PAEC performance audit as the characteristics of an effective audit office, providing some continuity across past reviews.

Additional areas of attention relating to culture and staff wellbeing, independence, and financial management of budgets and associated costs are included in the current audit's ToR.

## Audit timeframe

The current VAGO performance audit addresses the four-year period from the work of the previous independent performance audit (2020) to the end of our data gathering in February 2024.

During the drafting of our report we became aware of some VAGO recent planning and initiatives that date from May 2024. We have recognised these initiatives in our reporting as indications of recent progress, and as initiatives that presumably will be assessed in the next independent performance audit.

## Approach and methodology

### A four-step approach

We took the following four-step approach to this performance audit:

1. Information gathering
2. Assessing information against the Terms of Reference
3. Applying root cause analysis (RCA) using a specific conceptual framework to inform the assessment.

4. Developing findings and recommendations through these two lenses.

## A mixed-methods approach to gathering information

We gathered information using the following methods:

- **Desktop research of documentation and files** (guided by a data and information request document)
- **Reviewing and analysing VAGO financial and other performance data** and other relevant data, such as Australasian Council of Auditors-General (ACAG) benchmarking
- **File reviews** of a sample of five performance audits, three limited assurance reviews, and 11 financial audit files
- **Interviews** with 19 VAGO senior management and staff from across all VAGO divisions, two Audit and Risk Committee members, and six people from across four Audit Service Providers (ASPs)
- **Facilitating staff contributions** to the audit process through inviting staff via VAGO Teams General Chat to make confidential direct email contact for meeting with the MartinJenkins auditors, if they wished to do so
- **Separate focus groups** with Financial Audit Directors, Financial Audit Staff, Parliamentary Reports and Services Directors, and Parliamentary Reports and Services Staff (29 VAGO personnel in total)
- **Interviews with 17 key external stakeholders** from across nine agencies within the Victorian public service (VPS), and a discussion with members of PAEC
- **Direct observation** of VAGO's software platforms, data and document management systems, and office environment.





## Assessing information against the Terms of Reference

The lines of inquiry and performance criteria that we used to inform our assessment are set out in Appendix 1.

## Applying a conceptual framework

We applied a conceptual framework for assessing organisational capability and performance, to complement the ToR and support a systemic root cause analysis of the issues identified.

This is a proven framework informed by insights from the Burke Litwin Causal Model of Organizational Performance and Change,<sup>1</sup> the work of the Canadian Audit and Accountability Foundation (Root Cause Analysis),<sup>2</sup> and years of MartinJenkins experience in organisational capability and performance review.

This framework ensures that our analysis addresses the key elements of organisational endeavour that influence VAGO's ability to achieve its objectives efficiently, effectively, and economically, and in compliance with its statutory mandate.

<sup>1</sup> W W Burke & G H Litwin. (1992). A Causal Model of Organizational Performance and Change. Journal of Management. Vol 18. No 3 (1992) p 529.

<sup>2</sup> [Home - Canadian Audit and Accountability Foundation \(caaf-fcar.ca\)](http://www.caaf-fcar.ca)



## Glossary

**Table 1: Glossary of terms and abbreviations**

Abbreviation	Meaning
ACAG	Australasian Council of Auditors-General
AmP	A Lotus Notes-based application
ANAO	Australian National Audit Office
APES	Accounting Professional and Ethical Standards
ASA	Australian Auditing Standards
ASAE	Australian Standard on Assurance Engagements
ASQC	Auditing Standard on Quality Control
ASQM	Australian Standard on Quality Management
ASP	Audit Service Provider
ASPI	Audit Service Provider Instructions
BP3	Budget Paper Three: Service Delivery
CAAF	Canadian Audit and Accountability Foundation
CFO	Chief Financial Officer
EPIC	Establish, Plan, Implement and Conclude methodology
EQIP	Engagement Quality Inspection Program

Abbreviation	Meaning
FA	Financial Audit Division
IPSAM	A Lotus Notes-based application
L&D	Learning and development
MARS	Management Automated Reporting System
OAG	Office of the Auditor-General
OG1	Output Group 1: Parliamentary reports and services
OG2	Output Group 2: Audit reports on financial statements
OMG	Operational Management Group
PA	Performance Audit Division (now PRS – see explanatory box below)
PAAQR	Post-Audit and Assurance Quality Reviews
PAEC	Public Accounts and Estimates Committee
PEP	Project and engagement portfolio
PDP	Professional development plan
PRS	Parliamentary Reports and Services Division (formerly PA – see explanatory box below)
RCA	Root cause analysis
RfQ	Request for Quotes



Abbreviation	Meaning
SMG	Strategic Management Group
SQM	System of Quality Management
VAGO	Victorian Auditor-General's Office
VPS	Victorian Public Service

### Explanatory note on VAGO restructure

The Performance Audit (PA) division was restructured in 2023, to become the Parliamentary Reports and Services division (PRS).

The restructure brought together four business divisions from across VAGO: data science, performance audit, publishing, and strategic audit planning. Before PRS was established, these four areas were split between the Assistant Auditor-General Performance Audit, the Deputy Auditor-General, and the Auditor-General.

PRS was proposed in April 2023, the structure was finalised in June 2023, and the transition from the four former business units to one division was finalised in October 2023.



# Overarching findings

## Strengths

### Independence and objectivity

- VAGO has effective policies and processes for defining and ensuring independence. External stakeholders see VAGO as being independent.

### Contribution to an effective and efficient public service

- Financial audits are seen as adding value and are well-received by external stakeholders.
- There is a comprehensive planning process for selecting performance audit topics. External stakeholders (Parliamentarians) report that performance audits are targeting issues of importance.

### Professional and respectful relationships

- Auditees report high levels of satisfaction with the professionalism of VAGO staff. Those reports of a professional and respectful orientation are supported by documented evidence in our file reviews.
- There are regular cycles of communication with public-service stakeholders, from the Auditor-General through to staff involved in managing and performing audits.
- VAGO has a Parliamentary Engagement Strategy to guide its engagement with Parliamentarians. The performance audit division was recently restructured to Parliamentary Reports and Services (PRS),<sup>3</sup> to

better align with Parliamentary Committees. An enterprise engagement strategy is in the proposal stages.

### Contemporary methodology, tools, and techniques

- The EPIC methodology (Establish, Plan, Implement and Conclude) sets financial audits up to comply with professional and regulatory standards. Post-Audit and Assurance Quality Reviews (PAAQRs) show some material and some immaterial departures, but we did not see evidence of any incorrect audit opinions being issued.
- VAGO has developed and implemented Empower as a digital tool to support more efficient and effective working with auditees on financial audits. This is integrated with Caseware, the platform that VAGO has piloted (in 2022 and 2023) for supporting its financial audit engagement, analytics, and practice management needs.
- A performance audit methodology refresh is underway, which will include clearer guidance for staff. The refresh will specify the end-to-end methodology and associated tools for performance audit practice.

### Focus on quality and continuous improvement

- A System of Quality Management (SQM) is in place, and this has recently been evaluated. There is clear allocation of responsibilities for quality management, across governance, leadership, and operational levels.
- An annual Engagement Quality Inspection Program monitors compliance with standards (EQIP, previously PAAQRs). Recommendations for improvements to address identified issues are captured, and their implementation is monitored by the Operational Management Group (OMG).

<sup>3</sup> For readability, we have referred to this division as PRS throughout our document. Issues in relation to this business function that differ across the audit timeframe are explained in the text.



- In 2022 VAGO established a project "Preparing for Climate Accountability" to ensure that they research and prepare for the anticipated changes to financial reporting from proposed mandatory climate-related financial disclosures.

### **Strong practice management**

- The Strategic Management Group (SMG), which comprises the Auditor-General, Deputy Auditor-General, Assistant Auditor-General Financial Audit, Assistant Auditor-General Parliamentary Reports and Services, and Director Strategy, Governance and Risk, provides a forum for monthly meetings of the VAGO leadership team.
- The Operational Management Group (OMG) governs operational management for VAGO, with a key responsibility to develop and implement business and divisional plans to achieve operational objectives. The OMG consists of the members of SMG, and senior members of the VAGO leadership (Chief information Officer, Chief Financial Officer, Chief People Officer, and Director Strategy, Governance and Risk). A director from the Financial Audit and Parliamentary Reports and Services divisions attends each OMG meeting as an observer on a rotational basis.
- There are also executive leadership teams in both PRS and FA.
- Enterprise leadership and governance has been strengthened through new appointments (Chief People Officer, Transformation Management Advisor, Director Strategy, Governance and Risk, and the Chair of the Audit and Risk Committee). The new Assistant Auditor-General and Directors in PRS bring valuable public-sector experience and insights to performance auditing.

- Divisional plans are in place to support delivery on the VAGO Strategic Plan, including PRS Business Plan 2023–2025, Financial Audit Roadmap and Corporate Plan 2024–2027 (ICT focus). VAGO has also recently completed a Human Resources Plan 2024–2026.<sup>4</sup>
- VAGO has realised some cost savings, including from relinquishing the lease on one of its office floors, as more staff are now working remotely.
- The deployment of the Empower digital tool in financial audits has enabled a greater ability to understand the composition of underlying datasets, allowing for a more targeted risk assessment, identification, and audit response. Cost gains have occurred in some instances, but it is early days for developing a more systematic understanding of efficiency benefits.

### **Participative leadership and inclusive culture**

- The 2023 People Matter survey showed positive results for inclusion and leadership. Plans are in place to continue supporting an inclusive culture (including a Gender Equality Action Plan and a Diversity and Inclusion Action Plan).
- Capability frameworks to support a modern audit firm have been developed for FA and PRS, and are being integrated into the Professional Development Plan (PDP) process.
- To improve consistency in role expectations and performance appraisals, VAGO has developed tools such as self- and manager assessments, training for those assessments, and succession pathways setting out the expectations needed to progress.
- A structured learning and development curriculum that aligns with the capabilities frameworks has also been developed.

<sup>4</sup> Note: the Corporate Plan and Human Resources Plan have been developed outside the timeframe of the current performance audit, but represent positive initiatives for future development.



- Recent appointments (2023/24) to the positions of Chief People Officer, Transformation Management Advisor, and Director Strategy, Governance and Risk provide further opportunities to support progress in improving organisational culture and cohesion.

#### **Engaged staff and a focus on wellbeing**

- A range of initiatives are in place to encourage staff participation and engagement, including Values Awards, the "Better Normal" way of working, and use of Microsoft Teams. Social events and groups keep people connected.

#### **Some of the identified strengths are new and it's too soon to assess their effectiveness**

- Several of the strengths outlined above relate to initiatives that are new or in development. It is therefore too soon to assess how well they will deliver on their intended benefits.

## **Issues and opportunities**

In this section, we describe issues that have persisted across the audit period, and the associated opportunities to improve organisational performance.

#### **A greater focus on efficiency and economy in performance audits**

- Over the audit period, performance audits have mostly focussed on effectiveness. An increased focus on efficiency and economy is required in order to fully reflect VAGO's statutory mandate, and deliver value for the VPS in a constrained fiscal environment.
- To support staff in carrying out efficiency and economy audits, PRS guidance and training should provide more detail on the definitions of these concepts, and how to audit them.

#### **Expediting the replacement of legacy systems**

- VAGO has been maintaining its financial and performance audit files in Lotus Notes applications (IPSAM and AmP). These legacy tools have served VAGO well over the past two decades, but now need updating to avoid inefficiencies and ensure ongoing support for audits. Work has been underway since 2020 to migrate financial audits from IPSAM to Caseware, a cloud-based solution. VAGO has also recently started a project to modernise AmP for performance audits.

#### **Quality reviews should be helping to drive continuous improvement**

- Quality reviews show some room for improvement in financial and performance audits. If recommended actions from these reviews are addressing the root causes of issues, and are being effectively implemented, we should expect to start seeing a consistent lift in performance over time.
- VAGO reports that it has completed 24 out of the 31 recommendations from the 2020 PAEC audit, with a further 5 in progress and 2 yet to be actioned. It attributes delays in implementation to COVID and resourcing constraints. Our assessment of progress in implementing recommendations is contained in Appendix 3.

#### **Improving budget setting and resource planning processes for performance audits**

- Individual performance audits are rarely completed to budget. Over the audit period around 12% of performance audits were 10–15% over or under budget, and 57% were more than 15% over or under budget. However, the overall programme of performance audits was consistently under budget, due in part to persistent unfilled vacancies.
- VAGO recognises a need to address inconsistent approaches to setting budgets and at the time of this audit was developing a budget tool as a part of the PRS methodology refresh. We understand this has now been



completed and used for the 2024 budgeting process. VAGO also informed us that their performance against budget for the 2024 year (outside of our audit period) saw an improvement, with 70% of performance audits coming under budget and 35% within 10% of budget.

### **Managing objectivity and the perception of objectivity in performance audits**

- While all parties acknowledged the independence of VAGO, auditees have mixed perceptions about its objectivity in performance audits. There are views that VAGO has preconceived conclusions and focusses on evidence to support these. This is consistent with findings from the 2016 and 2020 PAEC audits. Our file review identified perceptions of questionable objectivity in five out of eight files reviewed.
- VAGO addresses cognitive bias in training sessions for staff (both formal training sessions and self-directed learning modules), and the importance of objectivity is recognised in the new PRS capability framework. The VAGO performance audit process provides an opportunity at a number of points for an earlier conclusion to be changed in the light of new or additional evidence.
- There is an opportunity for VAGO to include more references to managing objectivity and the perceptions of objectivity in PRS guidance materials to complement training. This might include guidance on the importance of addressing potential perceptions at the planning and early stages of the audit, rather than at later acquittal stages.

### **Maintaining the distinction between audit and evaluation**

- Over-stepping the line between audit and evaluation is a particular risk for performance audits. This risk has been an area of concern for VAGO since at least 2016, when it was identified as a concern in the PAEC

audit. VAGO acknowledges this risk and prepared a discussion paper on the topic in 2016.

- The PRS methodology refresh provides an opportunity to provide further technical guidance for staff about how to maintain the distinction between audit and evaluation, and how this is applied in performance audits.

### **Building greater understanding of agencies' context and root causes for performance audits**

- A common concern among auditees is that performance audit teams lack understanding of their agency's context and of the machinery of government. This is a persistent concern that was also identified in the 2016 PAEC audit.
- The recent recruitment efforts in PRS have had a strong focus on broad public-sector experience. Over time, these appointments should boost VAGO's understanding of agencies' context.
- The use of root cause analysis (RCA) to explore underlying systemic issues is underdeveloped in performance audits. This issue was also identified in the 2020 PAEC audit. More systematic use of RCA would help increase the value and impact of recommendations.

### **Addressing stakeholder concerns with VAGO's gathering and use of data**

- Some external stakeholders and auditees have concerns about VAGO's gathering and publication of data for performance audits. They are worried that VAGO is collecting information well beyond that required to perform its assurance role, and that the data published in interactive dashboards could be used for purposes outside those for which they were obtained. This concern was also identified in the 2020 PAEC audit, and in 2018 stakeholder engagement research.
- VAGO has prepared a data science strategy, but this is a one-page, high-level document that does not address the risk of VAGO being seen



as overstepping its mandate in the gathering and publication of data for performance engagements. There is an opportunity for VAGO to clarify and publish the principles and parameters for its data gathering and reporting.

**Staff engagement surveys show positive results for inclusion and leadership, but persistent concerns with learning and development, organisational safety climate, and workgroup climate**

- Evidence from People Matter surveys, exit surveys, focus groups, our interviews, and the 2020 PAEC audit show persistent concerns with learning and development opportunities, the organisational safety climate (work-related stress), and the workgroup climate (feeling safe to speak up). While many of the People Matter survey results are in line with other public-service agencies, recent drops in scores should be a concern and need attention from management as they indicate that actions taken to date have not been sufficient.
- VAGO did experience persistently high staff turnover over the first part of the audit period, but we note that over the past 12 months this has come down to align with the Victorian Public Sector average. There may be a number of factors at play, including the general people mobility across the public service, and concerns with learning and development, the organisational safety climate, and the workgroup climate.

## Persistent issues that need effective resolution

Several of the issues described above have persisted over the audit period. Some pre-date the current audit period and were identified in previous PAEC audits. Some have not been addressed, some have been addressed but only superficially, and others are taking an extended time to be resolved.

## Root causes of persistent problems signal opportunities for improvement

Through applying our conceptual framework, we identified the following root causes (which we have framed below as opportunities for improvement). These matters need to be resolved, in order for VAGO to effectively address persistent issues.

**Opportunities to continue strengthening enablers that underpin efficient and effective delivery**

- Through a range of operational and strategic projects, VAGO has improved business processes and developed ICT systems and tools to support working, particularly in a digital environment. This includes building Empower and its data analytics capability (to help it understand insights and trends in the performance of VPS agencies), developing and rolling out capability frameworks, and implementing significant structural changes following a long period of staff consultation.
- With the disruptions and backlog of the pandemic behind it, there are now opportunities for VAGO to focus on strategic approaches to workforce management, human resource management, stakeholder communications and engagement, and enterprise risk management (alongside risks relating to audit engagements, which are managed by VAGO).
- In other words, there is now the opportunity to give more attention to working "on" the business of VAGO's ongoing organisational development, versus working "in" the business of audit delivery.





### **Rebalancing the focus on operational planning and strategic ICT development to include a broader strategic and enterprise-wide orientation**

- Rapidly adjusting to remote working during the pandemic necessitated a strong focus on delivery and ICT development, as did the focus on the development of digital tools such as Empower to support more efficient and effective delivery of financial audits.
- This, combined with resourcing challenges, has meant there has been less attention paid to working at an enterprise and strategic level for such things as communications and engagement, risk and assurance management, and human resource management.
- As a result, VAGO has not been able to address some of the root causes of issues that have been identified but that have nevertheless persisted. It is a matter that should be addressed by management and monitored by the Audit and Risk Committee.
- We note recent steps by VAGO to strengthen its people focus, namely the development of the capability frameworks for both FA and PRS, which are linked to staff performance development and planning, and the Human Resources Plan 2024–2026 developed in May 2024.
- The recent appointments of leaders such as the Chief People Officer, Transformation Management Advisor, and Director Strategy, Governance and Risk bring skills that can be brought to bear for providing enterprise level and corporate support for operational managers.

### **Focus on supporting social learning in the new working environment**

- Recognising that remote working poses particular challenges for social learning, which is a key element of VAGO's 70/20/10 learning model, VAGO needs a concerted approach to providing more "together-together"<sup>5</sup> work opportunities and creating structures for incidental interactions that are vital for social and on-the-job learning. In relation to this, we understand that VAGO is consciously working to improve the quality of hybrid interactions.

### **Improve the safety and workgroup climate through strengthening approaches to managing change**

- VAGO adopted a structured approach to managing changes related to the initiatives proposed in the Financial Audit Roadmap and the PRS Divisional Plan 2023–2025, which included the restructuring of Performance Audit into Parliamentary Reports and Services.
- In our interviews and focus groups with staff we heard that changes have been embraced by many staff in both divisions as positive steps for the organisation's ongoing development. On the other hand, we also heard that changes have been challenging for some PRS staff, who spoke of detrimental impacts on their wellbeing and expressed their concerns with the organisational safety climate.
- There is an opportunity for VAGO to review the change processes that were used and see where they might be strengthened, to support future change initiatives and improve safety climate scores. This might include using an experienced change management resource to support leadership and management in the change process, and giving more attention to post-change implementation activity to support affected staff.

<sup>5</sup> VAGO has adopted the Gartner Better Normal Principles for hybrid working. Working "together-together" is the work mode where people connect and work together.



### Improving efficiency and effectiveness in performance audits

- At the time of this audit VAGO was developing a budgeting tool to gain greater consistency and better practice in budgeting for performance audits. In addition to this initiative, there is an opportunity for VAGO to use post-audit debriefs to gain insights on underlying reasons for budget variances and to generate actions to strengthen its future audit planning processes. This might include a review of the scope of the audit itself.

## Recommendations

### To resolve persistent issues affecting people, culture, and organisational development

VAGO should:

1. Rebalance for an increased strategic and enterprise-wide approach to governance and leadership of workforce management, human resource management, stakeholder communications and engagement, and enterprise risk management, by (for each area):
  - a) developing plans that articulate outcomes and objectives, and identify risks and mitigations
  - b) implementing the plans, and
  - c) monitoring and reporting on progress against objectives.
2. Help address persistent concerns with learning and development by better supporting social learning, through:
  - a) continuing to support its people leaders to create opportunities for social learning through a range of measures, in recognition of the changed workplace and disruption from

lengthy lockdown periods in response to COVID (for example, making conscious efforts to support more together-together work opportunities), and

- b) implementing formal structures to support social learning, to compensate for the lack of those organic structures that naturally occur in physically co-located working.
3. Review change management processes for further insights on:
    - a) working constructively with affected staff to support them as they adjust to a new working environment, and
    - b) identifying learnings for the future, including where processes might be strengthened and to support a positive safety climate.
  4. Monitor the impact of its actions to improve staff experiences and perceptions of the organisational safety climate and of learning and development opportunities, through conducting an interim review and reporting back on progress in improving scores for these measures in People Matter surveys in 2026-27.
  5. Implement the project "Design and implement a succession management framework" that is set out in the Human Resources Plan 2024–2026 for completion in 2024/2025
  6. Integrate the FA and PRS capability frameworks into the staff Performance and Development Process.

VAGO's Audit and Risk Committee should:

7. Monitor the organisation's progress in rebalancing for an increased strategic and enterprise-wide approach to governance and leadership of workforce management, human resource management, stakeholder communications and engagement, and enterprise risk management.



## To improve the efficiency and effectiveness of performance audits

VAGO should:

8. Improve its budget-setting and business planning processes by:
  - a) progressing the development and use of the budgeting tool to support budget planning for performance audits
  - b) strengthening its planning processes for performance audits, to provide clearer scope at the earlier stages of an audit, and better manage the size of audits, including taking a narrower scope for some smaller audits, and
  - c) ensuring that performance audit engagement debriefs systematically review the underlying reasons for any budget variances, and generate actions to avoid these problems in future audit planning processes.

