



**PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE**

**2009-10 AND 2010-11 FINANCIAL AND PERFORMANCE  
OUTCOMES QUESTIONNAIRE — PART TWO**

**VICTORIAN AUDITOR-GENERAL'S OFFICE**

## Question 1

The State Services Authority has indicated that, in relation to the turnover of on-going employees, the separation rate across the public sector was 8 per cent.<sup>1</sup> The Committee notes that the voluntary turnover rate for VAGO for 2010-11 was 19.7 per cent, which was a marginal increase on the outcome for 2009-10 of 17.3 per cent, but a significant reduction from the rates for 2007-08 and 2008-09 of 27.2 per cent and 23.7 per cent respectively.<sup>2</sup>

- (a) What underlying factors have contributed to VAGO's turnover rate being higher than the average across the public sector in 2010-11?

A number of factors can be attributed to the increase in the number of staff departing VAGO. In particular the upswing in employment opportunities within the external job market and the end of the global financial crisis resulted in a number of employees departing to the private sector.

- (b) To what factors does VAGO attribute the decrease from the 2007-08 rate?

The global financial crisis, and its subsequent effect on the external job market, had a direct impact on the decrease from the 2007-2008 rate.

## Question 2

The State Services Authority issued in December 2008 a Succession Risk Management Toolkit, which provides a framework for assisting senior leaders across the Victorian public sector to identify and mitigate succession risks. According to the Authority, the management of succession risk is fundamental to ensuring an organisation can continue to meet the demands placed upon it, despite the turnover of employees in critical roles.<sup>3</sup>

As part of the above toolkit, the Authority's guide to succession risk management for Victorian public sector leaders states that:<sup>4</sup>

*The mitigation of risk can involve the identification of, and targeted development for, existing staff who have potential to succeed in a particular type of critical role.*

- (a) Please outline your organisation's approach to addressing succession risk management.

Succession Planning, Talent Management and Workforce Planning Guidelines have been developed to assist with staff retention at VAGO.

- As part of this approach, secondment opportunities have been made available for all staff, in particular Audit staff, to overseas Audit Offices (British Columbia, Canada; Hong Kong; UAE) and to other VPS Departments/ Agencies. In addition staff have been assigned special tasks or assignments and have attended tailored development programs such as ANZSOG or the Copland course. Staff also have their work experience broadened through acting arrangements and switching senior people into different roles

<sup>1</sup> State Services Authority, *The State of the Public Sector in Victoria 2008-09*, March 2010, p.17

<sup>2</sup> Victorian Auditor-General's Office, *Annual Report 2010-11*, August 2011, p.45

<sup>3</sup> State Services Authority, *Succession Risk Management Toolkit*, December 2008

<sup>4</sup> State Services Authority, *Succession Risk Management Toolkit, A guide to succession risk management for Victorian public sector leaders*, December 2008, p.11

- (b) Please provide any examples to demonstrate the effectiveness of this approach to filling vacancies in 2010-11.

Demonstrating the effectiveness of VAGO’s Talent Management guidelines, vacancies have often been filled through internal recruitment rounds, allowing staff the opportunity to be appointed to a higher VPS levels, providing an opportunity to progress individual careers aspirations. Examples include recent internal promotions to positions of Director, Financial Audit and movement of Assistant Auditors-General between Financial Audit and Performance Audit.

**Question 3**

The State Services Authority has indicated that:<sup>5</sup>

*Building an intellectually and operationally agile workforce that is innovative and able to operate effectively in a changing environment will require changes to current workforce planning and human resource practices Public sector organisations will need to understand how the required workforce characteristics fit within their businesses. Moreover they will need to support the development of those characteristics.*

According to the State Services Authority, enhancing approaches to attraction and recruitment can include, among other things, continuing to improve the sector’s work-life balance efforts through the increasing availability of:<sup>6</sup>

- part-time employment;
- flexible work hours;
- support for caring responsibilities; and
- retraining opportunities.

- (a) Please describe the opportunities provided to staff during 2010-11 in relation to each of the above practices.