## To improve the objectivity, value, and impact of its audits

VAGO should:

9. Progress the Strategic Communications and Engagement proposal, including ensuring that:
  - a) the proposed work on a communications and engagement strategy builds on the work completed for developing the Parliamentary Engagement Plan – Stage 1 2021, and
  - b) the communications and engagement strategy includes a process for annual review of the engagement approach and activities.

10. Make more explicit references to managing objectivity and the perceptions of objectivity in PRS guidance materials to complement existing training, including the importance of addressing potential perceptions at the planning and early stages of the audit, as well as at later briefing and drafting stages.
11. Do more performance audits with a focus on efficiency or economy, and, for transparency, state the focus area of each audit in its final report.
12. Use the PRS methodology refresh to provide further guidance for staff on the distinction between audit and evaluation, and on how the boundary between the two is maintained. This could be achieved through more explicit linkages and guidance around how VAGO applies the relevant auditing standards in its performance audits.
13. Further develop its data science strategy, to explicitly set out:
  - a) the principles and parameters for VAGO's use of data gathering, analytics and publication activities (including what types of data will be collected and how it will be used, and the types of issues to which data science lenses will be applied), and
  - b) VAGO's policies and processes for ensuring data privacy and security.
14. Communicate this data science strategy to external stakeholders, and implement those principles and parameters throughout the stages of its performance audits.

## To realise opportunities for improving its organisational efficiency and effectiveness

VAGO should:



15. For performance audits, use the PRS methodology refresh as an opportunity to:
  - a) include a conceptual framework or frameworks to provide structure for its analytical efforts
  - b) provide more detail on the definitions of efficiency and economy, and how to audit these
  - c) include more explicit explanations of how VAGO applies auditing standards in its performance audits, and
  - d) take stock of the range of guidance for performance audits that has been and is being developed, and tests for alignment and integration.
16. Expedite work to roll out Caseware across financial audits, to realise the efficiency and effectiveness benefits of this tool.
17. In addition to the acquittal assurance against audit quality review recommendations for improvement, ensure processes are followed for:
  - a) investigating reasons for lack of improvement in audit quality over time, and
  - b) developing actions for resolving ongoing issues.
18. Leverage work done and knowledge gathered by FA to reduce the time and effort spent by PRS assembling sector information for performance audits, and gain deeper understanding of the audit context.
19. Mitigate some of the drivers of cost over-runs in PRS by:
  - a) providing greater clarity on scope and purpose in information requests to agencies, and
  - b) engaging earlier with agencies on proposed data analysis methods, to help avoid lengthy iteration and feedback.



# Assessment against the Terms of Reference

## Impact of COVID-19

The COVID-19 pandemic has had a significant impact on Victoria's economy and society. There were impacts for VAGO for the first two years of the current audit period, and flow-on implications after this.

As well as the dangers to health and loss of life, there were significant disruptions to people's lives both at home and at work. Victoria experienced significantly longer lockdowns (272 days) than any other jurisdiction in Australia, or the world for that matter.

People were required to work from home, and virtual working became the norm. This usually required significant support from employers to make it happen. For many, this way of working continued after the lockdown period and continues to the present day.

Remote working from home while also meeting family commitments was a real challenge for many, and maintaining staff morale, health, and wellbeing became a major preoccupation for employers. Huge effort was required to ensure staff were well supported both physically and mentally through this period, and afterwards.

Those changes to work behaviours and attitudes require different approaches to managing people, workplace culture, and workforce planning.

As well as supporting its own staff, VAGO accommodated the pressures that agencies in the Victorian Public Service were experiencing, including

through conducting remote audits, giving agencies more time to provide information, and deferring non-urgent engagements.

In the body of this report, we recognise where COVID-19 has affected the progress of change within VAGO.

## Independence and objectivity

### VAGO has effective policies and procedures for defining and ensuring independence

The concept of independence is fundamental to the performance of audit activity and referenced in Australian auditing standards that guide the work (in particular APES 110 Code of Ethics for Professional Accountants (including Independence Standards) and ASAE 3000, ASAE 3500, APES 110, APES 320, ASQC/ASQM 1, ASA 102, and ASA 620).

Standards, policies and procedures provide guidance for VAGO staff on the nature and importance of independence across the range of their activities.

Both financial and performance audit methodologies explicitly require attention to these standards at different stages of the audit.

The *PRS Induction starter pack* (August 2023) provides links to standards relating to independence and objectivity.

VAGO mandatory annual training for all staff includes Appropriate Behaviour, Fraud Corruption and Conflict of Interest, and Independence and Obligation. Independence and Obligation training defines these terms and highlights the difference between actual, potential, and perceived conflicts of interest.

VAGO implements rotation policies in line with ASQC 1. Rotation policies are in place for both financial and performance audits. The same rotation requirements apply to Audit Service Providers (ASPs) for financial audits.



Financial Audit directors undertake an annual review of ASP performance which tests for the quality and independence of the ASP work.

VAGO has developed policies and procedures to ensure ASP monitoring processes are consistent, including the ASP Oversight Policy, ASP Oversight Procedure, and ASP Instructions (ASPI). Guidance for ASPs on key deliverables, along with checklist and templates that ASPs are required to complete, are available on the ASP portal of the VAGO website.

### **VAGO staff make regular declarations of independence and conflicts of interest**

All VAGO employees are required to complete an Employee Declaration Form on their first day at VAGO and then in September each year. This requires them to confirm that they have read and understood VAGO's standards and policies relating to their employment, including the policies and procedures for managing independence and conflicts of interest. VAGO policies clearly establish responsibilities for all staff roles.

The annual Employee Declaration Form tests for whether the employee has completed the recurring annual training.

The VAGO Recruitment and Selection Procedure provides guidance for managing conflicts of interest relating to personal relationships, both family and emotional, during the recruitment process. VAGO carries out pre-employment screening, covering reference checks, criminal record checks, and medical declarations.

### **There are procedures for testing the independence of external subject-matter experts used in audits**

When procuring an "auditor's expert", VAGO staff are required to apply ASA 620, "Using the Work of an Auditor's Expert". This stipulates among other things, testing for independence and objectivity. VAGO staff have a

guidance template for this that prompts them to assess "the competency, capability, objectivity and independence of the expert" (see W/P: 12-P4120, Using the Work of an Auditor's Expert).

ASPs are held to the same standard and have their own guidelines and processes for this.

### **External parties consistently comment that VAGO maintains a position of independence in audits**

In interviews, representatives from agencies audited by VAGO and ASPs for financial audits, performance audits, and limited assurance reviews consistently stated that VAGO met expectations for independence in their role for all engagements.

This was expressed as an expectation and perception, summed up in one comment:

*"There is no question in my mind about the independence point – they're effective in upholding that requirement."*

### **There are, however, perceptions that VAGO is not always objective in conducting performance audits**

#### **External parties expressed reservations about VAGO's objectivity**

While all parties acknowledged the independence of VAGO, in interviews we heard perceptions that VAGO didn't always seem to come to a performance audit with an open mind. Those interviewees felt that VAGO had formed a conclusion before they started, and focussed on finding evidence to support this. This was not the case with financial audits.



PRS's client surveys do not specifically ask about VAGO's objectivity. They do ask about the balance and fairness of their reports, and over the audit period a majority (66%) of respondents agreed or strongly agreed that the reports are balanced and fair. This compares to an average of 94.8% of FA clients who agreed that VAGO's management letters were balanced and fair (100% in the latest survey).

### **Perceptions of non-objectivity were present in our review of performance audit files**

There was evidence of the risk of preconceived views or negative bias in five out of eight of the PRS files we reviewed. There was feedback in the files from auditees that VAGO has preconceived views and was reluctant to change despite the supporting evidence that auditees provided to them.

We note that the Independent Performance Audits in 2016 and 2020 recorded similar perceptions on the part of key external stakeholders that sometimes VAGO is not always objective.

The persistence of this perception poses a risk to the credibility of VAGO and therefore to its ability to influence the effectiveness of the public service.

### **The performance audit process requires any material matters to be identified in the planning stage**

ASAE 3500 (paragraph 30) requires the assurance practitioner to identify any matter relating to the activity as material if it is significant to the performance of the activity in relation to economy, efficiency and effectiveness evaluated against the identified criteria. This is used in the planning stage to determine the timing and extent of audit procedures.

VAGO informed us that they transparently communicate these initial judgements to the auditee at the end of the planning brief, affording them

an opportunity to challenge preliminary assessments that have been predicated on evidence obtained during planning.

### **The risk of cognitive bias is addressed in training and throughout the audit process**

VAGO informed us that over many years in performance audit, most of the staff they employ do not have audit backgrounds. We understand that this is due to challenges in the workforce for audit skills and also the intent to employ staff with a public service background who will bring that knowledge to the audit process. There is a risk that new staff with non-audit backgrounds will not immediately have an appreciation of the importance of the standards for objectivity.

To address this risk VAGO addresses cognitive bias in training sessions for staff (both formal training sessions and self-directed learning modules). The importance of objectivity is also recognised in the new PRS capability framework, which refers to capability for objective, evidence-based analysis, testing for bias, and remaining open to alternative perspectives (VPS4, 5 and 6+ levels).

The VAGO performance audit process provides an opportunity at a number of points for an earlier conclusion to be changed in the light of new or additional evidence.

### **There is an opportunity to strengthen VAGO's internal guidance on the importance of objectivity and for managing the risk and perceptions of non-objectivity**

Given the persistence of perceptions and risks of non-objectivity, there is an opportunity for VAGO to include more references to managing objectivity and the perceptions of objectivity in PRS guidance materials, to complement existing training. This might include guidance on the importance of



addressing potential perceptions at the planning and early stages of the audit, as well as at later briefing and drafting stages.

VAGO PRS engagement guidance documentation (for example, *PRS Induction starter pack*; *Division induction PRS* December 2023) explains the meaning of independence, but not objectivity. Reference is made to the standard regarding objectivity, but without elaboration. These materials might include more explicit unpacking of the concepts and associated perception risks.

### Recommendations

VAGO should make more explicit references to managing objectivity and the perceptions of objectivity in PRS guidance materials to complement existing training, including the importance of addressing potential perceptions at the planning and early stages of the audit, as well as at later briefing and drafting stages.

## Contribution to an effective and efficient public service

### Annual financial audits are seen as adding value

In-house financial audits are comprehensive, providing auditees with assurance that their financial reporting is accurate and their controls against errors or fraud are effective. Although it is not a focus of financial audits, each final management report prepared at the end of the audit notes if there was any wastage of public resources or any lack of probity and financial prudence found.

Financial audit teams balance good relationships and an understanding of the auditee's operating context with measures to ensure the team's

independence. This sets teams up to focus on the high-risk areas and have meaningful discussions, while still applying fresh eyes and professional scepticism to their financial audits. For auditees, this reduces the disruption of the audit process, as VAGO's financial audit teams avoid issuing unnecessary information requests and their understanding of the context enables them to interpret information appropriately.

VAGO uses the EPIC methodology (Establish, Plan, Implement, and Conclude) to conduct its financial audits. The key deliverables provided through this methodology directly help management teams know where and how to strengthen safeguards and processes. The assurance process and the final audit letter shared in the annual report indirectly help maintain the trust and confidence of the public in the VPS.

A significant majority of FA clients report that they value the assurance they receive from VAGO's financial audits (83% in the latest survey), and VAGO's recommendations to improve the value of the financial management and internal controls of their organisation (87%).

### External stakeholders see performance audits as targeting issues of importance

Annual surveys of Parliamentarians have been conducted by ORIMA Research. We were provided with the results from the last three years. While response rates are relatively low (28% in 2023), the overall results are fairly consistent over time.

In 2023, 76% of respondents said that VAGO's performance audits are addressing issues of significance. A large majority either agreed or strongly agreed that VAGO provides valuable information on public-sector performance (91.9%) and helps improve public-sector administration (82.7%).





## There is a comprehensive planning process for selecting performance audit topics

Potential topics for performance audits are identified through a continuous planning process and through stakeholder consultation. Topics are assessed according to:

- significance – financial materiality, and economic, social, and environmental impact
- risk and materiality
- relevance to stakeholders – including Parliament, public-sector agencies, industry and professional groups, and the public
- VAGO's ability to contribute – to add value through unique insights and independent perspectives, and
- priority and timing (*VAGO Annual report 2022–23*, p 5).

There is scope to strengthen the application of these criteria, to ensure that performance audits are optimally focussed on supporting the effectiveness and efficiency of the VPS.

A finding from our file review, analysis of client feedback survey data, and stakeholder interviews was that some performance audits examine a programme or issue that has only recently been reviewed, or are in the process of being implemented or reformed, or both. There are risks with conducting audits in these situations:

- Where an issue has recently been reviewed, a further review may generate little additional value. It also risks being seen as having a pre-determined outcome, and therefore being unbalanced or lacking objectivity.
- Where an initiative is "in-flight", the audit process risks diverting agency resources away from implementation activities, potentially

leading to delays and higher costs. If improvements are already in the pipeline, it also risks generating recommendations that lack impact. Another challenge, for effectiveness audits in particular, is that it may be too soon to see outcomes.

## There is an opportunity for greater focus on efficiency in performance audits

Performance audits may assess whether a public-sector agency is working effectively, economically, and efficiently, and in compliance with relevant legislation (section 14 of the Audit Act 1994). These three principles can be defined as follows:

- **Economy** – minimising the cost of resources. The resources used should be available in due time, be of appropriate quantity and quality, and be at the best price.
- **Efficiency** – getting the most from the available resources. This concerns the relationship between the resources used and the outputs delivered, in terms of quantity, quality, and timing.
- **Effectiveness** – meeting the objectives set and achieving the intended results. (*ISSAI 300 Performance audit principles*, p 9)

Assurance reviews (limited assurance engagements) are more limited in scope, and focus on a particular aspect of the operations or activity of a public body or the VPS. VAGO conducts three types of limited assurance reviews:

- **Recurring reviews** – these focus on performance reporting, and include VAGO's annual review of responses to its performance engagement recommendations.
- **Focused reviews** – for example, *Eloque: the joint venture between the Department of Transport and Xerox*. This was done in response to an external referral and extensive media coverage.



- **Follow-up reviews** – for example, the *Follow-up of Protecting Victoria's coastal assets*, which was undertaken because of the high environmental impact.

VAGO generally uses limited assurance reviews to focus on waste, probity, and compliance (VAGO Annual report 2022/23, p. 1-10). It plans to expand its use of limited assurance reviews (Strategic plan 2022–25, pp. 7 and 12).

In its *Strategic plan 2017–2021*, VAGO intended to explore its full mandate, by rebalancing its audit programs to "evenly cover efficiency and effectiveness, governance and compliance" (VAGO Strategic plan 2017–2021, p 2). However, effectiveness has remained a focus for most of its recent performance audits (as shown in Table 2 below).

VAGO reports that it has focussed mainly on effectiveness because it is a powerful way of examining the factors that influence government service delivery. They informed us that in their view, in a constrained fiscal environment, effectiveness auditing has the broadest scope to provide insight into performance and to target effort to the areas that will provide the most value. In VAGO's view, spending public money on activities that do not achieve or fully achieve their objectives is wasteful, and they believe effectiveness audits offer perhaps greater potential for significant savings than efficiency audits.

Effectiveness audits can generate savings if they identify areas where spending is not achieving the desired results or lead to programs being stopped. But they don't examine **how** money is being spent, or how to improve the quantity or quality of outputs or outcomes from the resources applied.

Efficiency audits consider opportunities for doing more with the same or fewer resources, or more with fewer resources. Efficiency and economy audits can help identify areas of quick savings as well as more sustainable long-term cost savings. This is of particular value in a context of fiscal constraint.

There remains an opportunity for VAGO to do more performance audits with a primary or secondary focus on efficiency or economy. This is an area of improvement that was identified in VAGO's 2022-23 Annual report, and was a theme in our interviews with external stakeholders. This shift would help the VPS respond to the environment of fiscal constraint.

To improve transparency, performance audit reports should explicitly state the focus area of the audit.

**Table 2: Performance audits: focus areas of tabled reports in 2022–23**

Engagement focus	Category			
	Economy and infrastructure	Environment and planning	Legal and social issues	Local and whole of government
Number of reports tabled	8	3	6	2
Effectiveness	8 (Primary focus)	3 (Primary focus)	6 (Primary focus)	2 (Primary focus)
Efficiency	2 (Secondary focus)	0	2 (Secondary focus)	0
Economy	1 (Secondary focus)	0	0	0
Compliance	2 (Secondary focus)	1 (Secondary focus)	2 (Secondary focus)	2 (Secondary focus)

● = primary focus   ● = secondary focus

Source: VAGO Annual report 2022-23, p. 2-4.

## The distinction and boundary between audit and evaluation can be made clearer to staff

As specified in the Audit Act 1994, VAGO must not question the merits of government policy objectives (section 63). Maintaining the boundary between assurance on the one hand and evaluation of policy objectives on the other is a well-known challenge.



Over-stepping this line is a particular risk for effectiveness audits. In our file review, two of the sampled audits illustrated this risk. In one of these files, for example, the audit workplan included methodological components that related to program design, and this was reflected in the lines of inquiry in the final audit scope. In the end-of-conduct review meeting, the audited agency queried the boundaries between audit and response. VAGO's internal audit quality review of the draft end-of-conduct brief queried whether VAGO was entering into a critique of a policy decision. This matter was rectified for the final report, but the example illustrates the ongoing challenge of maintaining an appropriate balance.

This risk dates back to at least 2016, when it was identified as an area of concern in the PAEC audit (Deloitte, 2016, *Performance audit of the Victorian Auditor-General and the Victorian Auditor-General's Office*, p. 11).

VAGO acknowledges this risk. They informed us that it is an area where a bright line is sometimes difficult to define, especially where policy objectives are poorly expressed.

In 2016, VAGO prepared a discussion paper on its approach to this matter (*VAGO discussion paper – Considering Government policy in audits*). This paper explains that it is within VAGO's mandate to comment on the quality of information used in policy development, and provide insights into ways of improving the way future policies are developed.

In our view, the very fine line is around commenting on the resulting policy design decisions. In particular, the distinction between the actions taken in policy design and the adequacy of information used, and the merits of the decision itself. Further guidance for staff could help ensure that performance audit teams strike the appropriate balance from the outset of an audit.

The PRS methodology refresh provides an opportunity for VAGO to provide further technical guidance for staff around the distinction and boundary between audit and evaluation, and how this is applied in performance audits (particularly effectiveness audits), located in one document. One way of

doing this would be to have more explicit linkages and guidance around how VAGO applies the relevant auditing standards in its performance audits.

## VAGO should publish and implement explicit and transparent principles on its use of data

During the course of this audit, some external stakeholders expressed concerns about VAGO's gathering and publication of data for performance engagements. They did not identify particular dashboards of concern, but spoke in a general way about the datasets that are published alongside performance audit reports.

They are worried that:

- VAGO is gathering information well beyond that required to perform its assurance role (that is, it is over-stepping its mandate)
- the data in the interactive dashboards could be used for purposes outside those for which they were obtained, and
- data as published may miss key context, which can affect how it is interpreted.

This concern was also identified in the 2020 PAEC audit. Prior to that, a 2018 report on interviews with external stakeholders reported concerns with VAGO's data requests, relating to data privacy and integrity, and the potential to impinge on their own statutory obligations. Stakeholders expressed particular concerns with the risks of datasets that involve data gathered from multiple government agencies, or longitudinal data, as well as the risk of data breaches, and desire for greater clarity on their purpose (Bastion Latitude (2018) *VAGO external stakeholder engagement research*).

To address stakeholders' concerns, the 2020 PAEC audit recommended that VAGO develop a data science strategy that clarifies VAGO's objectives and approach, including the limitations of its use of data in performance audits.



The strategy and guidance should be communicated to key external stakeholders with a view to establishing a shared understanding of VAGO's vision and objectives (p. 21).

This recommendation was reiterated in a March 2023 external quality review of a sample of performance audits. The report identified better documentation of the data strategy (including processes to protect sensitive data) as a significant opportunity for improvement (OCM (2023) *Thematic report on VAGO performance audit observations and recommendations*).

VAGO has prepared a data science strategy. However, this is a high-level, one-page document that does not address the concerns raised by stakeholders. We would expect the strategy to provide a clear and transparent statement that explicitly addresses these issues. It should set out:

- the principles and parameters for VAGO's data gathering, use of data analytics, and publication of data (including what types of data will be collected and how it will be used, and the types of issues to which data science lenses will be applied), and
- VAGO's policies and processes for ensuring data privacy and security.

The principles in this strategy should then be made public and applied throughout the performance engagement processes, from the initial scoping and planning stage.

## Recommendations

VAGO should:

- Do more performance audits with a focus on efficiency or economy, and for transparency states the focus area of each audit in its final report.

- Use the PRS methodology refresh to provide further guidance for staff on the distinction between audit and evaluation, and how the boundary between the two is maintained. This could be achieved through more explicit linkages and guidance around how VAGO applies the relevant auditing standards in its performance audits.
- Further develop its data science strategy, to explicitly set out:
  - the principles and parameters of its data gathering, analytics and publication activities (including what types of data will be collected and how it will be used, and the types of issues to which data science lenses will be applied), and
  - VAGO's policies and processes for ensuring data privacy and security.
- Communicate this data science strategy to external stakeholders; and implement these principles and parameters throughout the stages of its performance audits.

## Professional and respectful relationships

### VAGO is seen as conducting both financial and performance audits professionally and respectfully

#### There is regular engagement with VPS stakeholders within audited agencies

Interviews with external stakeholders and our observations of VAGO engagement activity in file reviews indicate that there is regular engagement by VAGO leaders and staff with parliamentary stakeholders. Stakeholders interviewed expressed general satisfaction with the level and quality of their engagement with VAGO personnel during both financial and performance audits.



There are regular cycles of communication with public-service stakeholders, from the Auditor-General through to staff involved in managing and performing audits.

### **Auditees report high levels of satisfaction with the professionalism of VAGO staff**

VAGO conducts client feedback surveys of both its performance audit and financial audit auditees.

Performance audit auditees report a high level of satisfaction with the professionalism and communication from performance engagement teams. A large majority of respondents to the PRS client feedback survey (93%) agreed or strongly agreed that "The auditors conducted themselves professionally during the audit." This was the highest-scoring question across the audit period. In free-text responses, respondents also commented that the audit team was collaborative and approachable, and provided regular updates.

VAGO also conducts surveys of financial audit clients, as well as the Chief Financial Officers (CFOs) and the Audit and Risk Committee Chairs of audited agencies. These surveys track client satisfaction with the level and quality of engagement between the auditors and auditee.

FA clients report very positive perceptions of engagement by VAGO staff. The vast majority of FA clients say that VAGO auditors conducted themselves professionally (96% in the latest survey). For CFOs, the latest satisfaction rating was 82.5%, compared to an internal target of 90%. The average across the four years from 2019 to 2020 was 88%. VAGO attributes the lower result in 2022–23 to an elevated turnover of FA staff post-COVID, and the need to use an expanded contingent workforce to deliver audits within the shortened timeframe leading up to the state election (VAGO *Transparency Report 2023*).

### **Stakeholders have mixed views on engagement in the hybrid working context**

As with most organisations post-COVID, VAGO, ASPs, and VPS staff are increasingly working in a hybrid model. External stakeholders had varying views on the hybrid working dynamic, and their preferences for on-site or remote auditing were mixed.

In client surveys and interviews, some auditees expressed a preference for face-to-face interactions, particularly for financial audits. They have found that communicating remotely with auditors is more time-consuming and inefficient, and makes it harder to build relationships and shared understandings. Others have no problem with remote and hybrid auditing, and are working from home themselves.

There is also concern among senior staff, some ASPs, and auditees that hybrid working poses particular challenges for financial audits. These challenges include less effective communication with auditee agencies, fewer opportunities for direct observation, and barriers to overseeing work within a team. This creates a risk to audit quality and the resulting effectiveness of audits.

VAGO informed us that it is acutely aware of these challenges. It also recognises that auditees have varied preferences, and is endeavouring to respond flexibly. VAGO has undertaken a range of initiatives, including:

- seeking client feedback in its annual client surveys around their experience of remote working during COVID, and hybrid working since then
- holding client audit debrief sessions to discuss the audit approach, including the way of working
- responding to feedback from these surveys and debriefs with alternative approaches to improve the experience



- establishing a project on hybrid working in the FA Roadmap, to ensure FA is focused on connection and in-person engagement within teams, for client work and with its clients
- developing a fact sheet for FA auditees to explain VAGO's Better Normal approach
- including a prompt about its approach in its annual FA strategy documents for each auditee, with reference to its fact sheet, and
- discussing the importance of finding the right balance with ASPs at quarterly forums.

In addition, VAGO notes that it has only had one formal complaint in 2023 about remote working and access to audit staff, which was from a regional entity.

## Engagement with Parliamentarians

### Feedback from surveys of Parliamentarians is very positive

Annual surveys of Parliamentarians have been conducted by ORIMA Research. We were provided with the results from the last three years. While response rates are relatively low (28% in 2023), the overall results are fairly consistent over time.

Overall satisfaction with the reports and services provided by VAGO is high. In 2023, 89.7% of respondents said they were satisfied or very satisfied. A large majority either agreed or strongly agreed that VAGO assists them with their parliamentary role (70.7%).

In free-text comments, respondents expressed general satisfaction, and frequently stated that they find VAGO's reports accessible (and that this has improved over time), and that they value in-person individual and group briefings.

*"VAGO performs a very important role in the public service and I value the insights and accountability provided by its work."* (Respondent to the 2023 Parliamentary survey)

### The VAGO Parliamentary Engagement Plan 2021 makes recommendations for actions to improve engagement with Parliamentarians

The Parliamentary Engagement Plan – Stage 1 (2021) was developed to support VAGO's strategic objective to "grow our influence" (from the *Strategic plan 2017–2021*). The aim was to review current Parliamentary engagement processes, understand the needs of MPs, and supply actionable recommendations for increasing engagement levels among MPs.

This plan provides useful recommendations as a foundation for improved engagement with Parliamentarians. These include opportunities for increased stakeholder education on VAGO's planning and processes, and increased promotion of VAGO and its work through presentations, forum attendance, social media approaches, messaging, and VAGO staff engagement activity.

We have not seen any formal reporting of progress against the *Parliamentary Engagement Plan*.

### The restructuring of the Performance Audit division into the Parliamentary Reports and Services division in 2023 aimed, among other things, to contribute to improved engagement with Parliamentarians

The Performance Audit (PA) division was restructured in 2023, to become the Parliamentary Reports and Services division (PRS). The restructure brought together four business divisions from across VAGO: data science, performance audit, publishing, and strategic audit planning.



The restructure established audit teams including for Economy and Infrastructure, Environment and Planning, and Legal and Social Issues. This was to align with the structure of Parliamentary Committees around these same themes. A Whole of Government and Local Government audit team was also established. The intent was to enable Directors to focus on the same areas as the Committees and provide a clear engagement channel for Committee members and Parliamentarians more broadly.

## VAGO recognises the opportunity for increased engagement with the wider Victorian Public Service (VPS)

VAGO has recognised the importance of communications and engagement beyond the arena of audits and reviews to support its ability to influence VPS efficiency and effectiveness.

### **The VAGO Strategic plan 2022–2025 makes several commitments for improving how VAGO engages and communicates with the public sector**

This includes commitments to sharing the better-practice approaches it observed, working with sector leaders, professional bodies and standard-setters to encourage improved reporting on outcomes, engaging more actively with the public so they are better informed, and conversely better understanding how Victorians live and their experience of public services.

### **VAGO has engaged professional services to provide further support for strategic communications and engagement**

This service aims to strengthen VAGO's enterprise communications and engagement approaches. The intent is to develop an overarching enterprise

communications and engagement strategy that VAGO can implement over 2024, including:

- key messages stating VAGO's function and role
- strategic approach to enterprise engagement and deliverables (including an engagement strategy)
- a calendar of internal and external activities that is driven off the strategy, and
- a list of key stakeholders, including target audiences and key players and their understanding and expectations of VAGO.

### **This work on strategic communications and engagement should build on the thinking outlined in the Parliamentary Engagement Plan 2021**

While the scope of the overarching engagement strategy is expected to encompass approaches to all stakeholders, it should build on the foundations laid down in the *Parliamentary Engagement Plan 2021*.

For example, the 2021 plan refers to reviewing the research processes used to understand if they are suitable for analysing other key stakeholder groups, including the Victorian public.

### **The proposed work on an engagement strategy should establish an annual review of the engagement approach**

The 2021 plan makes a specific recommendation for establishing an annual review of the engagement approach and associated engagement activities.

This should be established as a key activity among the calendar of activities arising from the proposed work on the overarching communications and engagement strategy.



## Recommendations

- VAGO should progress the Strategic Communications and Engagement proposal, including ensuring that:
  - the proposed work on a communications and engagement strategy builds on the work completed for developing the Parliamentary Engagement Plan – Stage 1 2021, and
  - the communications and engagement strategy and activity includes a process for annual review of the engagement approach and activities.

## Contemporary methodology, tools, and techniques

### Financial audit processes are working to provide accurate opinions across the whole VPS

#### EPIC methodology sets up in-house audits to comply with relevant standards

VAGO has comprehensive audit methodology and oversight processes in place to ensure their financial audits comply with the relevant standards and legislation. This methodology is regularly reviewed and updated to incorporate changes in the relevant standards.

Annual PAAQRs have found some immaterial and material departures from professional and regulatory standards for in-house and outsourced audits. However, we did not see evidence of any incorrect audit opinions being issued.

Beyond EPIC, the tools and templates used in financial audits are regularly updated to ensure they are fit for purpose. For example, during COVID, advice in standard engagement letters on Section 50 (Audit Act 1994) obligations around engaging with vulnerable persons were updated from face-to-face engagement to all engagement, to accommodate virtual meetings.

#### ASPs provide capacity to complete all audits required

VAGO is a monopoly supplier of financial audits to the VPS, conducting over 550 financial report audits and 109 performance report audits for council annual reports, as well as 80–160+ grant acquittals each year. To undertake the volume of work, VAGO contracts out around 70% of engagements to Audit Service Providers (ASPs).

In November 2019, VAGO started a refresh of their ASP panel approach, and this came into effect in December 2020. This saw the number of providers on the panel reduced from 23 to the current eight. These eight ASPs vie for work through rounds of requests for quotes (RfQs) that allocate engagements for five to seven years during the panel refresh period (there are three staged commissioning rounds, all ending 2026/27), and typically up to seven years. Some engagements have been bundled to ensure all audits identified for outsourcing could be commissioned out.

### VAGO is preparing for the future direction of public-sector financial audits

Like most audit offices, VAGO has been gearing up for increasingly digital audits to navigate big data, automated systems, AI and machine learning. Over the review period, VAGO has made a significant investment in Empower to date. This in-house custom-built system has the potential to improve the efficiency and effectiveness of financial audits by extracting financial information from auditees, linking into Caseware, and building on





the standard audit tools functions to support parts of an audit that require an auditor's time and effort. To date it has taken over five years in development with an investment of around \$10m. Developing Empower reflects a significant investment from VAGO into future efficiency.

Prior to Empower, work was done predominantly in MS Excel. While there is auditing software available, Empower is unique in its automated data extraction from clients' systems.

### Potential efficiency gains from Empower

The deployment of the Empower digital tool in financial audits has enabled a greater ability to understand the composition of underlying datasets, allowing for a more targeted risk assessment, identification, and audit response. Cost gains have occurred in some instances, but it is early days for developing a more systematic understanding of efficiency benefits.

### VAGO is readying for changes to mandatory reporting of climate-related financial disclosures

The Australian Government has been progressing a draft Bill that proposes mandatory climate-related financial disclosures, and the Australian Government has endorsed full adoption of IFRS S2 Climate-related Disclosures, which is effective internationally for reporting periods beginning on or after 1 January 2024. While the Australian Accounting Standards Board is still working through climate-related financial disclosure requirements for Australia, this type of work may impact VAGO at some point in the future.

In response, VAGO established a project "Preparing for Climate Accountability" in 2022 to ensure it researches, advocates, and prepares for the anticipated changes. If there are any increases in the effort required for this or other additional work, VAGO notes that there will be a transitional period to allow them to scale up, and that fees can be increased to secure additional resourcing.

## Performance engagement methodologies could be more clearly specified and aligned

The PRS methodology and guidance is currently being refreshed. The refreshed methodology will specify the end-to-end performance audit practice methodology and associated tools (*Parliamentary Reports and Services Division 2023–2025 plan*, p. 8). In February 2024, a PRS Community of Practice was launched to support the additional guidance and tools being developed. The Community of Practice is an interactive format that includes a mix of small- and large-group discussions and workshopping.

The methodology refresh presents an opportunity to respond to some of the concerns that staff expressed to us in interviews. These included the following:

- **Lack of conceptual frameworks.** The current guidance and tools (AmP) are process-oriented. AmP is a guidance and governance tool designed to ensure compliance with the standards and necessary procedures. Some staff are seeking greater guidance on the underpinning analytical frameworks to apply to performance engagements.

*"Process and methods are great but you can't run everything through a process. Trying to inject foundational methods. We're lacking capability in that regard."*

- **Grappling with how to audit economy and efficiency** – As noted above, performance engagements have focussed on effectiveness. Some staff noted that they find it *"hard to do economy and efficiency"*.
- **Lack of clarity on appropriate methodologies for limited assurance reviews** – This issue was also evident in our file review. We note that guidance on limited assurance reviews has recently been issued (May 2024).



## Greater understanding of context and root causes would help lift the relevance and impact of audit recommendations

A common concern expressed by audited agencies is that the team for their performance audit lacked understanding of their agency context. In the PRS client survey, 54% of respondents over 2020/21 to 2022/23 agreed or strongly agreed that "The auditors adequately understood our organisation, including our operating environment", making it the lowest-scoring question over the period.

This concern was a frequent comment in agency feedback on draft audit reports in our file review sample. It was also expressed in interviewees by several auditees. This is an ongoing issue, one which was identified in the 2016 PAEC audit. It can result in recommendations that are seen by auditees as not relevant or value-adding.

A particular concern expressed by auditees is that the performance audit team lacked understanding of the machinery of government, including the dynamics, nuances, and challenges of working within the Westminster system.

The recent recruitment efforts in PRS have had a strong focus on broad public-sector experience and understanding. These appointments should help boost VAGO's understanding in this area. We note that in October 2023, PRS started running Tutorial Tuesdays, which are an informal opportunity for PRS staff to learn more about how government works.

In our review of documentation and files, we also identified scope for greater application of root cause analysis (RCA). The 2020 PAEC performance audit also identified occasions where performance engagements did not address the root cause (Allen & Clarke, 2020, p. 37).

RCA provides tools and techniques that can help auditors understand why something happened or how a situation arose. Benefits of RCA include

better recommendations and more impactful audits (CAAF 2020, *Better integrating root cause analysis into legislative performance auditing*).

While the existing PRS guidance includes links to this CAAF guidance, we did not see evidence of these techniques being explicitly applied in audits in our file review. A lack of systematic RCA may partly explain auditees' feedback in interviews for the current audit that, in their view, VAGO performance audits don't always get to the heart of matters, or their recommendations can lack impact.

Essentially RCA means taking a systems approach – identifying the essential dependencies within organisational endeavour and seeking to understand at a fundamental level what needs to be resolved in order to address presenting issues and risks. It's about getting to fully understand "why" something has occurred.

VAGO used to monitor and report on whether agencies think that performance audit recommendations are focussed on the root cause of issues. For example, in its 2018-19 *Annual report*, VAGO reported that 96% of agencies agreed with this. We could not see evidence of this reporting during the current audit period – either in the limited assurance reviews of responses to performance engagement recommendations, or the survey of PRS clients. We suggest it would be useful for VAGO to reinstate this monitoring, so that it can track agencies' views on the quality of its root cause analysis.

### **The PRS guidance and training would benefit from more explicit attention to methodologies and standards**

PRS's guidance and training should provide greater emphasis and detail on methodologies and standards. We make the following specific suggestions:

- Include a conceptual framework or frameworks to underpin VAGO's approach to performance audit and provide a structure for its analytical



efforts. PRS could include or more explicitly draw on the root cause analysis frameworks in the CAAF guidance (rather than just linking to it).

- Provide more detail on the definitions of efficiency and economy, and how to audit these. CAAF guidance provides advice on how to audit efficiency, which could be included in the refreshed PRS methodology guidance.
- As noted above, we see scope for the refreshed PRS guidance to include more explicit explanations as to how VAGO applies auditing standards in its performance audits.

### **PRS methodology guidance should be aligned and integrated**

A number of initiatives have been completed or are in train to support the refresh of the performance engagement approach, including:

- PRS starter pack
- PRS induction pack
- PRS capability framework, and
- PRS methodology refresh.

Each of these initiatives provides guidance for managers and staff at different stages of their work with VAGO.

The methodology refresh provides an opportunity to review the various PRS guidance documents, and ensure these are aligned and integrated.

### **Legacy tools are being replaced**

Both financial and performance audit files are maintained in Lotus Notes applications. This legacy platform does not connect with the rest of the Microsoft tools and platforms used, requiring separate maintenance and increasing the potential security risks that need to be managed. Historically,

a key strength of Notes applications was that project emails, including approvals and sign-outs, could be easily added to the engagement file. This advantage no longer exists and there is currently double handling of information and approvals across MS Team and AmP for performance audits.

The platform itself is slow to load and navigate through (in our experience of use during file reviews), requires VPN connection, and is susceptible to work being lost from edits not saving. An advantage is that staff are comfortable navigating both AmP (used for performance audits) and IPSAM (used for financial audits), but this is somewhat offset by the slowness and inefficiencies of these programs.

### **FA is migrating to Caseware**

Work is underway to migrate financial audits from IPSAM to Caseware, a cloud-based solution. This has been in the pipeline since at least 2020, due to COVID, the need to ensure the integrity and suitability of the system, and work needed to modify the tool to suit government audits.

We note that a desktop version of Caseware has been used by the Tasmanian Audit Office since 2021/22 and ACT is transitioning to Caseware in 2023/24. VAGO's adoption of a cloud-based solution is unique at this stage for the potential for efficiency and effectiveness gains in financial auditing of government agencies. VAGO should expedite the roll-out of Caseware, to realise the efficiency and effectiveness benefits of this tool.

### **PRS is modernising AmP**

PRS uses two software platforms for recording its performance audit documents, evidence, and procedures – AmP and Teams. AmP is designed to document evidence and processes, and to support the management and quality control of audits. Teams is used for supporting VAGO team interactions, file sharing, and approvals. Key documentation is then copied across into AmP.



In interviews, staff expressed two concerns with AmP:

- It was not designed for limited assurance reviews. Several stages in AmP are not relevant for this type of audit. This contributes to confusion among audit team members as to the appropriate methodology and procedures for assurance reviews. In turn, this may give rise to variations in approach. It can also mean that key steps might not be recorded. For example, our file review identified an instance where a shift in focus and scope was not recorded (or made transparent to auditees).
- AmP does not integrate with Teams. This creates double-handling, as material is replicated (or linked) manually in AmP, in order to capture the necessary records for governance, risk, and compliance purposes.

VAGO has recently begun a project to modernise AmP, and is currently developing the specification and planning for this.

## Recommendations

VAGO should:

- Use the PRS methodology refresh as an opportunity to:
  - include a conceptual framework or frameworks to provide a structure for its analytical efforts
  - provide more detail on the definitions of efficiency and economy, and how to audit these
  - include more explicit explanations as to how VAGO applies auditing standards in its performance audits
  - take stock of the range of guidance for performance audits that has been and is being developed, and tests for alignment and integration.
- Expedite the rollout of Caseware, to realise the efficiency and effectiveness benefits of this tool.

## Focus on quality and continuous improvement

### Quality management and assurance systems are in place

A System of Quality Management (SQM) is in place, and this has recently been evaluated. There is clear allocation of responsibilities for quality management, across governance, leadership, and operational levels.

An annual Engagement Quality Inspection Program (EQIP, previously Post-Audit and Assurance Quality Reviews – PAAQRs) monitors compliance with standards. Recommendations for improvement to address identified issues are captured on the Executive Actions Tracker and monitored by the Operational Management Group (OMG).

Due to the intermittent nature of quality reviews we note that the Audit Quality team has at times faced challenges with inhouse resourcing. Contractors are brought on to provide surge capacity for the reviews.

### Quality reviews indicate some room for improvement in financial audit performance

The PAAQR system scores selected audit files from 1 to 5 based on the quality of the work performed and compliance with relevant standards (Table 3).



**Table 3: PAAQR score descriptions**

Result	Summary
Overall Score (5)	No departures from professional and regulatory standards identified. Best practice file.
Overall Score (4)	Very good file. Departures from professional and regulatory standards are of a trivial nature only.
Overall Score (3)	Departures from professional and regulatory standards identified, but not deemed material either individually or in aggregate.
Overall Score (2)	Material departure/s identified from professional and regulatory standards.
Overall Score (1)	Conclude that an incorrect audit opinion was issued.

Source: VAGO Financial Audit Post Audit and Assurance Quality Review Programme memorandum 2023

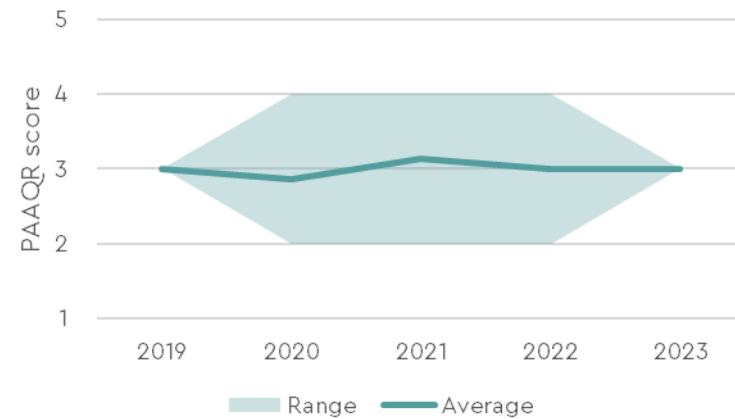
The reviews of financial audit files are carried out on three samples: one for in-house financial audits, and then two separate samples for outsourced financial audits – one on the ASP's work, and another on VAGO's oversight of the ASP.

The following charts show the results over 2019–2023. The lines show the average scores, and the shaded area represents the range. They show that, on average, the scores are higher for ASPs than VAGO in-house audits, though the range for ASPs is wider.

It is difficult to review trends over time, as the review approach includes sampling files to include each engagement lead on a rolling three-year basis. Performance is tagged to senior leaders who won't be reviewed again for another two years. However, through improved guidance, training, and oversight for all engagements, we would hope to see the number of 4/5 and 5/5 in-house financial audit PAAQR scores increase over time. VAGO

informed us that in individual audits, and for ASPs, they have observed a discernible improvement in the subsequent year audit file as they work to remediate quality findings.