Part-time employment	Part time work is made available to staff in accordance with the provisions set in the VPS Agreement
Flexible work hours	Flexible working hours are available to staff, with a number of staff taking up condensed working agreements.
Support for caring responsibilities	VAGO offers telecommuting and working from home arrangements.
Retraining opportunities	A comprehensive learning & development program is available to all staff, and staff are actively encouraged to participate.

- (b) Please describe any other work-life balance efforts that were employed by your organisation in 2010-11.

In addition to the flexible working arrangements made available to staff, there is a comprehensive Health and Wellbeing program, providing a range of activities (healthy eating information sessions;

<sup>5</sup> State Services Authority, *The State of the Public Sector in Victoria 2008-09*, March 2010, p.53

<sup>6</sup> *ibid.*, p.54

work health checks, lunchtime yoga/Pilates classes) to aid staff to balance work and non-work time.

#### **Question 4**

What factors contributed to the following performance audits not being tabled in 2010-11:

- (a) State Trustees Ltd: Represented Persons; and

Initial findings indicated that further consideration was required to assess the adequacy of the application of a range of governance frameworks and policies. This required the analysis of additional evidence before findings and conclusions about these matters could be formed. These were contested which created further delays in the drafting and clearance of the report.

In addition, unforeseen changes to audit teams as a result of staff departures impacted on audit timelines.

- (b) Biotechnology and the Victorian Public Sector?

Three factors contributed significantly to the delays on this audit, namely:

Significant re-work and revision of report was required because new information was provided late in the audit process, after preliminary findings had been developed and communicated to agencies. The additional evidence was considered and where appropriate used in the audit. However, the agency continued to contest findings which led to delays.

An extensive natural justice consultation was undertaken late in the audit for parties that were named but not audited.

Key staff members had taken extended leave and additional resources could not be secured for that period.

#### **Question 5**

As outlined in the VAGO annual report for 2010-11, the average cost per results of financial audit reports delivered was \$207,000 compared to \$180,000 for the previous year. The Office indicated that this outcome reflected *'the additional effort involved in adding specific areas of audit focus to better inform the public about agency operations.'*<sup>7</sup>

Please provide an outline of these additional specific areas of audit focus that took place in 2010-11 compared to the coverage in 2009-10.

The increase in costs between reports tabled in 2010-11 and those tabled in 2009-10 reflects broader work on areas of financial audit focus, improvements in financial audit reports to Parliament and an additional report to Parliament due to early expiration of the 56th Parliament, ahead of the 2010 election. Each of these improvements required additional effort and therefore greater cost.

- In 2010-11 we examined 11 areas of focus compared with 10 in 2009-10. Our coverage of the focus areas in 2010-11 also adjusted to address client feedback, including greater specification of the better practice frameworks against which agencies were tested

<sup>7</sup> Victorian Auditor-General's Office, *Annual Report 2010-11*, August 2011, p.21

- In line with feedback from parliamentarians and clients on our financial audit reports to parliament, VAGO provided more detailed analysis of financial audit findings in the parliamentary reports tabled in 2010-11
- The Office’s desire to provide timely information to the public before the proroguing of parliament resulted in the tabling of four sector reports on the results of the 2009-10 audits before October 2010, as detailed in our response to question 42 of Questionnaire One. In a non-election year these reports would have been tabled in November, enabling material on the timeliness and quality of reporting, and aspects such as financial sustainability of sector agencies to be included in those reports. Because such data were not available in October 2010, these four reports were followed up in February 2011 with an acquittals report that closed out the reports on the 2009-10 audits by providing this additional data. The production of the acquittals report added to the cost of reports tabled in 2010-11.

### Question 6

The Committee notes that the annual report for 2010-11 discloses VAGO’s impact on public sector accountability and performance in a number of ways. Are any strategies in place to measure the value added from the implementation of audit recommendations in future? If so, please provide details.

In 2009, the previous Public Accounts and Estimates Committee recommended that the Auditor-General develop “quantifiable measures of the impact of reports and recommendations on audited departments and agencies”, in its *Report on 2007-08 Financial and Performance Outcomes*.

VAGO did not support this recommendation.