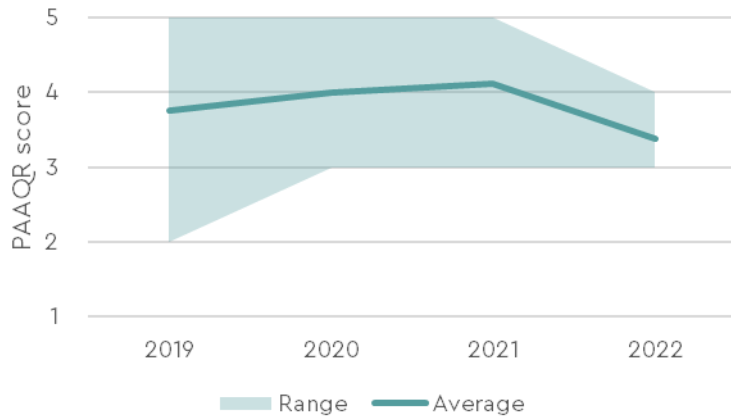
**Figure 1: Financial audit (in-house) PAAQR scores 2019–2023**



Source: VAGO Post Audit and Assurance Quality Review Programme memoranda



**Figure 2: VAGO oversight (ASP) PAAQR scores 2019–2022**

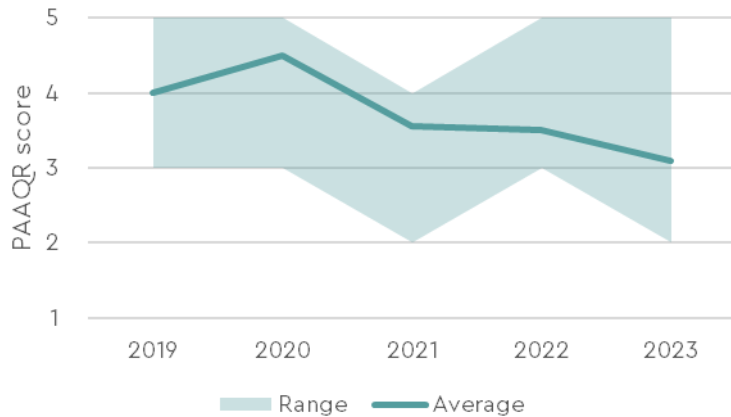


Source: VAGO Post Audit and Assurance Quality Review Programme memoranda

**Notes**

1 This was not assessed in the 2023 review.

**Figure 3: Financial audit (ASP) PAAQR scores 2019–2023**

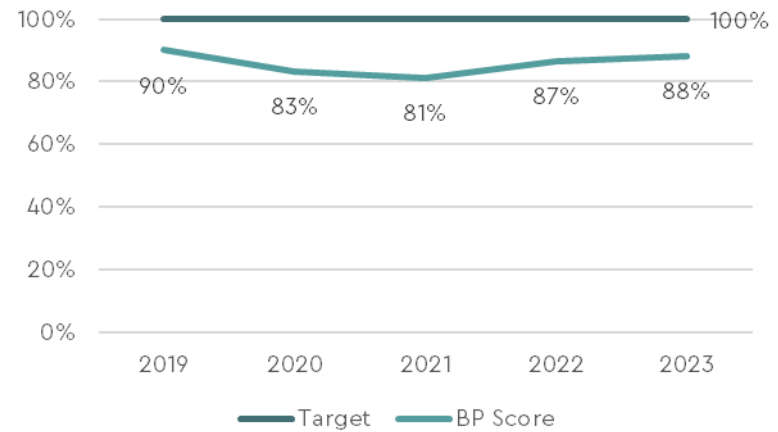


Source: VAGO Post Audit and Assurance Quality Review Programme memoranda

In the 2023 reviews, two engagement files were assessed as having material departures from professional and regulatory standards (score of 2, both ASP files). All the VAGO files scored 3, whereas ASP files ranged from 2 to 5.

As a result of these scores, the BP3 target was not met, and the result was greater than 5% variation from target. There has been some improvement in overall scores over the last two years (Figure 4).

**Figure 4: BP3 measure on no material departures (financial audits)**



Source: VAGO Post Audit and Assurance Quality Review Programme memoranda, on BP3 measure 'External/peer reviews finding no material departures from professional and regulatory standards'

**Notes**

1 VAGO's BP3 measure is based on financial audit (in-house) and financial audit (ASP) scores only.

VAGO aims for no material departures from professional and regulatory standards, but as shown in the range of scores in Figure 1, Figure 2, and Figure 3, there have consistently been in-house or ASP files assessed as having material departures.



## Audit Quality assesses for causes and makes recommendations

Audit Quality reports on themes and possible causes of findings in the quality reviews. In 2023, the most frequent and pervasive "common themes" in reviews of financial audits were inadequate documentation, timeliness of review and execution, insufficient execution of plan procedures, professional scepticism, and insufficient risk response. We understand that these relate primarily to low-risk assertions in the components and disclosures examined, and the documented issues were described as "minor".

A frequent and recurring "possible cause" in analysis of common themes was inadequate knowledge of requirements or how to apply them. A recurring possible cause in documentation issues was lack of consistency across team leaders regarding documentation. A possible cause of timeliness problems was the ongoing impacts of COVID on the capability and capacity of staff, and the associated completion of work under pressure. The new recommendations made in 2023 included developing more training for staff (Memo from Audit Quality to the Auditor-General, *Results of the post audit and assurance quality review programme (PAAQR) 2023, 1/9/23*).

Audit Quality also makes recommendations for improvements to address the identified issues. These recommendations are captured on the Executive Actions Tracker and monitored by OMG. The annual memo from each PAAQR process includes an acquittal against the recommendations.

We would expect that, if Audit Quality recommendations were addressing root causes and processes were in place for investigating reasons for lack of improvement (at issue level) and for managing and restoring ongoing, persistent issues, then there would be evidence of performance continuing to lift over time.

## There are also opportunities for quality improvement in performance audits

In 2023, OCM and EY completed an audit quality review of a sample of six performance engagement files. Their findings and recommendations were provided in a thematic report (OCM (2023) *Thematic report on VAGO performance audit observations and recommendations*).

The reviewers applied the same scoring system as for the financial audit file reviews described above. Two of the six files were rated as 4, and the remaining four files scored 3. The average score of 3 is therefore similar to that for inhouse FA files.

Good practices observed were providing sufficient and appropriate evidence; concise, well-written reports; and recommendations that flowed from the findings.

Reviewers found that two reports did not address all the audit criteria. The reviewers noted that budgets and timeframes were often exceeded, without any record of these being authorised during the audit process. Recommendations included better documentation, management, and oversight of both these dimensions. This recommendation was accepted and implemented, and is being monitoring by OMG.

A separate issue identified in our review of PRS files relates to the planning, design, and use of data analytics. In two of the files, auditees repeatedly expressed significant concerns with the data analysis methods used, and the interpretation and use of results in the audit report. These concerns were a source of frustration for the auditees and contributed to delays in the audit process. For one of the engagements, both the VAGO Audit Quality reviewer and the auditee raised risks with the data analysis that were not resolved.

In the section below, we recommend engaging earlier with agencies on the proposed data analysis methods during audit planning, to help avoid problems and delays in the future. To further manage this issue, it is also



important for performance audit teams to have the right mix of skills and capabilities, so they can have input in the design and interpretation of data analytics, rather than relying on a data scientist. This includes the oversight and decision making by the Audit Manager and Engagement Lead. We note that data literacy and acumen is a core competency in the new PRS capability framework.

## Recommendations

- VAGO should, in addition to the acquittal assurance against audit quality review recommendations for improvement, ensure processes are followed for:
  - investigating reasons for lack of improvement in audit quality over time, and
  - developing actions for resolving ongoing issues.

## Strong practice management

### Leadership arrangements and recent appointments provide increased support for VAGO practice management

At senior leadership level the VAGO Strategic Management Group (SMG), comprising the Auditor-General, Deputy Auditor-General, Assistant Auditor-General (FA), Assistant Auditor-General (PRS), and Director Strategy, Governance and Risk, provides opportunity for common leadership oversight over the organisation. This group meets monthly.

The Operational Management Group (OMG) governs operational management for VAGO, with a key responsibility to develop and implement

business and divisional plans for achieving operational objectives. The OMG consists of the members of SMG, and senior members of the VAGO leadership (Chief information Officer, Chief Financial Officer, Chief People Officer, and Director Strategy, Governance and Risk). A director from Financial Audit and Parliamentary Reports and Services divisions attends each OMG meeting as an observer on a rotational basis.

There are also executive leadership teams in both PRS and FA. Recent appointments have brought new people and new organisational-development and risk-management skills into leadership positions to complement the strong technical skills within the organisation. These include:

- new Chair appointment to ARC
- Chief People Officer
- Director Strategy, Governance and Risk
- Transformation Management Advisor.

The new Assistant Auditor-General and Director/Managers in PRS bring public-sector experience and insights to VAGO.

### There are business plans and roadmaps in place for future development in the organisation

#### Roadmaps and business plans have been developed for Financial Audit and Parliamentary Reports and Services

Both the Parliamentary Reports and Services Division Plan 2023–2025 and the Financial Audit Roadmap contain a number of initiatives for developing the service offerings and building the systems and people capability in these areas. These plans have been developed to align with the focus and commitments made in the VAGO Strategic plan 2022–2025.





For the FA Roadmap this includes strategies and programs for supporting the technical delivery of financial audits (including software replacement), designing and delivery of the capability framework, clarifying and embedding hybrid working arrangements (Better Normal approaches), and updating audit quality management systems and methodologies.

For the PRS Division Plan 2023–2025 this includes projects for supporting technical delivery of performance audits (methodology, resources, hours allocated), leadership development, and the development of a skills audit and capability framework and a stakeholder communication and engagement strategy.

### The Corporate Plan 2024–2027 has a strong focus on ICT initiatives

The business plan we have sighted for Corporate Services has a singular ICT focus, setting out the technology development pathway for the organisation. A self-assessment in the plan of the focus of activity over the period 2018–2024 reflects this focus, with the natural exception of attention to supporting staff during COVID-19.

**Table 4: 2018–2024 effort assessment**

Tactic/ Effort	Degree of effort applied
Legacy infrastructure	Very high
Cyber security	Very high
Covid-19	Very high
Knowledge and learning	Very low to low

Tactic/ Effort	Degree of effort applied
Collaborative Work Management (CWM)	Low
Enterprise Work Programme (EWP)	Medium
Employee experience	Low to medium

Source: Corporate Plan 2024–2027

**Notes**

- 1 CWM includes Microsoft Teams (2027) and Miro (2022)
- 2 EWP includes Success factors Stage 1 (completed 2020), Stage 2 (completed 2021) and Caseware (pilot commenced in 2023)

The self-assessment of effort to be applied going forward continues to reflect this focus on ICT development, but with increased effort on Knowledge and learning.

**Table 5: 2024–2025+ effort assessment**

Tactic/ Effort	Degree of effort to be applied
Legacy infrastructure	Low to medium
Cyber security	Low
COVID-19	Very low
Knowledge and learning	Very high
Collaborative Work Management (CWM)	Low



Tactic/ Effort	Degree of effort to be applied
Enterprise Work Programme (EWP)	Very high
Employee experience	Low to medium
Support FA's roadmap	Very high

Source: Source

#### Notes

- 1 The addition of Support FA's Roadmap may be high due to the ongoing support with the Empower initiative

While this is essential as a planning tool for ICT development, we would have expected to see an enterprise Corporate Services Business Plan during the audit period that also presented organisational approaches including those for workforce planning, human resource management, people development and ICT systems development.

We understand, however, that some corporate support staff are embedded within the two audit divisions to provide assistance with capability and people development and systems enhancement.

### A project approach to initiatives, particularly in Corporate Services

There is an emphasis on managing initiatives in Corporate Services as individual projects. The 2016 Performance Audit made recommendations for improving the management of projects and ensuring these are linked to the strategy of the Office. VAGO responded to this, and the 2020 Performance Audit recognised that VAGO's leadership team had strengthened its focus on managing business-improvement projects. Projects are managed through a project management portal (PEP – Project and engagement portfolio).

We heard in interviews that this approach can make it difficult for some to understand the scope of work being done and the rationale behind project work. There is an opportunity to strengthen understanding through developing an overarching program plan that outlines projects and their contribution to VAGO's development. The Corporate Plan 2024 – 2027 does this, but largely for ICT projects.

## Human resource support has been largely administrative over the audit period

### Over the audit period there has not been an enterprise-wide strategic approach to human resource management

Over the last four years, the human resource management support within VAGO has been largely administrative, with a focus on supporting staff through and after COVID-19. This COVID support has been strong and much appreciated by people in the organisation.

As a result, there has not been a cohesive strategic approach to human resource management. This lack of a strategic approach to the VAGO workforce has been a cause of issues relating to learning and development systems, succession planning, and approaches to people management within the organisation.

### Recent plans indicate a shift to a more strategic enterprise-wide approach

On the other hand, VAGO has recently produced a Human Resources Plan 2024–26 (May 2024) that indicates an increasing of corporate support for an enterprise approach to human resource management, and for addressing some of the issues identified above. This plan takes a corporate view and includes strategies for the following:

- Design and implement a succession management framework



- Create a workforce plan and connect to the budget planning cycle
- Create and champion an employee value proposition
- Re-engineer the graduate recruitment and development program
- Build internal talent capability
- Connect capability frameworks to performance
- Uplift managers' skills and leadership capabilities
- Improve the performance and development process
- Embed VAGO's values
- Design and implement an enterprise learning platform.

The next independent performance audit (2028) should have the opportunity to assess the implementation of this plan.

## Meeting legislative requirements

We saw no evidence that VAGO is not complying with legislative requirements.

However, as commented earlier in this report, and as recognised in VAGO's strategic planning, there is an opportunity to ensure that performance audits take more account of aspects of the economy and efficiency of public-sector entities, alongside effectiveness, as indicated under the Audit Act 1994 (Section 14).

We make the following observations in relation to VAGO's application of two key parts of legislation:

- A key strength was adapting processes to comply with the spirit of Section 50 (Audit Act 1994), which requires that there be protocols in place for **engaging with vulnerable persons**. During COVID-19, VAGO's advice in engagement letters around this obligation was updated to

apply to all engagement rather than only face-to-face engagement (to accommodate virtual meetings).

- VAGO also complies with the **Local Jobs First Act**, which limits the amount of work that can be offshored for special projects. VAGO's ASP panel is considered a special project and has a 97% threshold for local content. This has been applied to each outsourced audit by hours per engagement.

## Overall performance against output measure targets has been declining

VAGO reports its performance against 14 different Budget Paper 3 (BP3) measures. These include quantity, quality, timeliness, and cost measures for their two output groups.

**Table 6: BP3 performance measure trends 2019–20 to 2022–23**

Type	Measure	Trend
<b>Output Group 1 – Parliamentary reports and services performance measures</b>		
Quantity	Average cost of parliamentary reports	
Quality	Percentage of performance audit recommendations accepted that are reported as implemented by audited agencies	
Quality	Overall level of external satisfaction with audit reports and services – parliamentarians*	
Timeliness	Average duration taken to finalise responses to inquiries from members of parliament	



Timeliness	Average duration taken to produce performance audit parliamentary reports	
Timeliness	Average duration taken to produce financial audit parliamentary reports after the balance date	
Cost	Total output cost	
<b>Output Group 2 – audit opinions on financial and performance statements performance measures</b>		
Quantity	Average cost of audit opinions issued on performance statements	
Quantity	Average cost of audit opinions issued on the financial statements of agencies	
Quality	External/peer reviews finding no material departures from professional and regulatory standards	
Quality	Proportion of agencies disclosing prior period material errors in financial statements	
Timeliness	Audit opinions issued within statutory deadlines	
Timeliness	Management letters to agencies issued within established timeframes	
Cost	Total output cost	

Source: VAGO annual reports

#### Notes

- 1 Grey trend lines reflect measures where a decreasing result is positive, and black lines reflect measures where an increasing result is positive. The dotted line reflects the BP3 target.
- 2 'Overall level of external satisfaction with audit reports and services – parliamentarians' was not measured in 2022/23 due to timing conflicts of the 2022 election and Parliament sitting dates recommencing from February 2023.

Overall, VAGO's performance against its BP3 targets has declined over the audit period (see Figure 5). However, at a more granular level, the number of measures met within 5% of target has increased.

In 2022-23, the measures showing the greatest variation from target were:

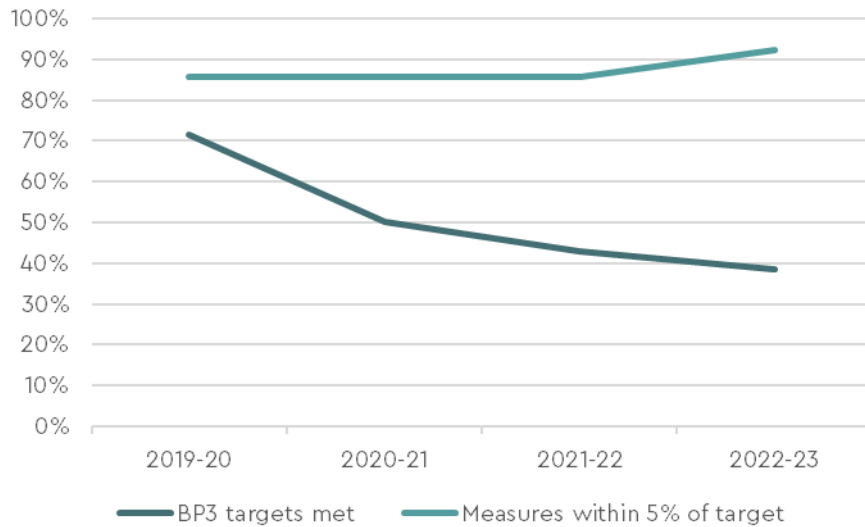
- timeliness (of responses to members of Parliament, and production of Parliamentary reports on performance and financial audits)
- cost of financial audit opinions, and
- quality of FA opinions (external or peer reviews finding no material departures from professional and regulatory standards).

VAGO attributes the delays in the timeliness of PRS reports to staff turnover, unplanned absences, and delays in auditees providing information or responding to draft reports. FA experienced challenges with turnover and recruitment in a tight labour market (*VAGO Annual report 2022-23*, p. 5-7).

Discussion of audit quality is included above in the section "Focus on quality and continuous improvement". Our analysis of the cost of audits is set out below.



**Figure 5: Progress against VAGO BP3 targets from 2019–20 to 2022–23**



Source: VAGO annual report performance statements

**Notes**

- 1 Measures include Output Group 1 and Output Group 2 targets.
- 2 2022-23 only has results published for 13 of the 14 measures as the Parliamentary Satisfaction Survey did not run for 2022-23.
- 3 Improved and maintained performance is relative to the actual results in the prior year.

## VAGO manages its financial performance at three levels

### Appropriation budgets

VAGO receives most of its funding from two output appropriations:

- Under the Appropriations Act, there is an annual appropriation out of the Consolidated Fund for Parliament for VAGO's Parliamentary reports

and services, including performance audits (Output Group 1). In 2022/23, Output Group 1 funding was \$18.8m.

- There is a fee appropriation under section 29 of the Financial Management Act for VAGO's audit opinions on financial and performance statements (Output Group 2). In 2022/23, Output Group 2 funding was \$30.6m. This funding is fully cost-recovered from auditees.

The remainder of its funding (\$0.7m) is from a special appropriation for the Auditor-General's salary, plus the sales of services and other income.

In 2022/23, the total organisational appropriation was \$50m.

The Constitution Act 1975 (Vic) establishes the Auditor-General as an Independent Officer of the Parliament with complete discretion in exercising its functions or powers. With this comes statutory independence in how VAGO sets reasonable fees and its annual budgets (which are used to determine appropriation funding). This budgetary independence distinguishes VAGO from other VPS departments.

Under section 17 of the Financial Management Act, VAGO countersigns its own warrants to draw money from the Public Account.

### Business unit-level budgeting

At a business unit-level, VAGO sets budgets for FA, PRS (previously PA), the Office of the Auditor-General (OAG), and Corporate Services. Business unit costs are estimated as part of VAGO's internal budgeting process, based on the previous year's results, with incremental adjustments. These budgeted costs flow through into the charge-out rates used at an activity level (described below), and the funding sought at an appropriation level.

Business unit-level reporting allocates OAG and Corporate services costs as overheads across FA and PRS, to create reporting across the two Output Groups.



## Activity-level budgeting

Budgeting also occurs at an activity level for audit engagements, other services, and internal projects. Each engagement has a budget based on the expected effort required and charge-out rates, to recover reasonable costs. Currently, VAGO uses the same charge-out rates to price jobs internally for performance audits, and to set fees that are passed onto auditees for financial audits. These charge-out rates reflect the cost of staff time for the different VPS grades, plus a standard overhead allocation.

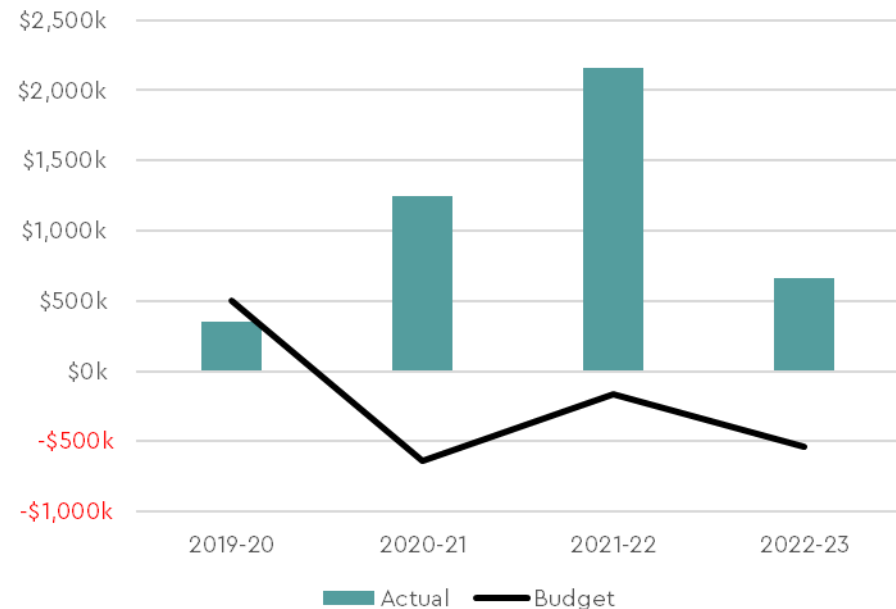
Financial audit engagements are for the same clients each year (subject to machinery of government, ceased or newly established entities), and performance audit engagements are set out each year in advance in the annual plan.

## VAGO ran operating surpluses across the audit period

VAGO ran operating surpluses over all four years of the audit period (as well as the two years immediately prior) (Figure 6). Across the four years, these surpluses totalled \$4.4m.

A key driver of the surpluses has been underspends on staff and contractors in PRS (due to carrying vacancies).

**Figure 6: VAGO budgeted and actual total operating surplus/deficit**



Source: VAGO monthly operating statements

## BP3 cost targets are set by DTF

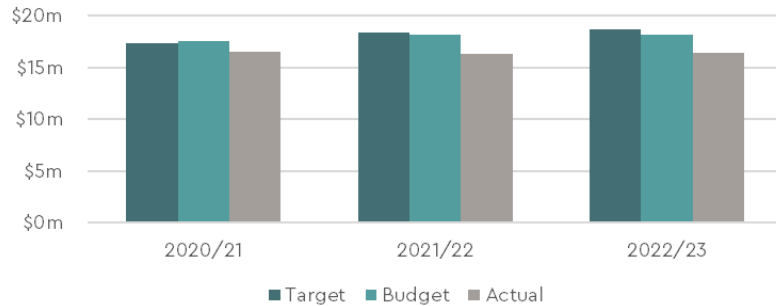
DTF sets cost targets for each of VAGO's Output Groups. These targets act as goals within which VAGO is expected to manage its cost pressures. The targets are based on 2020 expenditure and adjusted each year by the ABS Baseline index.

Over the audit period, actual expenditure in Output Group 1 was lower than both the BP3 targets and budgeted expenditure (Figure 7). This is due to the unfilled vacancies noted above. PRS planned for an establishment FTE of 72. It appears that they had an average of 60.8 FTE over 2022-23 and are currently recruiting for around 10 roles. This equates to around 14–15% of



budgeted staff. In interviews, we were told that performance audit has historically carried unfilled vacancies.

**Figure 7: Target, budget, and actual expenses for Output Group 1 – Parliamentary reports and services**



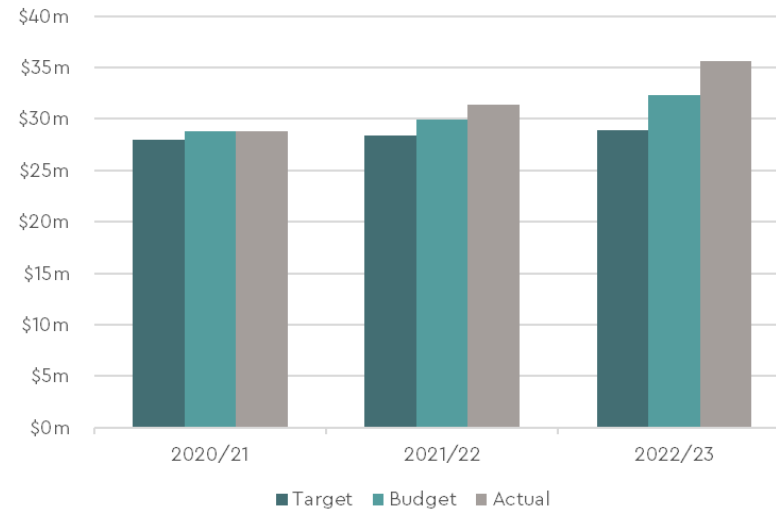
Source: VAGO annual reports and June monthly operating reports

In Output Group 2, expenditure across the audit period exceeded BP3 targets, with the variance increasing over the period (Figure 8). VAGO reports that it has experienced cost pressures in financial audits due to the tight labour market, the use of a contingent workforce to get back on track post-COVID, and the need to respond to updated auditing standards (VAGO *Annual report 2022-23*, p. 5-7). We understand that in 2021/22, VAGO requested an increase to the BP3 target to reflect its actual budgeted costs. This request was declined. In 2024 reporting to PAEC, VAGO noted that the target should be rebased to reflect their expected performance more accurately.

We note that VAGO's financial audits have historically cost significantly less than those undertaken by other State and Commonwealth Auditors-General. The costs of its Local Government audits, which are undertaken both in-

house and outsourced to ASPs, have been near-average cost compared to its peers.

**Figure 8: Target, budget, and actual expenses for Output Group 2 – audit opinions on financial and performance statements**



Source: VAGO annual reports and June monthly operating reports

### The refreshed ASP panel has been an opportunity to make outsourcing financial audits easier and more cost-effective

When assessing RfQs for the refreshed ASP panel, VAGO was guided by a key criterion of quality at a reasonable cost. Proposed cost was a key parameter for quotes, and there was a section on the response schedule for information on any discounts that can be provided.



Agreements with ASPs allow for annual fee increases for wage inflation. Where there is significant increase in the complexity of work, there is a process for VAGO to arrange with the client a change to the audit fees for the year. Over the audit period, contracted audit services costs have been 4–8% over budget each year, and cost have grown 36% from 2020/21 to 2022/23 (compared to a 13% increase for other OG2 costs over the same period for in-house financial audits). In interviews, some ASPs told us they are wearing cost increases, and others said they are following up with VAGO to increase fees for the year. This suggests that actual cost increases could have been higher.

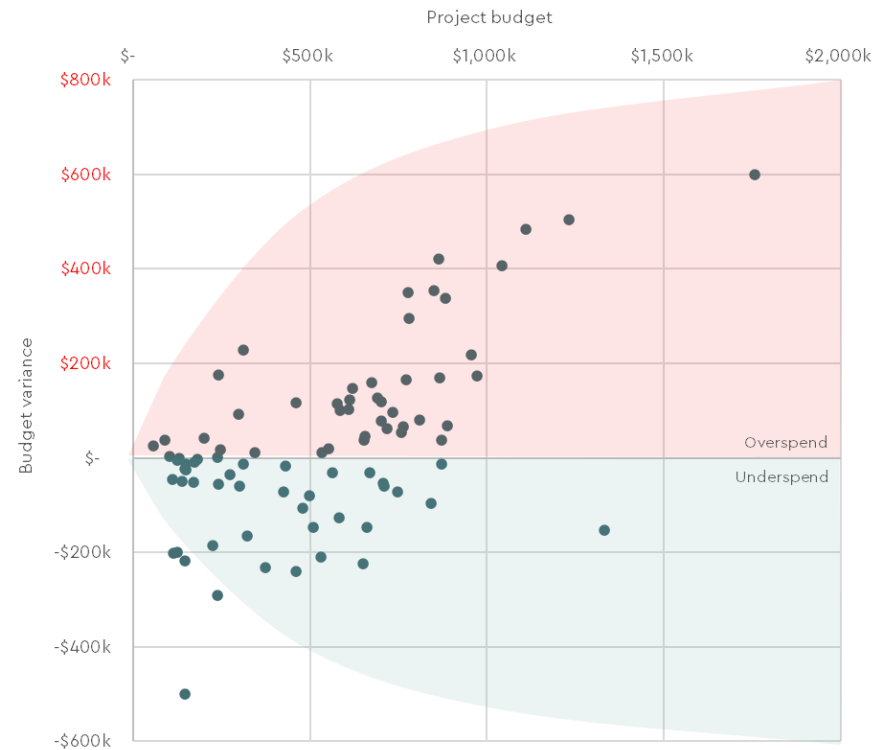
### At an activity level, performance audits are not often completed according to their original budgets

ACAG benchmarking shows that VAGO’s performance audits cost more than those of its peers. VAGO reports that this cost differential arises from the added value it provides through its use of data analytics, improving the quality and readability of its final documents, providing a written and web-based report, and taking on a broader and deeper scope for their work.

Individual performance audits over the audit period are often not done to their original planned budgets. Over the period, around 12% of performance audits were 10–15% over or under budget, and 57% were more than 15% over or under budget. However, as noted above, the overall programme of performance audits was consistently under budget, due in part to persistent unfilled vacancies.

Figure 9 plots the difference between budgeted and actual expenditure for performance audits completed over the audit period. It includes data for internal staff time and expenditure on external subject-matter experts.

**Figure 9: Performance audit and limited assurance review budget variances**



Source: OG1 and OG2 project lists (budget), timecard data (actual) 2019–October 2023, excluding partial work completed in 2019, and new projects underway in 2024.

Our file review found that the stated reasons for over-runs included delays in receiving requested information from agencies, protracted effort and discussions with agencies on acquitting their feedback, and changes in team resourcing (such as bringing in additional subject-matter expertise). COVID restrictions also had a significant impact on audit timeframes and budgets during 2020 and 2021.





VAGO reports that once they set the original budget, they do not revise it, to maintain a consistent baseline against which to measure actual expenditure.

## Improving efficiency and effectiveness in performance audits

There is scope for improved budget management of individual performance audits, through more effective audit scoping and planning and through improved budget planning.

VAGO acknowledges that it is important to get greater consistency and better practice in budgeting. A "Review of hours" project is underway, which includes developing a ground-up budget tool. We understand this tool has now been completed and was used for the 2024/25 budgeting process. It will be refined in future as needed.

Over time, we would expect to see budget variances decreasing. VAGO informed us that their performance against budget for the 2024 year (outside of our audit period) saw an improvement, with 70% of performance audits coming under budget and 35% within 10% of budget.

In addition to the budgeting tool initiative, we recommend that VAGO strengthen its planning processes to provide clearer scope at the early stages of an audit, and to better manage the size of audits, including taking a narrower scope for some smaller audits.

We note that post-audit engagement debriefs review what went well, what could have been better, what was learned, and what could be tried next time. These processes should systematically review the underlying reasons for any budget variances, and generate actions to avoid these problems in future audit planning processes.

## Leveraging the work and knowledge gathered by FA

PRS has been developing "sector knowledge banks" to bring together and develop information about sectors, such as components of the sector, funding trends, the top expenditure area, financial position, and key risks (*Parliamentary Reports and Services Division 2023–2025 plan*, p. 8).

There is scope for PRS to better leverage the significant work and knowledge about agencies that is already gathered by FA as part of their annual process of assessing inherent risk of material misstatement. Better integrating this knowledge could support efficiency improvements, by reducing the time and effort PRS expends in assembling information about the sector. It could also support effectiveness by helping PRS target its selection of topics, and gain deeper understanding of the audit context.

## Mitigating the drivers of cost over-runs

Options for helping mitigate some of the drivers of cost over-runs in individual performance audits are:

- Providing greater clarity in information requests to agencies. Feedback from agencies in client surveys, written correspondence, and meeting minutes shows that audited agencies are often unclear on the scope and purpose of information requests. Greater clarity on why particular information is being requested would help agencies collate the right information more quickly, and provoke less iteration.
- Relatedly, earlier engagement with agencies on the proposed data analysis methods could help avoid lengthy iteration and feedback processes on the design and interpretation of data later in the audit process.



## Recommendations

VAGO should:

- Improve its budget-setting and business planning processes by:
  - progressing the development and use of the budgeting tool to support performance audit budget planning
  - strengthening its planning processes for performance audits, to provide clearer scope at the earlier stages of an audit, and better manage the size of audits, including taking a narrower scope for some smaller audits, and
  - ensuring that performance audit engagement debriefs systematically review the underlying reasons for any budget variances, and generate actions to avoid these problems in future audit planning processes.
- Improve the efficiency and effectiveness of individual performance audits by:
  - leveraging work and knowledge gathered by FA to reduce the time and effort spent by PRS assembling sector information for performance audits, and gain deeper understanding of the audit context
  - providing greater clarity on scope and purpose in information requests to agencies, and
  - engaging earlier with agencies on proposed data analysis methods, to help avoid lengthy iteration and feedback.

## Participative leadership and inclusive culture

As noted above, the timeframe for this audit is the four years from the last PAEC audit in 2020. And as set out in the explanatory note under the Glossary, the creation of the new PRS division was proposed in April 2023,

the structure was finalised in June 2023, and the transition from the four former business units to one division was finalised in October 2023.

The 2023 People Matter survey was carried out from 29 May to 23 June 2023. The survey results relating to performance audit that are discussed in this section relate to staff in the former PA division.

## Staff engagement survey shows positive results for inclusion, leadership, and job enrichment

The 2023 People Matter survey showed a deterioration across most of the people outcome measures, compared to 2022 (though there was more variegation in the detailed results).

The highest-scoring questions related to job enrichment ("I understand how my job helps my organisation achieve its goals", 96%), flexible working ("My manager supports flexible working", 94%) and manager leadership ("My manager demonstrates honesty and integrity", 94%).

Inclusion was rated highly, at 82% overall. A large majority of staff reported that they feel culturally safe at work (88%), can be themselves at work (87%), and feel as if they belong in the organisation (71%).

The biggest positive differences from the comparator group were:

- frank and fearless advice (77%; 17 percentage points higher than the comparator group's 60%)
- flexible working (confidence that a request for a flexible work arrangement would be given due consideration, 93%; 12 percentage points higher), and
- organisational integrity ("My organisation is committed to earning a high degree of public trust", 93%; 9 percentage points higher).

Overall, VAGO also rated well in relation to negative behaviours, scoring the same or better than the comparator group:



- bullying – 9%, which is in line with the comparator group
- violence or aggression – 3%, lower than the comparator group (8%)
- sexual harassment – 2%, lower than the comparator group (3%)
- discrimination – 1%, lower than the comparator group (4%).

Variations in results at the divisional level are discussed below. VAGO also provided us with information from the Victorian Public Service Commission that found VAGO scored the best (1<sup>st</sup>) out of the 242 participating organisations for discrimination, and 15<sup>th</sup> out of 242 for bullying.

## There are concerns with L&D, safety climate, and workgroup climate

The lowest-scoring questions related to learning and development (satisfaction with opportunities to progress, 45%), taking action to address survey results (45%), and safety climate (specifically, procedures to manage stress, 49%). High-severe work-related stress was 30%, up from 25% in 2022, and higher than comparators and the public-sector average. The top reason given was workload, followed by time pressure.

The biggest declines across the survey dimensions were in engagement and safety climate. The overall score for safety climate (how well staff feel the organisation supports their physical and psychological safety at work) dropped from 72% to 62%. This is similar to the average for comparator agencies of 63%, and more favourable than the public-sector average of 57%.

In the area of workgroup climate, the proportion of staff feeling safe to speak up was 75%, down from 82% in 2022. The 2023 result is similar to that for comparators and the wider public sector (76% and 73% respectively).

While many of the latest staff survey results are in line with other public-sector agencies, the recent drops in scores should be a cause for concern and attention from management.

The areas of the biggest declines correspond to areas of concern raised in interviews with us.

## Exit surveys show some similar themes

VAGO conducts exit interviews in some business units, and conducts exit surveys for all departures. We were provided with anonymised exit survey results from October 2021 to November 2023 (a total of 35 respondents).

### Positive attitudes about VAGO as a place to work...

The results are overall more positive than the People Matter survey, though some similar themes are also evident.

A large majority of respondents (83%) said they would recommend VAGO as a place to work. And 74% were satisfied or extremely satisfied with their immediate manager. In free-text comments, respondents praised the organisational culture and the support during COVID-19.

### ... but less so about L&D and career development

However, a much smaller majority were satisfied or extremely satisfied with their learning and development opportunities at VAGO (57%), and with their opportunities for career development (51%).



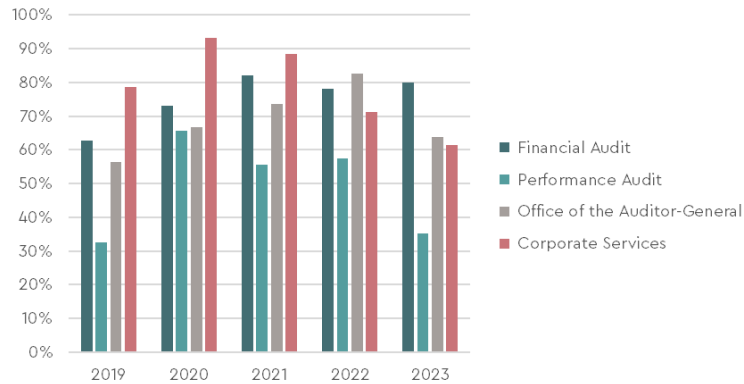
## Perceptions of leadership and safety climate vary markedly across divisions

The People Matter survey results are notably poorer for the former performance audit division compared with other divisions in a number of dimensions related to senior leadership and organisational culture, and across the audit period. For example:

- **Leadership** – In 2023, these questions scored an overall average of 58% in PA, compared to 91% in Financial Audit and 84% in Corporate Services.
- **Safety climate** – Overall, PA rated 35% in 2023, compared to 80% in Financial Audit and 61% in Corporate Services (Figure 10).

**Figure 10: Safety climate reported in the staff engagement survey**

Average score across safety climate questions



Source: People Matter surveys 2019–2023

### Notes

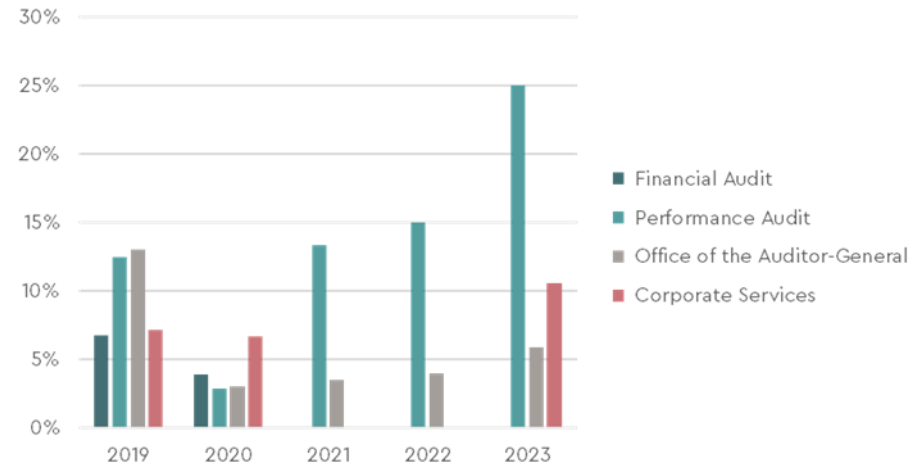
- 1 Results for performance audit relate to the former PA division. The restructure to PRS was finalised in June 2023 and the transition finalised in October 2023. It therefore did not exist in this form at the time the People Matter survey was conducted.

## There were also distinct divisional differences across other questions

Looking at some of the other questions:

- **Workgroup climate: feeling safe to speak up** – In 2023, this was 53% in PA, compared with 84% in Financial Audit and 82% in Corporate Services.
- **Negative behaviours: bullying** – The positive score for the organisation as a whole (discussed above) masks considerable variation at the divisional level. In 2023, 25% of PA respondents reported that they experienced bullying, compared to 0% in Financial Audit and 11% in Corporate Services (Figure 11).

**Figure 11: Bullying reported in the staff engagement survey**  
"Have you experienced bullying at work in the last 12 months?"



Source: People Matter surveys 2019–2023



## Plans are in place to continue supporting an inclusive culture...

VAGO has a *Gender Equality Action Plan 2022–2025* and a *Diversity, Inclusion and Belonging Plan 2022–2025*. As noted above, inclusion is rated highly by staff in the People Matter survey results.

There are also policies and processes in place for people to speak up (these are consolidated in an overarching complaints policy).

## ... but some areas of perennial concern have not yet been effectively addressed

The 2020 PAEC audit, as well as focus groups (such as CUBE Group, 2021), the staff surveys discussed above, and our interviews, show persistent concerns with:

- learning and development, and career progression opportunities
- safety climate – in relation to workplace stress
- negative workplace behaviours (bullying), and
- workgroup climate – feeling safe to speak up.

The persistence of these concerns is symptomatic of the ongoing lack of a strategic approach to human resources management, identified above.

### Actions taken to date have not been sufficient

VAGO developed a People Matter Action Plan in 2021, following analysis of three years of survey data (2019, 2020, and 2021). It identified seven focus areas, including learning and development and safety climate, with accompanying actions. Many of these actions were the continuation of existing projects, or focussed on raising awareness of existing policies and offerings.

The current *Strategic Plan 2022–2025* includes an objective to provide professional development and career growth for staff. It notes that while VAGO has recently started to develop comprehensive skills and competency frameworks, it has not invested enough in developing and delivering a supporting technical training curriculum that prepares auditors for progression. To address this, VAGO intends to refresh its suite of technical training programmes, with a focus on delivering these through the practical on-the-job application of updated methodologies and toolsets (pp. 17-18). It also intends to create an accelerated promotion pathway for high-potential staff.

The new capability frameworks for FA and PRS are a significant step forward, and are being integrated into the Performance Development Process (PDP). Tools such as self- and manager assessments, training for these assessments, and development pathways setting out the expectations to be met in order to progress have been developed to improve consistency in role expectations and performance appraisals and to address concerns raised by staff.

In addition, one of the early actions of the new PRS leadership was to engage an external facilitator to lead the division in a discussion of the People Matter survey results for the former PA division in relation to negative behaviours. One outcome of this was implementing feedback training, an initiative suggested by PRS staff members.

## Hybrid working poses challenges for L&D

Audit as a professional service requires learning and development, particularly for those early in their career, as well as keeping up with new standards, tools, and processes on an ongoing basis.

Since COVID, there has been a shift to more remote working for both VAGO and ASPs through the Better Normal principles. Better Normal involves four



modes of working that balance remote, hybrid, and office-based working (Figure 12).

**Figure 12: Better Normal: the 4 modes of working**



Source: VAGO Annual report 2023, based on Gartner's "International collaboration in a hybrid world" mode.

Hybrid working brings benefits for staff and the organisation. The flexibility of hybrid working has allowed VAGO to attract and retain skilled, experienced people, including its external ASPs. It also supports job satisfaction, as staff have the flexibility to work in ways that suit them.

Alongside these benefits, hybrid working also presents challenges with respect to learning and development. VAGO's approach to learning and development is based on the 70/20/10 learning model, which involves:

- 70% on-the-job learning
- 20% learning from working with others ("social learning"), and
- 10% from formal learning.

Social learning includes coaching, mentoring, collaboration, giving and receiving feedback, and learning in networks. Remote and hybrid working presents some challenges for effective social learning, particularly for younger and early-career staff. These challenges are not unique to VAGO – employers across the VPS and worldwide are grappling with the new working environment.

In interviews and focus groups (including those conducted by CUBE Group in 2021), staff expressed concerns that hybrid and remote working limits opportunities for the incidental interactions that occur organically in the office and that are a key part of social and on-the-job learning.

In exit surveys, staff expressed mixed views on hybrid working and Better Normal. Some valued the flexibility to work from home, while others said it poses challenges for their learning and development and for understanding the client's business.

VAGO has implemented a range of initiatives to overcome the challenges of hybrid working. In addition to the initiatives listed above (under "Professional and respectful relationships" and "Contemporary methodologies, tools and techniques"), VAGO has also:

- established a project on hybrid working in the FA Roadmap, to ensure FA is focussed on connection and in-person engagement within teams and with its clients
- developed an education video for staff on the hybrid environment



- been holding regular drop-in support sessions for data science and writing, and
- skills sharing in the fortnightly PRS hybrid meetings.