Our response (dated 4 August 2009) noted that “*the role of the Auditor-General is to provide assurance to Parliament on the performance and accountability of the public sector*”, and that whilst our Strategic Plan does seek to be a catalyst for improvement in the public sector, “*it remains the primary accountability of public sector entities to implement and report on change and improvements arising from audit reports remains - this cannot be enforced by VAGO.*”

Our 2009 response went on to state: “*As such, measuring the impact of audit recommendations on agency behaviour is not an appropriate performance measure for the Office, and may encourage entities to rely overly on external audit activities and reports to acquit their performance responsibilities.*”

*As part of developing our next Strategic Plan, VAGO is reviewing its performance indicators in 2009-10 and will consider opportunities for better measuring the impact of reports and recommendations in line with the mandate, purpose and plans of the Office. This review will aim to place greater emphasis on assessments and feedback from parliamentarians and peak bodies while also adding more rigour to our self evaluation processes.*”

Since that review, VAGO has introduced new performance information in our external reports and publications which assist in measuring the value generated by our work for our primary client, Parliament. This includes:

- Survey feedback on Parliamentarians’ use of VAGO reports and services – range of information published via website and annual report, and overall average included as a BP3 measure.
- Use of audit reports during Parliamentary debate, including to inform new legislation – published in Annual Report.

In addition to this information, VAGO is also happy to provide contextual information on the use of audit reports by agencies and the general public. This is published in the Measuring our Impact article in the Annual Report, and available on Parliament webpage on VAGO website

[http://www.audit.vic.gov.au/about\\_us/57th\\_parliament.aspx](http://www.audit.vic.gov.au/about_us/57th_parliament.aspx).

VAGO intends to continue with this approach, which provides direct performance information relevant to VAGO's purpose and client, as well as contextual information on the use made of VAGO's audit reports and services.

### **Question 7**

As indicated in VAGO's annual plan for 2010-11, financial audits comprise over 60 per cent of the Office's annual work and, in undertaking this role, the Office gives regard to whether there has been wastage of public resources.<sup>8</sup>

- (a) Please provide a listing of those areas where the financial audit work carried out in 2010-11 revealed wastage of public resources.

Through our financial audits we identify instances where agencies' processes can be improved. While not explicitly reported as examples of waste, or quantified, agencies can improve the efficiency of their operations and eliminate wasted effort by addressing the matters raised and implementing the associated recommendations. For example our examination of the leave management controls and processes in the hospital sector, tabled in September 2010 identified a number of strategic and operational risks that would be mitigated if employee leave was effectively managed. These risks included:

- difficulties covering unplanned staff absences
- poor occupational health and safety outcomes for staff
- negative impacts on employee productivity
- additional costs associated with avoidable sick leave absences
- Higher financial costs associated with accumulating excess recreation leave to be paid at higher rates of pay.

Each of these risks, if not mitigated results in a higher cost of service provision, and therefore, waste.

Focus areas and internal controls aspects reported upon in 2010-11 addressed:

- Leave management (public hospitals and tertiary education)
- Creditors (public hospitals, water entities and tertiary education)
- Declarations of interests (local government and portfolio departments)
- Information technology change management (local government)
- Procurement (portfolio departments)
- Capital projects (water entities).

We also reported on general internal control weaknesses in each of these sectors.

In each of the five associated sector reports tabled in August and September 2010, examples of practice improvement which will lead to more efficient and effective activity, are reported.

Through our interim and final management letters issued to agencies at key points of the attest audit cycle, we report other findings from our audits which are also aimed at improving practice.

- (b) What recommendations have been made by the Office to minimise wastage in these areas?

<sup>8</sup> Victorian Auditor-General's Office, *Annual Plan 2010-11*, May 2011, p.9

Recommendations to minimise poor practice or to improve operations are made in each of the five reports referred to above. For example, the public hospital sector report made 17 recommendations, the key ones being:

- Public hospitals should assess their policies and procedures against the commonly identified internal control weaknesses to confirm they are operating in a reliable, efficient and cost effective manner.
- Public hospitals should establish comprehensive leave monitoring arrangements, and hospital boards should require comprehensive leave management reports.
- Public hospitals should improve the level of monitoring, review and oversight of sick leave absences.
- The Department of Health should expedite resolution of the inconsistency between their service arrangements with public hospitals and the creditor payment terms required under the government's fair payment policy.
- Public hospital boards should oversee the establishment of comprehensive creditor management policies and procedures, and receive detailed creditor payment and aged analysis reports to acquit their monitoring obligations.
- Public hospitals should investigate extending the use of computerised applications for processing creditors, establish comprehensive monitoring arrangements, and schedule periodic internal audits of creditor management practices.