## An opportunity to strengthen change management for VAGO change initiatives

The 2020 independent performance audit of VAGO concluded that there had been inadequate planning for the implementation of some changes to business systems and processes, contributing to additional stress and workloads.<sup>6</sup> In response VAGO adopted a structured approach to managing changes regarding the initiatives proposed in the Financial Audit Roadmap and the restructure of Performance Audit into Parliamentary Reports and Services. It also adopted an increased focus on the approach to be taken in performance audits.

In line with VPS requirements, the PRS restructure followed a Clause 11 process, where VAGO developed and implemented the change proposal in consultation with the CPSU and employees.

For each of these initiatives some external facilitation was used to support the process: for the FA Roadmap, workshops were facilitated to enable staff to share feelings and perspectives to inform the process and the solution; for the PRS restructure an external coach was used to facilitate workshops to assist staff to communicate and connect with change decisions.

In our interviews and focus groups with staff we heard that changes have been embraced by many staff in both divisions as positive steps for the organisation's ongoing development.

We also heard from some PRS staff who found the changes challenging. In some cases these staff members said there had been detrimental impacts on

their wellbeing or that they had concerns about the organisational safety climate.

There is an opportunity for VAGO's leadership to continue to work constructively with affected staff to support them as they adjust to a new working environment.

VAGO should also take the opportunity to review the change processes used and identify learnings for the future, including where processes might be strengthened and to support a positive safety climate.

This might include using an external change management resource to support leadership and management in change processes and post-change support for impacted staff.

<sup>6</sup> Independent-Performance-Audit-of-VAGO-2020 p59



## Recommendations

VAGO should:

- To address persistent concerns with learning and development by better supporting social learning through:
  - continuing to support its people leaders to create opportunities for social learning through a range of measures, in recognition of the changed workplace and disruption from lengthy lockdown periods in response to COVID (such as making conscious efforts to support more together-together work opportunities), and
  - implementing formal structures to support social learning, to compensate for the lack of those organic structures that naturally occur in physically co-located working.
- Review its change management processes for further insights on:
  - working constructively with affected staff to support them as they adjust to a new working environment, and
  - identifying learnings for the future, including where processes might be strengthened and to support a positive safety climate.
- Monitor the impact of its actions to improve staff experiences and perceptions of the organisational safety climate and of learning and development opportunities through conducting an interim review and reporting back on progress in improving scores for these measures in People Matter surveys in 2026-27.

## Engaged staff and a focus on wellbeing

Some of our key findings on staff engagement and wellbeing are discussed in the section above. In this section, we look further at engagement, health and safety, and workforce planning (including turnover and retention).

### Positive steps for improving staff wellbeing

We have found a number of positive things happening and also planned (particularly as new leaders settle into roles):

- There are annual VAGO values awards.
- There is a fortnightly VAGO team standup to bring people together to be updated on initiatives and events.
- MS Teams is used extensively for communication to and from VAGO staff members.
- Better Normal ways of working are being consciously implemented, with Together-Together and hybrid Together-Alone days organised to bring people together.
- Commitment to "an enriched experience for our people" in the *Strategic plan 2022–2025*.
- In the Strategic plan, we note that technology is prominent in the background: "An engaged and empowered workforce, enabled by technology and our quality systems, is critical to achieving our outcomes."

### Staff turnover is persistently high

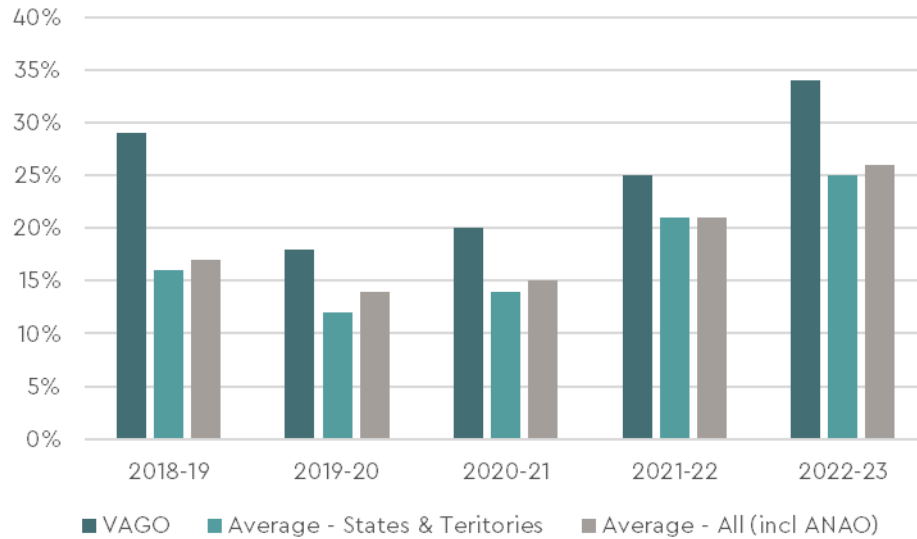
VAGO has experienced persistently high turnover. This trend was somewhat suppressed during COVID, but then increased, to 34% in 2022-23, compared to the ACAG benchmark of 26% (Figure 13). The 2020 PAEC audit





recommended that VAGO should implement a formal retention strategy if turnover continued to exceed its internal target of 15%.

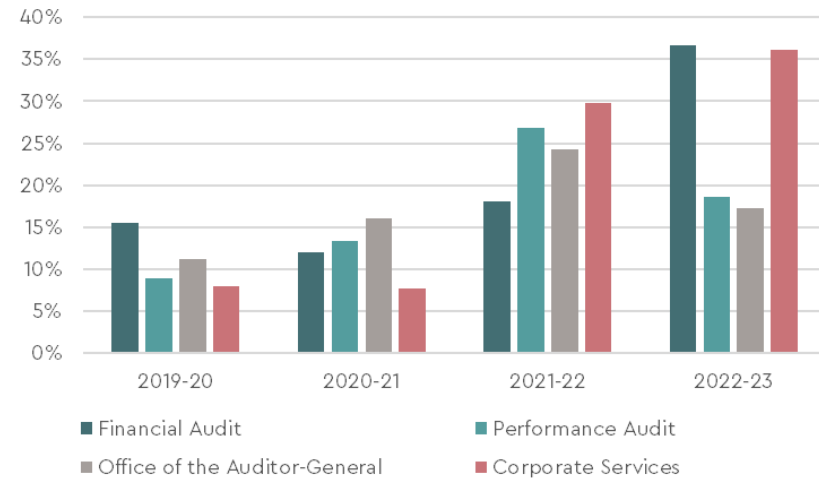
**Figure 13: Annual turnover compared with the average of other Australian audit offices**



Source: ACAG Benchmarking report 2022-23

VAGO attributes its challenges with retention to post-pandemic movement combined with competitive labour market conditions (*VAGO Transparency report 2023*). In this context, Victoria experienced significantly longer lockdowns (272 days) than any other jurisdiction in Australia. The impact was far more wide-reaching and continues to have lasting impacts due to the lockdowns' duration.

**Figure 14: VAGO turnover by division**



Source: VAGO Pulse data 2019-20 to 2022-23

In performance audit, staff turnover can translate into turnover in performance engagement teams. The PRS client feedback survey data suggests this is not a systemic problem, as most respondents (89%) reported that there was adequate continuity of auditors. In the minority of instances when turnover is not managed well, this can impact on the audit process and auditee experience.

*"There was considerable change in the audit team during the period of the audit. This caused additional work for our team in repeating conversations about context or audit requirements."* (PRS client feedback survey respondent)

### Addressing perennial concerns with L&D should help address turnover

We did not find evidence that a lack of staff recognition (either remuneration or in-kind) is a driver of high turnover. Based on data from exit



surveys and staff engagement surveys, previous focus groups, and our interviews, more likely drivers are the persistent concerns with learning and development, including career progression opportunities, and the organisational safety climate. Our recommendations for tackling the root causes of these issues are included in the previous section.

The newly appointed Chief People Officer is focussing on a set of priority initiatives, including:

- actions required from the People Matter Survey results
- onboarding of new staff
- workforce planning
- manager development, and
- PDP process.

## Strategic workforce planning is a work in progress

### Formal succession planning remains a gap

The Standing Directions for effective financial governance in VPS agencies require VAGO to establish and maintain appropriate levels of resourcing and capability, including succession planning, to deliver on its financial management, performance, and sustainability obligations (Department of Treasury and Finance, *Standing Directions 2018 under the Financial Management Act 1994* clause 3.1 (b)).

VAGO does not have documented succession planning. Repeated audits have recommended that VAGO implements formal succession planning (the 2016 and 2020 PAEC audits, the 2020 Financial Management Compliance Framework internal audit, and the 2021 internal audit report on human

resources management). The 2021 internal audit recommendation was accepted, but has not yet been actioned. This situation is symptomatic of the lack of a strategic approach to human resource management identified earlier in this report. This poses an overall performance risk, particularly as the right people in the right roles is the most valuable resource for VAGO.

As noted above, the Chief People Officer is focussing on addressing some of the areas for attention for staff engagement and well-being, including workforce planning. VAGO intends to have succession planning and talent management in a formalised, enterprise-wide programme in 2025. We have also noted the commitment to succession planning in the recently developed Human Resources Plan 2024–2026. This is to design and implement a succession management framework as a project to occur in 2024/25, and will take an integrated approach to identifying, developing, and retaining talented employees.

We also note the opportunities for staff development pathways in the recently developed FA and PRS capability frameworks, including through integrating these frameworks into the staff Performance and Development Process.

### Recommendations

- VAGO should:
  - implement the project "Design and implement a succession management framework" that is outlined in the Human Resources Plan 2024-2026 for completion in 2024/2025, and
  - integrate the FA and PRS capability frameworks into the staff Performance and Development Process.



# Underlying causes

In conducting this audit, we adopted a root cause analysis approach to complement the Terms of Reference and inform recommendations that address the real nature of the presenting issue or risk. This analysis approach is designed to take a systems approach to discover the underlying rationale for why issues arose or how a situation developed.

We applied our MartinJenkins enterprise capability and performance framework to prompt for systemic insights to explain the key drivers/ underlying rationale for issues and risks, particularly those that have persisted over the years (see Figure 15 below).

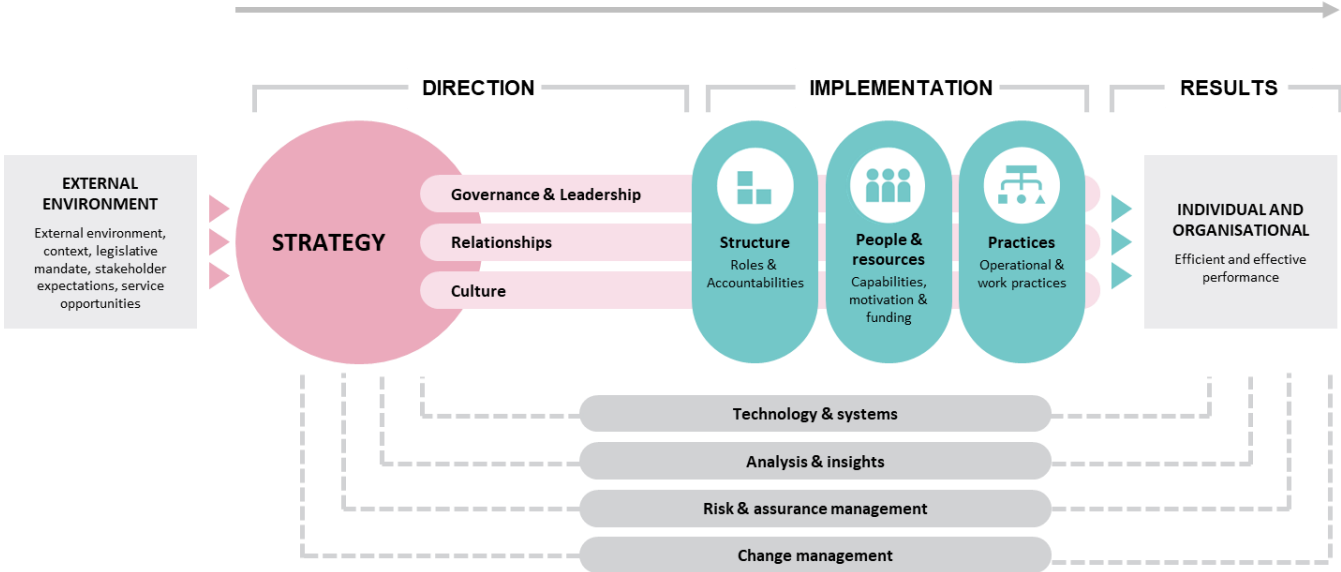
The framework presents the organisation as a system of interdependent elements that enable it to **respond to expectations and demands in the external environment** and strive for efficient and effective **performance results**.

The framework is dynamic in showing **the underpinning influence of strategy, governance and leadership, and culture for shaping** organisational arrangements and performance at a more superficial level (for example, operational and work practices).

It also demonstrates that there are some **fundamental cross-cutting elements** that also influence and support organisational endeavour (systems, analysis and insights, risk and assurance management, and change management).

Deficiencies within these underpinning areas can become the "root cause" drivers of issues and challenges within the organisation.

**Figure 15: Conceptual framework for root cause analysis**



# Applying the framework

## External environment – key features

Aspects of the external environment that have influence and implications for the capability and performance of VAGO include the following.

### **Audit Act mandate: economy, efficiency, effectiveness, compliance**

The Audit Act 1994 has stated objectives including:

- to determine whether public bodies are achieving their objectives effectively, economically, and efficiently and in compliance with all relevant Acts; whether Victorian public-sector operations and activities are being performed effectively, economically, and efficiently and in compliance with all relevant Acts, and
- to determine 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 in the Victorian public sector.<sup>7</sup>

This requires that VAGO address each of these elements in its audit programmes and approaches for financial and performance audits.

### **Workforce challenges (Australia and globally)**

Currently there are challenges for the availability of people with technical audit skills and experience. This is a global phenomenon and there is strong competition for these skills across the accounting and audit professions. This presents challenges for recruiting people and in retaining them.

It also means that organisations need to grow their own technical skills and adopt a strategic approach to workforce management and retention.

### **Work behaviour changes**

In addition, the VPS faces general workforce challenges. The COVID-19 pandemic and climate-related emergency events such as floods and fire have placed pressure on the public-sector workforce and changed the way people work. Maintaining capacity to mobilise a strong surge workforce, retaining workforces at risk of burnout, and the existence of a competitive employment market all pose challenges.<sup>8</sup>

### **Economic and fiscal pressures**

Victoria is experiencing a tight fiscal environment and budget constraints in the current environment. This places pressure on agencies to deliver as efficiently and cost-effectively as possible. It has been predicted that this will likely result in a future reduction of the size and scope of the public sector. At the same time, community expectations for service delivery are unlikely to diminish.<sup>9</sup>

### **Technology developments**

Technology today is evolving at a rapid pace, enabling faster change and progress, and causing an acceleration of the rate of change. Computing power has already established its place in the digital era, with almost every device and appliance being computerised.

This means staying current with emerging technologies and latest technology trends. It presents opportunities for using technology for increased efficiency and effectiveness.

<sup>7</sup> The Audit Act 1994 S3A Objectives

<sup>8</sup> Victorian Public Sector Commission: The Public Sector Context - [The public sector context - VPSC](#)

<sup>9</sup> Ibid



It also means an increase in security concerns and potential risks. Technology breakthrough comes with heightened security risks, which need to be navigated.

### **Reporting changes: sustainability, non-financial reporting**

Sustainability reporting (sometimes referred to as Environment, Social and Governance (ESG) reporting) provides an overview of the economic, environmental, social, and cultural impacts caused by an entity's activities.

Both the AASB and AUASB are inviting responses on proposals for reporting and assurance standards that address mandatory climate information in annual reports.

The Victorian Government has been active in this area. It has published a voluntary whole-of-government level climate disclosure statement in September 2022, and rolled out expanded environment reporting within Victorian public-sector agencies' annual reports by broadening the requirements in FRD 24.<sup>10</sup>

### **Impact of COVID-19**

The COVID-19 pandemic has had a significant impact on Victoria's economy and society. There were impacts for VAGO for the first two years of the current audit period, and flow-on implications after this.

As well as the dangers to health and loss of life, there were significant disruptions to people's lives both at home and at work. In this context, Victoria experienced significantly longer lockdowns (272 days) than any other jurisdiction in Australia, or the world for that matter.

People were required to work from home, and virtual working became the norm. This usually required significant support from employers to make it

happen. For many, this way of working continued after the lockdown period and continues to the present day. These changes to work behaviours and attitudes require different approaches to managing people, workplace culture, and workforce planning.

In addition to supporting its own staff, VAGO accommodated the pressures that agencies in the Victorian Public Service were experiencing including through conduct of remote audits, extended timeframes for provision of information, and deferral of non-urgent engagements.

## **Systemic issues, root causes, and opportunities**

Our findings in relation to previous performance audits of VAGO include the organisation's responses to previous recommendations.

The 2020 audit of VAGO made 31 recommendations. Of these, VAGO has completed 24, with a further 5 in progress and 2 yet to be actioned. We noted that some recommendations took an extended time to be resolved, due at least partly to the impact of the pandemic. We also noted that in 2 cases the intended impact of the recommended action was not fully addressed.

Stemming from this, we identified a number of issues that have persisted over the audit period, including some that were identified in previous PAEC audits.

To better understand the underlying dynamic of this persistence, we applied our framework to look for deeper, more systemic issues and causes.

<sup>10</sup> Department of Treasury and Finance: Accounting Policy Update April 2023 - [Accounting policy update \(dtf.vic.gov.au\)](https://www.dtf.vic.gov.au/updates/2023-04-20-accounting-policy-update)

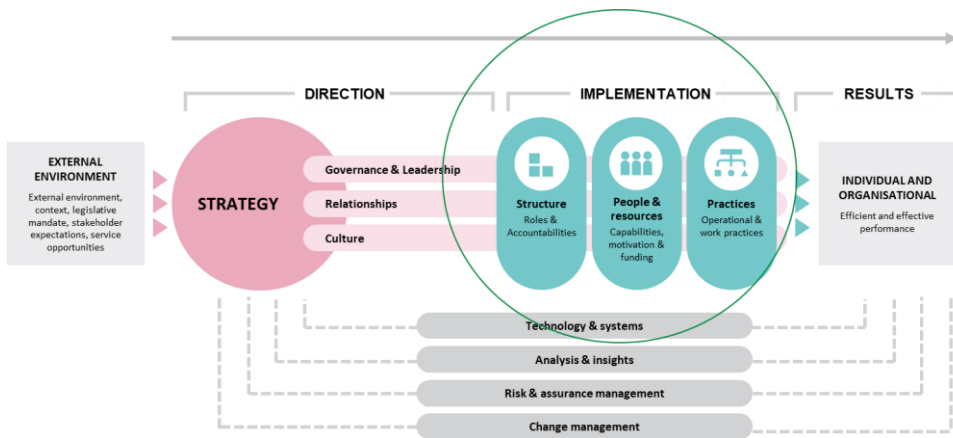


## A focus on implementation and strengthened delivery...

Over the audit period, VAGO has maintained a strong focus on delivering financial audits and performance audits, including strengthening elements of methodology, processes and systems, and practices to support its people in a hybrid working environment. This has been important for ensuring that VAGO has the technical and operational capability and practices to deliver.

VAGO provided strong support for staff during COVID periods and continues to offer flexible work arrangements for all staff. This is illustrated in Figure 16 below.

**Figure 16: Focus on implementation**



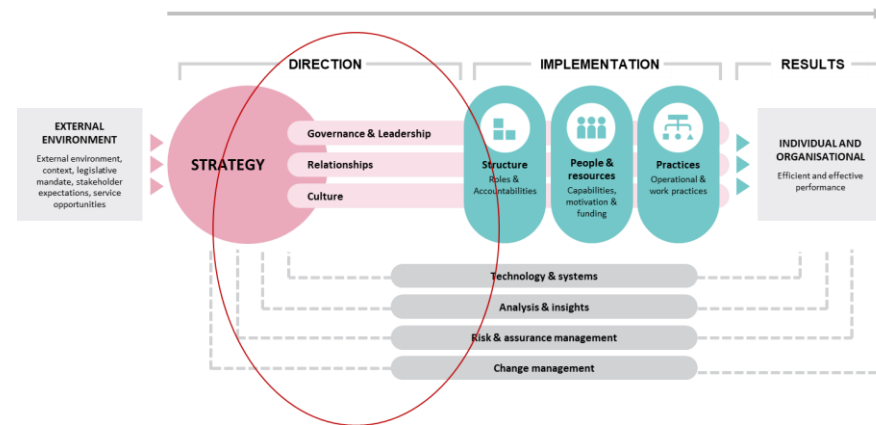
## ... there are now opportunities to continue strengthening underpinning enablers for efficient and effective delivery

Through a range of operational and strategic projects, VAGO has improved business processes and developed ICT systems and tools to support working, particularly in a digital environment.

This includes building Empower and its data analytics capability (for understanding insights and trends in the performance of VPS agencies), developing and rolling out capability frameworks, and implementing significant structural changes following a long period of staff consultation.

With the disruptions and backlog of the pandemic behind it, there are now opportunities for VAGO to focus on strategic approaches to workforce management, human resource management, stakeholder communications and engagement, and enterprise risk management (alongside risks relating to audit engagements, which are currently addressed by VAGO).

**Figure 17: Opportunity to continue strengthening underpinning enablers**



In other words, there is now the opportunity to give more attention to working "on" the business of VAGO's ongoing organisational development, versus working "in" the business of audit delivery. This is illustrated in Figure 17 above.

### **Rebalancing the focus on operational planning and strategic ICT development to include a broader strategic and enterprise-wide orientation**

Rapidly adjusting to remote working during the pandemic necessitated a strong focus on delivery and ICT development, as did the focus on the development of digital tools such as Empower to support more efficient and effective delivery of financial audits.

This combined with resourcing challenges has meant that there has been less attention paid to working at an enterprise and strategic level for such things as communications and engagement, risk and assurance management, and human resource management.

As a result, VAGO has not been able to address some of the root causes of issues that have been identified but persisted. It is a matter that should be addressed by management and monitored by the Audit and Risk Committee.

### **The challenges in the current environment require strategic workforce and risk management approaches**

Workforce challenges need a strategic workforce planning response that is underpinned by HRIMS data and addresses attraction, retention, development, and succession planning.

Similar challenges face audited agencies for finding the capacity to meet information and other requests from auditors.

In this regard, for financial audits, the deployment of Empower for digital information sharing should decrease pressure on both auditor and auditee resources.

There is a need for good understandings of risks at an enterprise level (for example, reputational risk, engagement risks, workforce risks) alongside the risks at individual audit levels that are addressed by VAGO.

### **Recommendations**

- VAGO should rebalance for an increased strategic and enterprise-wide approach to governance and leadership of workforce management, human resource management, stakeholder communications and engagement, and enterprise risk management, by (for each area):
  - developing plans that articulate outcomes and objectives, and identify risks and mitigations
  - implementing plans, and
  - monitoring and reporting on progress against objectives.
- VAGO's Audit and Risk Committee should monitor the organisation's progress in rebalancing for an increased strategic and enterprise-wide approach to governance and leadership of workforce management, human resource management, stakeholder communications and engagement, and enterprise risk management.



# Appendix 1: VAGO's response to the recommendations

Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
<b>To resolve persistent issues affecting people, culture, and organisational development, VAGO should:</b>					
1. Rebalance for an increased strategic and enterprise-wide approach to governance and leadership of workforce management, human resource management, stakeholder communications and engagement, and enterprise risk management, by (for each area): a) developing plans that articulate outcomes and objectives, and identify risks and mitigations b) implementing the plans, and c) monitoring and reporting on progress against objectives.	We accept this recommendation.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	<p><b>Workforce and human resource management</b></p> <p>We have commenced and will continue to apply a strategic, enterprise-wide approach to workforce and human resource management through implementation of the planned and active employee experience projects in the:</p> <ul style="list-style-type: none"> <li>Human Resources Plan 2024-26, as described in the report</li> <li>PRS Division 2023-2025 Plan including leadership, applying the capability framework, and part-time work</li> <li>FA Roadmap, including <i>Enhancing FA's Capability, Strategic Sourcing initiatives and Talent Solutions for Growth and Retention</i> projects.</li> </ul> <p><b>Stakeholder communications and engagement</b></p> <p>Refer response to recommendation 9.</p> <p><b>Enterprise risk management</b></p> <p>We will develop a 3-year risk management strategy that aligns with our strategic planning cycle to ensure an ongoing and sustainable focus on risk.</p> <p>Our Strategic Governance &amp; Risk (SG&amp;R) function has developed and submitted a risk management action plan detailing initiatives it intends to complete in 2024-25.</p> <p>The Director SG&amp;R will report to both the Operational Management Group and Audit and Risk Committee on progress against the plan through the year.</p>	D-AG AAG PRS AAG FA          Director, SG&R	December 2026          June 2025





Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
<p>2. Help address persistent concerns with learning and development by better supporting social learning, through:</p> <p>a) continuing to support its people leaders to create opportunities for social learning through a range of measures, in recognition of the changed workplace and disruption from lengthy lockdown periods in response to COVID (for example, making conscious efforts to support more together-together work opportunities), and</p> <p>b) implementing formal structures to support social learning, to compensate for the lack of those organic structures that naturally occur in physically co-located working.</p>	<p>Addressing concerns about learning and development has been a strong focus for VAGO for the last few years.</p> <p>A range of initiatives have been implemented, are being rolled out, or are planned to be developed and rolled out across the organisation.</p> <p>As outlined below we have implemented formal and informal structures to support social learning.</p> <p><b>Financial audit</b></p> <p>FA is focusing on strengthening connections and in-person interactions within teams for audit work, and with clients and ASPs. FA remains committed to exploring further opportunities for growth and development.</p> <p>FA has implemented formal structures to support social learning, including:</p> <ul style="list-style-type: none"> <li>▪ annual face-to-face learning and development sessions led by various divisions (AQ, FRA, DASA).</li> <li>▪ quarterly in-person FA forums</li> <li>▪ on-site client activities and visits</li> <li>▪ sector-based team collaboration sessions and audit engagement team meetings</li> </ul> <p><b>Parliamentary Reports and Services</b></p> <p>Following the creation of PRS, quarterly off-site days were introduced with the first in July 2023.</p> <p>These days focus on building community, sharing experience and growing knowledge, and on important staff and operational priorities, including rolling out the capability framework, discussing and addressing concerns from past People Matter surveys, and systems</p>	<p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p><input type="checkbox"/> In part</p> <p><input checked="" type="checkbox"/> In principle</p>	<p><b>Financial audit</b></p> <p>To support social learning, in 2022 FA initiated the <i>Our Workplace: Hybrid Working Arrangements</i> project.</p> <p>This ongoing project aims to deliver the flexibility of hybrid working (to improve work-life balance, job satisfaction, and attract and retain auditors) while also ensuring our auditors can grow, collaborate effectively, maintain connectivity, and uphold FA's inclusive culture.</p> <p>Recognising this is a journey, the project has been testing initiatives, including:</p> <ul style="list-style-type: none"> <li>▪ offering on-the-job learning experiences in different settings</li> <li>▪ creating effective team collaboration opportunities</li> <li>▪ ensuring continuous engagement with clients</li> <li>▪ sustaining the excitement and relevance of audit work through activities like site visits and travel days</li> <li>▪ continuously assessing and adjusting approaches based on feedback from employees and clients.</li> </ul> <p>Through this project, FA aims to:</p> <ul style="list-style-type: none"> <li>▪ provide learning experiences that empower staff to navigate hybrid work environments and seek development opportunities</li> <li>▪ support people managers in promoting learning and development through in-person interactions, strategy days, client visits, and team bonding activities.</li> </ul> <p>FA is now sourcing suitable content for the FA Learning and Development Curriculum, which was developed as part of the Enhancing FA's Capability FA Roadmap project. This involves</p>	<p>AAG, FA</p> <p>AAG, PRS</p> <p>D AG</p>	<p>December 2025</p>



Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
	<p>thinking. These days are facilitated by a qualified external facilitator.</p> <p>To support social learning PRS has introduced:</p> <ul style="list-style-type: none"> <li>monthly Community of Practice workshops, with hybrid-friendly group discussions, skills demonstrations and Q&amp;As</li> <li>regular Tutorial Tuesdays, giving staff the chance to hear from and ask questions of highly experienced people from the public sector and within VAGO</li> <li>fortnightly data science and writing drop-in sessions</li> <li>workshops on specific skills/practices with peer networks (both scheduled and by request).</li> </ul> <p>It is pleasing to note that our FA roadmap and PRS divisional plan are already focused on the areas you have highlighted in your recommendation.</p> <p><b>Corporate</b></p> <p>Corporate is similarly focused on building networks, creating communities of interest, sharing knowledge and group learning. Corporate has implemented supporting structures, including:</p> <ul style="list-style-type: none"> <li>bi-annual in-person forums</li> <li>fortnightly Community of Practice workshop, with hybrid-friendly group presentations, demonstration and discussion</li> <li>team collaboration sessions</li> <li>program vision setting and planning sessions fortnightly</li> </ul>		<p>achieving a balanced mix of learning modes and experiences.</p> <p><b>Parliamentary Reports and Services</b></p> <p>PRS will continue to implement the learning and development program in the Parliamentary Reports and Services Division Plan 2023–2025, including supporting the initiatives already introduced in the last 12 months.</p> <p>For the 2024–2025 program, we have introduced an applied learning framework for performance engagements. This includes running workshops between the engagement team and the PRS ELT for key milestones, including the engagement strategy (covering the objective, lines of inquiry and criteria), forming conclusions, and developing recommendations.</p> <p>We will review the effectiveness of this approach at the end of the 24–25 cycle.</p> <p><b>Corporate</b></p> <p>Corporate's future focus is centred on creating formal learning academies that accommodate different learning styles.</p> <p>This will be augmented by further expanding our people networks to facilitate social knowledge, learning and development.</p>		



Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
	Community of Practice workshop, with hybrid-friendly group discussions, skills demonstrations and Q&As				
<p>3. Review change management processes for further insights on:</p> <p>a) working constructively with affected staff to support them as they adjust to a new working environment</p> <p>b) identifying learnings for the future, including where processes might be strengthened and to support a positive safety climate.</p>	<p>VAGO is committed to a safe work environment and the wellbeing of all staff, including through change processes. This is evidenced by our ratings in the 'negative behaviour' categories in the annual People Matter Survey, where our score is the same as comparator organisations in one category, and better in the other 3.</p> <p>We recognise that change management is often challenging, and we are committed to supporting our staff.</p> <p><i>This report notes that '...we also heard that changes had been challenging for some PRS staff, who expressed detrimental impact on their wellbeing and their concerns with the organisational safety climate.'</i></p> <p>A key focus of the PRS restructure and reform plan was to address persistently poor leadership and safety climate ratings for the previous PA division. This included addressing the underlying causes of those concerns.</p> <p>Because the 'PA to PRS' restructure was a significant change – bringing 4 groups reporting to 3 different members of the Strategic Management Group (SMG) into one division – it necessitated a Clause 11 'implementation of change' under the Victorian Public Sector Enterprise Agreement 2020.</p> <p>A Clause 11 process is complex and challenging for all parties. VAGO approached this process with respect for</p>	<p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p><input type="checkbox"/> In part</p> <p><input checked="" type="checkbox"/> In principle</p>	<p>We acknowledge there was a prolonged period of acting executive roles and uncertainty around potential change in the Performance Audit area in the 18 months leading up to the formal change process that commenced in April 2023.</p> <p>We are committed to continuous improvement and as a matter of course review our processes to see where we can make improvements. We will review this change period and identify relevant insights.</p>	AAG, PRS	December 2024



Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
	<p>all staff and a commitment to providing support and enabling dignity for all involved, particularly for those difficult circumstances where people were unsuccessful in reapplying for their role or applying for a promotion. To support us in this, we worked with a highly experienced leadership and change management expert from the beginning of the process.</p> <p>At the end of the Clause 11 process, the CPSU workplace delegate wrote to VAGO:</p> <p><i>'Thank you for enabling a mature, constructive and responsive process. We appreciated your willingness to engage openly and frankly with the Union, your upholding of the spirit and specific requirements of the EBA, and your focus on achieving a restructure outcome that balanced the needs and desires of management with the feedback and constructive suggestions from our affected member plus other PA staff.'</i></p>				
<p>4. Monitor the impact of its actions to improve staff experiences and perceptions of the organisational safety climate and learning and development opportunities, through conducting an interim review and report back on progress in improving scores for these measures in People Matter surveys, in 2026-27.</p>	<p>We accept this recommendation.</p>	<p><input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No  <input type="checkbox"/> In part  <input type="checkbox"/> In principle</p>	<p>We will continue to review the People Matter survey results each year to understand staff experience and perceptions and, as necessary, consult with staff and develop action plans to seek to address underlying issues.</p>	<p>D A-G</p>	<p>June 2027</p>



Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
5. Implement the project "Design and implement a succession management framework" that is set out in the Human Resources Plan 2024-2026 for completion in 2024/2025.	<p>We accept this recommendation.</p> <p>The framework is important as it will:</p> <ul style="list-style-type: none"> <li>• develop a leadership pipeline</li> <li>• ensure organisational continuity and agility</li> <li>• reduce the recruitment burden</li> <li>• support employee development and engagement, including fostering a culture of curiosity and learning.</li> </ul> <p>Importantly, the framework will intersect with and complement the FA and PRS capability frameworks, their respective assessments, learning pathways (including integration with PDPs) and designed succession pathways.</p>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	<p>The Succession Management Framework will take an integrated approach to identifying, developing and retaining talented employees.</p> <p>Our planned approach is to focus on simplicity, providing a 'fit for purpose' approach for VAGO.</p>	D A-G	June 2025
6. Integrate the FA and PRS capability frameworks into the staff Performance and Development Process.	<p>We accept this recommendation.</p> <p>It is pleasing to note that our FA roadmap and PRS divisional plan are already focused on the areas you have highlighted in your recommendation.</p>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	<p><b>Parliamentary Reports and Services</b></p> <p>The PRS capability framework was launched half-way through the 2023–2024 PDP cycle, so was not available to help staff set development goals at the beginning of the cycle. However, all staff used the framework for their mid-year assessments, including to identify areas for growth.</p> <p>For the 2024–25 cycle the capability framework will be embedded in the PDP process used by staff and PD Managers at all stages of the cycle.</p> <p><b>Financial audit</b></p> <p>Consistent with PRS, the capability framework will be embedded in the PDP process for 2024–25 with a focus on development goals to build our capability.</p>	<p>AAG, PRS</p> <p>AAG, FA</p>	December 2024
VAGO's Audit and Risk Committee should:	We accept this recommendation, noting that we routinely report to the ARC on	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	We will include a specific agenda item for this recommendation in the ARC annual work program.	Director, SG&R	Director, SG&R



Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
<p>7. Monitor the organisation's progress in rebalancing for an increased strategic and enterprise-wide approach to governance and leadership of workforce management, human resource management, stakeholder communications and engagement, and enterprise risk management.</p>	<p>progress in implementing all internal and external audit recommendations.</p>	<p><input type="checkbox"/> In part <input type="checkbox"/> In principle</p>			
<p><b>To improve the efficiency and effectiveness of performance audits, VAGO should:</b></p>					
<p>8. Improve its budget-setting and business planning processes by:</p> <p>a) progressing the development and use of the budgeting tool to support performance audit budget planning</p> <p>b) strengthening its planning processes for performance audits, to provide clearer scope at the earlier stages of an audit, and better manage the size of audits, including taking a narrower scope for some smaller audits</p> <p>c) ensuring that performance audit engagement debriefs systematically review the underlying reasons for</p>	<p>It is pleasing to note that our PRS divisional plan is already focused on the areas highlighted in your recommendation.</p> <p>a) In May 2024 PRS launched a new budgeting tool and procedure for performance engagements.</p> <p>b) For the 2024–2025 program, PRS has introduced an applied learning framework for performance engagements. This includes running workshops between the engagement team and the PRS ELT for key milestones, including the engagement strategy (covering the objective, lines of inquiry and criteria), where the scope and size of an engagement is determined. However, there is no focus on narrowing scope for the purpose of achieving a smaller engagement. Rather, our focus is to ensure the scope is fit for purpose so that we gain the appropriate level of assurance to assess performance and inform the Parliament and the public.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle</p>	<p>We will continue to monitor and review our approaches to budgeting and planning.</p>	<p>AAG, PRS</p>	<p>Complete</p>



Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
any budget variances, and generate actions to avoid these problems, in future audit planning processes.	c) In April 2024 PRS launched its new engagement debrief process, including providing Senior Managers with training to support them in facilitating debrief workshops. Coinciding with this, we launched a new Performance Improvement Committee (PIC) with a governance structure and members drawn from each Peer Network. The PIC captures the output from all engagement debriefs.				
<b>To improve the objectivity, value, and impact of its audits, VAGO should:</b>					
9. Progress the Strategic Communications and Engagement proposal, ensuring that:  a) the proposed work on a communications and engagement strategy builds on the work completed for developing the Parliamentary Engagement Plan – Stage 1 2021  b) the communications and engagement strategy includes a process for annual review of the engagement approach and activities.	We accept this recommendation.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	We will leverage the work undertaken to date to develop and implement a Communications and Engagement strategy for: (a) Parliamentarians (b) the public.  We will review and refine the strategy for both groups one year after they are implemented.	Director, SG&R AAG, PRS	(a) December 2024 (b) December 2025
10. Make more explicit references to managing objectivity and the perceptions of objectivity in PRS guidance materials to	As noted in this report, PRS is close to completing a refresh of its methodology and supporting tools.	<input type="checkbox"/> Yes <input type="checkbox"/> No	Between July and December 2024 PRS will launch: 1. an updated report template	AAG, PRS	December 2024



Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
<p>complement existing training, including on the importance of addressing potential perceptions at the planning and early stages of the audit, as well as at later briefing and drafting stages.</p>	<p>Since the beginning of 2024 PRS has launched:</p> <ol style="list-style-type: none"> <li>1. new letters for each stage of our engagements</li> <li>2. new templates for the engagement strategy and the end-of-planning and end-of-conduct briefs</li> <li>3. a new budget tool and supporting procedure</li> <li>4. guidance on assurance reviews that sets out PRS's approach to undertaking assurance reviews, highlighting how they differ from performance audits.</li> </ol> <p>We will continue to roll out the work program in methodology and professional practice in line with the Parliamentary Reports and Services Division Plan 2023–2025.</p> <p>All of this work will support staff in PRS around the concept of objectivity, particularly the focus on gathering evidence and assessing its quality; identifying facts, making findings and forming conclusions; and designing tests to conclude against criteria.</p> <p>To this end it is pleasing to note that our PRS divisional plan is already focused on the areas you have highlighted in your recommendation.</p>	<input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle	<ol style="list-style-type: none"> <li>2. the new RAP (Risk Assessment Plan) and the FWP (Further Work Plan) and supporting procedure to set the frame of the engagement and relevant tests</li> <li>3. further material to support our methodology, including guidance on identifying and understanding significant activities; establishing engagement objectives, lines of inquiry and criteria; gathering evidence and assessing its quality; identifying facts, making findings and forming conclusions; designing tests to conclude against criteria; developing recommendations; engaging with responsible parties and stakeholders; drafting reports; and roles and responsibilities of engagement team members</li> <li>4. new professional practice material, including comprehensive manuals to support each phase of the engagement from end to end; engagement initiation packs for our auditees to support consistent messaging about the role of VAGO; a written procedure to outline our responsibilities for data quality; and new templates for working papers.</li> </ol>		
<p>11. Do more performance audits with a focus on efficiency or economy, and for transparency state the focus</p>	<p>VAGO's 2024–2025 Annual Plan was tabled in Parliament in June 2024.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> In part	<p>For engagements from the 2024–2025 program onwards we will include a statement about which part or parts of the mandate the engagement is covering.</p>	<p>AAG, PRS</p>	<p>June 2025</p>





Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
area of each audit in its final report.	<p>In this we discussed our mandate around effectiveness, efficiency, economy and compliance.</p> <p>We explained the relationship between the 'three Es' and provided examples of them in practice.</p> <p>We noted that we will seek to have a stronger focus on efficiency and economy in future years. However, we focused mainly on effectiveness because of the power an effectiveness engagement has to examine the factors that influence government service delivery.</p> <p>Noting that effectiveness engagements are our most powerful tool to assess performance, these will likely remain the majority of our future engagements.</p>	<input type="checkbox"/> In principle			
12. Use the PRS methodology refresh to provide further guidance for staff on the distinction between audit and evaluation, and how the boundary between the two is maintained. This could be achieved through more explicit linkages and guidance around how VAGO applies the relevant auditing standards in its performance audits.	As per our response to recommendation 10, PRS is developing broad and deep guidance for staff across all aspects of methodology and professional practice, and we will capture this as part of that work.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	<p>We will include additional information for staff on the distinction between audit and evaluation in our guidance on:</p> <ul style="list-style-type: none"> <li>establishing engagement objectives, lines of inquiry and criteria</li> <li>defining the distinction between the two concepts and reinforcing our obligations under the Act.</li> </ul>	AAG, PRS	December 2024
13. Further develop its data science strategy, to explicitly set out:	(a) For each engagement we work closely with the auditee(s) to identify the specific data we need to answer our	<input type="checkbox"/> Yes <input type="checkbox"/> No	(a) We will create a fact sheet explaining the principles and parameters of how we use the data and information we gather, analyse and	(a) AAG, PRS	June 2025



Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
<p>a) the principles and parameters for VAGO's use of data gathering, analytics and publication activities (including what types of data will be collected and how it will be used, and the types of issues to which data science lenses will be applied), and</p> <p>b) VAGO's policies and processes for ensuring data privacy and security.</p>	<p>engagement objective. We also seek agencies' input on our data dashboards, and notify them that we intend to make the data public.</p> <p>(b) VAGO adheres to all legislative obligations in its data gathering, analytics and publications. We publish a fact sheet on our website explaining how we protect information and manage our cloud data security and compliance.</p>	<input checked="" type="checkbox"/> In part <input type="checkbox"/> In principle	<p>publish as part of our performance engagement program.</p> <p>(b) No further action required.</p>		
<p>14. Communicate this data science strategy to external stakeholders; and implement these principles and parameters throughout the stages of its performance audits.</p>	<p>See response to recommendation 13.</p>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	<p>Per 13(a) above</p>	<p>(a) AAG, PRS</p>	<p>June 2025</p>
<p><b>To realise opportunities for improving its organisational efficiency and effectiveness, VAGO should:</b></p>					
<p>15. For performance audits, use the PRS methodology refresh as an opportunity to:</p> <p>a) include a conceptual framework or frameworks to provide structure for its analytical efforts</p> <p>b) provide more detail on the definitions of</p>	<p>We accept this recommendation.</p> <p>It is pleasing to note that our PRS divisional plan is already focused on the areas you have highlighted in your recommendation.</p>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	<p>See response to recommendations 10, 11 and 12.</p>	<p>AAG, PRS</p>	<p>December 2024</p>



Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
<p>efficiency and economy, and how to audit these</p> <p>c) include more explicit explanations as to how VAGO applies auditing standards in its performance audits</p> <p>d) take stock of the range of guidance for performance audits that has been and is being developed, and test for alignment and integration.</p>					
<p>16. Expedite work to rollout Caseware across financial audits, to realise the efficiency and effectiveness benefits of this tool.</p>	<p>It is pleasing to note that our FA Roadmap is already focussed on the rollout of Caseware as a critical area of focus, through the <i>Audit Software Replacement</i> project.</p> <p>Now that the decision to transition our in-house audits to CaseWare has been made, it is a matter of balancing an orderly roll out against other operational priorities and practical considerations including the timing of each audit cycle.</p>	<p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p><input type="checkbox"/> In part</p> <p><input checked="" type="checkbox"/> In principle</p>	<p>Through our FA Roadmap project <i>Audit Software Replacement</i>, we will continue to progress our plans to transition in-house audits from IPSAM to Caseware over the 2025 and 2026 audit cycles. We are applying this staged approach after consultation with the FA workforce as part of our change management process. We have listened to staff feedback regarding the impact of this transition on their employee experience and workload given the additional time and effort required to set up the new software for each audit.</p> <p>This means approximately 75% of our in-house audits will be on the new software for the 2025 audit cycle (commencing in the 2024–25 financial year) with remaining audits to transition in the 2026 audit cycle (commencing in the 2025–26 financial year).</p>	<p>AAG, FA</p>	<p>December 2026</p>
<p>17. In addition to the acquittal assurance against audit quality review recommendations for improvement, ensure</p>	<p>For financial audit the trend in quality outcomes has demonstrably improved over the period, as can be seen from the results reported in our audited performance statements. We note that</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p><input type="checkbox"/> In part</p>	<p>Our Director, AQ will consider any lack of improvement and/or required actions through the established annual evaluation required under ASQC 1 <i>Quality Control for Firms that Perform Audits and Reviews of Financial</i></p>	<p>Director, AQ</p>	<p>December 2025 (and annually thereafter)</p>



Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
<p>processes are followed for:</p> <p>a) investigating reasons for lack of improvement in audit quality improvement over time</p> <p>b) developing actions for resolving ongoing issues.</p>	<p>the 2018–19 quality score was 58.8%, and for 2022–23 it was 88.2%.</p> <p>We observe also in individual audits, and for our ASPs, a discernible improvement in the subsequent year audit file, as they work to address and remediate our quality findings.</p> <p>The most frequent and pervasive "common themes" in reviews of financial audits needs to be understood in context. To this end we note:</p> <ul style="list-style-type: none"> <li>• these themes relate primarily to low-risk assertions in the components and disclosures examined</li> <li>• that the documentation issues were described as 'minor' in the PAAQR report.</li> </ul>	<input type="checkbox"/> In principle	<p><i>Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements.</i></p> <p>This standard requires evaluation of the effect of deficiencies noted as a result of the monitoring process. It requires consideration as to whether the observations are systemic, repetitive or evidence of other significant deficiencies that require corrective action.</p>		
<p>18. Leverage work and knowledge gathered by FA to reduce the time and effort spent by PRS assembling sector information for performance audits, and gain deeper understanding of the audit context.</p>	<p>PRS is currently undertaking a project to establish 'knowledge banks' for key areas of public sector activity to support our continuous and annual planning.</p> <p>The knowledge banks cover domains of legislation and governance, government priorities, funding, performance, workforce, and previous VAGO activity, and will leverage relevant work and knowledge gathered by FA.</p> <p>It is pleasing to note that our PRS divisional plan is already focused on the areas you have highlighted in your recommendation.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle	<p>We will ensure the knowledge bank work includes leveraging relevant work and knowledge gathered by FA.</p>	AAG, PRS	March 2025
<p>19. Mitigate some of the drivers of cost over-runs in PRS by:</p>		<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle	<p>See response to recommendation 10.</p>	AAG, PRS	December 2024



Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owners	Completion date
<ul style="list-style-type: none"> <li>a) providing greater clarity on scope and purpose in information requests to agencies</li> <li>b) earlier engagement with agencies on proposed data analysis methods, to help avoid lengthy iteration and feedback.</li> </ul>					



# Appendix 2: Lines of enquiry and performance criteria

Line of enquiry	Criteria
<p><b>Independence and objectivity</b></p> <p>VAGO has an effective and efficient framework for assuring the independence and objectivity of the Auditor-General and his staff.</p>	<p>1.1 VAGO has codified policies, standards or guidance that clarify the concept of 'independence' as it applies to the Auditor-General, VAGO in-house staff and contractors and the full range of activities they engage in that interface with the public sector and audited agencies.</p> <p>1.2 VAGO has defined:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> </ul> <p>1.3 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</p> <p>1.4 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.</p>
<p><b>Contribution to an effective and efficient public service</b></p> <p>VAGO is effectively leveraging appropriate opportunities to support and improve the effectiveness and efficiency of the public sector</p>	<p>2.1 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</p> <p>2.2 VAGO's focus on collaborative initiatives is appropriate having regard to its mandate, objectives and core functions</p> <p>2.3 The public sector and VAGO staff and contractors (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 this aligns with the Parliament's expectations for VAGO</p> <p>2.4 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</p> <p>2.5 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 this demonstrates audits and reviews are optimally focused on supporting the effectiveness and efficiency of the public sector</p> <p>2.6 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</p>



Line of enquiry	Criteria
	<p>2.7 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.</p>
<p><b>Professional and respectful relationships</b> VAGO engages professionally and respectfully with stakeholders, and is striking the right balance between consultation and preserving its independence and objectivity</p>	<p>3.1 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</p> <p>3.2 VAGO regularly assesses stakeholders' and its own performance against the engagement strategy, discussing this with stakeholders and demonstrating that both parties are effectively and efficiently discharging their obligations</p> <p>3.3 VAGO conducts audits and reviews professionally and respectfully.</p> <p>3.4 VAGO's correspondence, communication and approach to engagement demonstrates that it is receptive and responsive to agency feedback</p> <p>3.5 VAGO maintains its independence by fairly and critically evaluating the issue, feedback or concerns raised by stakeholders during audits, and has responded appropriately to agencies in response to these issues where they have arisen</p> <p>3.6 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.</p>
<p><b>Contemporary methodology, tools and techniques for conduct of performance audits, limited assurance reviews and financial audits</b> VAGO's methodologies, tools and techniques are sound and effectively applied to performance audits, limited assurance reviews and financial audits</p>	<p>4.1 VAGO's performance audit, limited assurance review and financial audit methodologies, guidance and software are comprehensive, regularly reviewed and updated to ensure compliance with applicable legislation and requisite standards</p> <p>4.2 Performance and financial audit staff and contractors are systematically trained in the use of the respective methodology they are using</p> <p>4.3 VAGO has a sound quality control framework for performance audits, limited assurance reviews and financial audits that is consistently and effectively applied by all staff and contractors across all phases of the audit and review lifecycle, and which assures compliance with applicable legislation and auditing standards</p> <p>4.4 Performance audits, limited assurance reviews and financial audits are subject to regular quality assurance reviews that are promptly and effectively acted upon by senior management to improve audit and review practice by in-house staff and contractors and compliance with requisite standards</p> <p>4.5 Financial audits demonstrate compliance with all relevant statutory requirements and Australian Auditing Standards for the conduct and reporting of financial audits</p> <p>4.6 The performance audit or review plan, criteria and evidence adequately support the findings, conclusions and recommendations contained within performance audit reports</p> <p>4.7 Performance audit and limited assurance review reports are balanced and contain no material or unjustified omissions of adverse findings</p>



Line of enquiry	Criteria
	<p>4.8 Performance audit and limited assurance review recommendations are clear, specific and actionable and address the root causes of issues</p> <p>4.9 VAGO's parliamentary reports are robust and developed through a rigorous process that is devoid of fear, favour and affection</p> <p>4.10 VAGO demonstrates effective financial management of budgets and associated costs with respect to its performance audits, limited assurance reviews and financial audits.</p>
<p><b>Focus on quality and continuous improvement</b></p> <p>VAGO has a strong continuous improvement culture supported by effective governance and accountability arrangements that drive the efficient and effective implementation of improvement initiatives</p>	<p>5.1 VAGO has made adequate progress in addressing the recommendations of the 2020 Performance Audit Report</p> <p>5.2 The work of VAGO's audit quality teams is adequately resourced, supported by senior management, resulting in sustained improvements to audit quality and compliance with standards</p> <p>5.3 The leadership team has strengthened its focus on accountability for continuous improvement and project management, and 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</p> <p>5.4 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.</p>
<p><b>Strong practice management</b></p> <p>VAGO has appropriate practice management systems, strategies and processes that efficiently and effectively support the operational aspects of its offices</p>	<p>6.1 VAGO has management systems, strategies and processes to support:</p> <ul style="list-style-type: none"> <li>• planning for the number, mix and delivery of performance and financial audits and limited assurance reviews</li> <li>• 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</li> <li>• implementation of VAGO's quality control framework, including timely review and supervision of audits and reviews</li> <li>• timely actions for addressing staff morale and engagement, including training and development needs</li> <li>• the resourcing and scheduling of audits and limited assurance reviews</li> </ul> <p>the setting, management and monitoring of audit, divisional and office-wide budgets.</p>
<p><b>Participative leadership and inclusive culture</b></p> <p>VAGO leadership drives a culture that makes stakeholders, clients and staff feel included and respected</p>	<p>7.1 The leadership team, including its behaviour and decisions has made a positive impact on improving perceptions of the leadership group and organisational culture</p> <p>7.2 The leadership team takes appropriate and timely action in response to issues raised by staff to improve VAGO leadership and organisational culture</p>





Line of enquiry	Criteria
	<p>7.3 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</p> <p>7.4 Robust whistle-blower policies promote and translate into a “speak up” culture</p> <p>7.5 VAGO has a clear vision, strategy, values and a plan for building a strong inclusive culture that demonstrably resonates with its employees.</p>
<p><b>Engaged staff and focus on wellbeing.</b> VAGO leadership focus their staff engagement strategies around maintaining healthy and positive workplaces that support employees to be high performing, self-motivated and resilient.</p>	<p>8.1 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</p> <p>8.2 The leadership team has made adequate progress in improving staff feedback and consultation, succession planning, as well as staff recognition and retention.</p>



# Appendix 3: Progress against 2020 audit recommendations

Note: VAGO status reflects the position stated in the 8 February 2024 six-monthly report to PAEC.

Key: ✓ - complete. ○ - in progress. ✗ - not actioned. \*delayed, \*\*multiple delays. ? – intended impact not delivered.

	Accept	VAGO status	Observation
<b>Key Area 1: Independence and objectivity</b>		1/1	
<p>1. That VAGO's performance audit business unit model the processes established in financial audit to support maintaining independence including:</p> <ul style="list-style-type: none"> <li>ensuring the process of completing and documenting a declaration of interest by all team members during the audit initiation phase is consistently applied and appropriately filed</li> <li>introducing a review of declarations of independence at least once during performance audits</li> <li>developing a policy around rotation of directors.</li> </ul>	Yes	✓	<p>Declaration policies are in place and are being followed.</p> <p>The performance audit rotation policy is in place for Directors, Managers, and EQCR. FA has a 5-year rotation for all other team members that is not mirrored in PRS.</p>
<b>Key Area 2: Contribution to an effective and efficient public service</b>		2/2	
<p>2. That VAGO develops a data science strategy that clearly outlines VAGO's approach to integrating data science within performance audit practice.</p>	Yes	✓**	<p>Data Science Strategy 2023-2025 is in place. It does not identify focus sectors / processes to apply a data science lens to, instead focused on channels for broad integration internally and externally. It does not cover privacy or security, as it falls under the umbrella of VAGO's Information Security Policy and related plans. It also does not address the issues that the recommendation aimed to address, which is the risk of VAGO being perceived to overstep its mandate in the gathering and publication of data for performance engagements, and of dashboards being used for purposes other than those for which the data was obtained.</p>
<p>3. That VAGO develops a systematic approach to measuring the impact of performance audits taking into account allocated/invested resources.</p>	Yes	✓	<p>March 2021 – "Measuring the impact of performance audit – literature review and benchmarking" showcased the systematic approach that was developed. Unclear if there is a regular review cycle to apply this.</p>



	Accept	VAGO status	Observation
<b>Key Area 3: Professional and respectful relationships</b>		<b>2/3</b>	
<p>4. That VAGO updates and implements its stakeholder engagement strategy and implementation plan to ensure that it meets VAGO's unique needs as an audit organisation including providing:</p> <ul style="list-style-type: none"> <li>• guidance on VAGO's limits to stakeholder engagement</li> <li>• minimum expectations of Engagement Leaders outside of audits including expected frequency of contact with portfolio departments and agencies and examples of what good stakeholder engagement looks like</li> <li>• clearly defined standards of professional behaviour and engagement between VAGO and the public sector.</li> </ul>	Yes	○**	In February 2021, recommendations that would feed into the plan were presented in 'Parliamentary Engagement Plan Stage 1' report. Since, PRS has restructured to line up with external stakeholder group. 1 Dec 2023 – VAGO engaged SEC Newgate for an awareness and education campaign.
<p>5. That VAGO includes in its audit initiation briefings information about:</p> <ul style="list-style-type: none"> <li>• types of audits and scope including the significance of what has and has not been specifically scoped out</li> <li>• roles, responsibilities and expectations of conduct of VAGO, agency staff, and where relevant subject matter experts.</li> </ul>	Yes	✓**	VAGO has acted on this recommendation by publishing an assurance services factsheet on the VAGO website and providing this factsheet is provided to stakeholders not familiar with VAGO's auditing activities.
<p>6. That VAGO develop a subject matter expert policy, or include in the Performance Audit Methodology manual, a process for the engagement of subject matter experts which includes:</p> <ul style="list-style-type: none"> <li>• providing audited agencies an opportunity to raise any issues in relation to conflicts of interest with proposed subject matter experts at audit commencement</li> <li>• establishing a transparent process for VAGO and agency subject matter experts to engage on technical findings.</li> </ul>	Yes	✓	Interviews with auditees flagged that there are still issues with the SMEs used. The change to audit procedures was a quick win, but there appears to be no subsequent monitoring.
<b>Key Area 4: Performance audit methodology, tools and techniques</b>		<b>4/5</b>	
<p>7. That VAGO provides good practice guidance including examples of exemplar audit files and templates in relation to treatment and filing of documents, including working papers, to ensure each audit file can be easily navigated and the links between the application of the audit criteria, the analysis of evidence collected and audit findings and recommendations are evident.</p>	Yes	✗*	VAGO is working on this as part of the PRS Methodology refresh.
<p>8. That VAGO updates its record keeping policy and procedures to provide clear guidance on the use of Teams in relation to the conduct of an audit. In particular, the storage of evidence and drafting/ storage of working papers, approvals and whether there is expected to be a</p>	Yes	✓*	Within PA/PRS, information is duplicated in Teams and AmP. Within FA, inadequate documentation is a commonly raised issued in PAAQRs.



	Accept	VAGO status	Observation
single repository for an audit file. The record keeping policy and procedures should be linked to VAGO's performance audit and financial audit methodologies			
9. That VAGO develops an e-learning program to supplement the existing training so that new staff can access modules in a timely fashion.	Yes	✓*	Viva learning has launched as new e-learning platform. SuccessFactors is still needed as the core Learning Management System underpinning the platform.
10. That VAGO reviews the performance audit methodology to make explicit the oversight function of Engagement Leaders as a crucial component in the quality control framework. This includes enhancing the evidence trail to include attestation of evidence/working paper quality during the conduct phase of audits.	Yes	✓**	Further changes to the methodology will be needed with the ASAE 3500 review that is currently underway by AUASB – this will likely change how performance audits are done.
11. That VAGO formalises its expectations of performance audit staff managing contractors/consultants and applies this practice consistently.	In part	✓*	Done in Dec 2020. Subsequently, the PA/PRS restructure has reset responsibilities by team role/VPS grade. There appears to be some complexity in the differences in pay and expectations for VPS5.1 and VPS5.2, creating a split between senior analysts.
<b>Key Area 5: Financial audit methodology, tools and techniques</b>		<b>9/9</b>	
12. That VAGO ensures all changes to the financial audit methodology are sufficiently documented and readily identifiable.	In principle	✓	VAGO noted in the Oct 2023 report back that this is ongoing work and not a discrete task, and there had been no alterations to FA methodology since the PAEC audit. It will be important that VAGO can continue to document and identify changes in Caseware and as they move to the cloud.
13. That VAGO conducts the future piloting of replacement software tools in a more structured manner led by an expert team to ensure adoption of a consistent approach and all issues are identified and resolved prior to full rollout. Staff feedback should be obtained and addressed after this.	In principle	✓**	Caseware pilot was undertaken in FY2023. The pilot was paused while feedback was incorporated. There is a five stage roll out planned and staff training on Caseware is underway. VAGO are still working out the go-live date as this is linked to the capability framework.
14. That VAGO adapts ACAG's National Competency Framework for Financial Auditors to ensure it covers all staff classifications consistent with the financial audit methodology and signing officer delegation arrangements.	Yes	✓**	Done in Nov 2023. Also, the new Performance Audit Capability Framework has eight streams that align with the ACAG framework.



	Accept	VAGO status	Observation
15. That VAGO establishes a training strategy aimed at consistent delivery of targeted training to financial audit staff at their different levels.	Yes	√**	Done in Nov 2023. It is unclear how this translates to the training register, but it does coincide with an improvement in the number of files with material departures from standards found in reviews.
16. That VAGO maintains an up-to-date list of all training provided by staff classification which is regularly reviewed to ensure that staff receive training relevant to their level/classification.	Yes	√**(?)	Training data appears to still be missing external training accessed by staff. We have not received evidence that relevant staff are up to date with their ethics training requirements.
17. That VAGO considers obtaining confirmation from Audit Service Providers that their staff on VAGO audits are systematically trained in the use of a contemporary financial audit methodology.	Yes	√**	
18. That VAGO adapts the ACAG <i>Governance and Audit Framework for Self-Assessment and External Review (2014)</i> to its context. This may be done by reference to the Australian National Audit Office and New South Wales Audit Office that have both developed their own comprehensive quality control frameworks.	Yes	√**	Internal audit found this work was only partially complete.
19. That VAGO ensures consistency in the understanding and application of its Engagement Quality Control Reviewer policy by identifying inconsistent practices during active file reviews and Post Audit and Assurance Quality Reviews and implementing corrective action.	Yes	√	PAAQRs identify themes of issues, and track underperformance of individual engagement leads responsible for material departures.
20. That VAGO develop procedures ensuring compliance by both in-house staff and Audit Service Providers with ASQC 1 as this relates to completion/closure of audit files within 60 days of issue of the auditor's report.	In part	√**	Our file review found 60% of ASP and 33% of FA files were closed after 60 days.
<b>Key Area 6: Focus on quality and continuous improvement</b>		<b>2/2</b>	
21. That VAGO develops and implements a leadership charter.	In principle	√**	The intent of this recommendation was to set a charter to send a strong signal to staff of senior leadership's ongoing commitment to principles of inclusive leadership. A charter was deemed not necessary. VAGO is leaning on its values for this. People Matter survey results show the percent of staff that agree or strongly agree that senior leaders model their



	Accept	VAGO status	Observation
			organisation's values has decreased from 81% in 2021 (when the measure was first added) to 71% in 2023.
22. That VAGO establish an effective process to ensure post-performance audit debriefs are regularly collated and analysed with a view to identifying any reoccurring or thematic issues. This should be led by the audit quality team so that there is a separation of functions between the conduct of audits and identification of thematic issues across these audits	Yes	✓	PAAQRs provide themes and recommended actions are tracked. But follow-up is required to monitor the impact of actions, investigate reasons for lack of improvement despite actions taken, and developing actions for resolving ongoing issues.
<b>Key Area 7: Strong practice management</b>		<b>1/4</b>	
23. That VAGO develops an outcomes framework to enhance planning and monitoring progress against achieving strategic plan objectives. The outcomes framework should be built around appropriate intervention logic.	Yes	○**	VAGO expects to complete this recommendation, and commence using the framework, from 1 July 2024.
24. That VAGO develop an evaluation approach to enable the systematic measurement of impact against the outcomes framework. This should include assessing the contribution of outputs (in the form of business improvement projects and initiatives) to established outcomes measures. In addition, VAGO should systematically check whether there are unintended consequences and monitor them to enable effective oversight over any outcomes beyond organisational objectives.	In part	○**	VAGO expects to complete this recommendation, and commence implementation, from 1 July 2024.
25. That VAGO undertakes a training needs assessment for members of the Audit Quality and Financial Reporting Advisory team. Based on this analysis VAGO should develop training programs to ensure members are appropriately qualified to maintain and monitor the quality control framework.	Yes	✓**	The primary issue with this team continues to be staffing It is difficult to find someone with financial audit and system assurance skills.
26. That VAGO develops a proactive professional development program for junior and mid-level staff which may include opportunities for broader development targeted at developing high performing staff for future leadership roles.	Yes	○**	Some of the actions taken are in their early stages of implementation, and it is too soon to see what impact they may have. VAGO continues to experience challenges in attracting and retaining junior and mid-level staff.
<b>Key Area 8: Participative leadership and inclusive culture</b>		<b>2/2</b>	
27. That VAGO consolidates its numerous relevant policies into one overarching whistle-blower policy	Yes	✓**	Consolidated into one overarching "complaints management" policy which links to seven other



	Accept	VAGO status	Observation
			policies, seven procedures, and 14 standards and legislation.
28. That VAGO ensures all members of the Health and Safety Committee and the Persons Carrying on a Business Undertaking are provided with and attend appropriate training	Yes	✓	VAGO has also taken reasonable steps to ensure the health and safety of those working remotely including adapting procedures and providing ergonomic work set ups at home. New Health and Safety training has recently been launched on Viva Learning.
<b>Key Area 9: Engaged staff and a focus on wellbeing</b>		<b>1/3</b>	
29. That VAGO fully implements its project Implementing Outcomes of Performance Audit Sexual Harassment which has emerged from the performance audit it conducted called Sexual Harassment in the Victorian Public Service; and its People Matters Action Plan. This includes closely monitoring whether these initiatives have effectively addressed issues relating to sexual harassment.	Yes	✓	This programme appears to have been effective. Sexual harassment noted in the People Matter Survey has dropped in PA/PRS from 20% in 2019 to 3% in 2023.
30. That VAGO puts in place a systematic process to effectively identify high performing staff and a clear pathway to develop these staff so that they are capable of taking on more senior roles.	Yes	○**	A strategy and specific initiatives expected to commence in 2025 (will be informed by new capability frameworks).
31. That VAGO develops and implements formalised succession planning.	No	✘	Similar recommendation by 2021 internal audit on human resources management was accepted but is yet to be actioned. VAGO is focusing on underlying elements that are part of recommendation 30 through their "Talent solutions for growth and potential" project.
<b>Overall</b>		<b>24/31</b>	

Key: ✓ - complete. ○ - in progress. ✘ - not actioned. \*delayed, \*\*multiple delays. ? – intended impact not delivered.



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