Similarly, we made recommendations to improve practice and operations in our parliamentary reports for the tertiary education, water, local government and portfolio departments)..

### **Question 8**

According to the Victorian Auditor-General's Office (VAGO) Annual Report for 2010-11, one of VAGO's objectives outlined in its *Strategic Plan 2010-11 to 2014-15* is 'to be highly regarded by Parliament'. When commenting on the outcome of the annual survey of Parliamentarians in its annual report, VAGO states that:<sup>9</sup>

*To allow VAGO the opportunity to compare itself with other Australian Auditors-General, a number of questions within our survey are consistent with those of three other offices. While VAGO's results are positive, we are at the mid-lower range when comparing with these other offices.*

- (a) Please explain the areas where the feedback was assessed as being at the mid-lower range when comparing with these other offices.

In 2010-11, VAGO ranked first for six of seventeen questions when compared with the two other participating Australian audit offices.

Although still scoring highly, responses to nine out of seventeen questions were in the mid or lower range amongst benchmarking partners at the time of the VAGO 2010-11 Annual Report. These questions covered the following areas:

- Frequency of referral to audit reports (potentially impacted by the number of new Parliamentarians)

<sup>9</sup> Victorian Auditor-General's Office, *Annual Report 2010-11*, August 2011, p.23

- Clarity, layout and design of audit reports
- Assistance provided by reports in monitoring accountability

Please note: the benchmarking information which allows the comparison of VAGO results with those of other offices is not available until towards the end of August each year. This means that our annual report for 2010-11 compared our data to other offices' results for 2009-10, which were the latest available results.

- (b) Please describe any strategies to be applied by VAGO that are designed to gain a higher rating in future.

The following strategies are in place to drive improvement in the areas highlighted above

- *Frequency of referral to audit reports and Assistance provided by reports in monitoring accountability* -
  - In 2011, VAGO has taken a more intensive approach to engagement with Parliament, to encourage awareness and use of our reports, and gather feedback on how reports may better assist members to monitor accountability and performance of the public sector. This has included more support for Joint Investigatory Parliamentary Committees, proactive briefings for new Ministers and Shadow Ministers, participation in induction for Ministerial staff, a new webpage for the 57<sup>th</sup> Parliament and broader communication on the Annual Plan.
- *Clarity, layout and design of audit reports* –
  - Training for report writers on plain English & report writing.
  - A new panel arrangement for report editors is being implemented.
  - Increased use of ACAG external assessment service for a broader range of audit reports

### **Question 9**

In comparison to expected outcome disclosed in the 2011-12 budget papers for the performance measure 'Overall level of external satisfaction with audits – audit clients' that the target (75) would be achieved,<sup>10</sup> VAGO reports that the actual achieved was 67 index points.<sup>11</sup> Please outline the reasons for the discrepancy between the estimate in the budget papers and the actual result.

In the budget period 2010-11 a target of 75 was set which was consistent with the target for the previous year.

As reported in our response to Questionnaire 1, aggregate survey responses are measured on an annual basis, and results are not available until July each year. As such, VAGO's estimated outcome for 2010-11 as published in the Budget papers in May 2011 was still set in line with target.

To achieve the target of 75 would mean that we need to score an average of 4/5 on the 5 point agreement scale in the survey. The achievement of 67 as an aggregate index still represents a largely positive response.

VAGO views this BP3 target as a measure of satisfaction with the audit experience rather than an overall quality measure for an audit. The ratings by audited agencies can be influenced by negative

<sup>10</sup> Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.377

<sup>11</sup> Victorian Auditor-General's Office, *Annual Report 2010-11*, August 2011, p.19



audit findings and the respondents are not necessarily objective. VAGO has a strong commitment to engagement and high standards of professional practice, however, given the nature of the performance audit process, tensions in some relationships are inevitable and may impact on the responses in the surveys.

This is in part reflected in the much greater range of scores VAGO received in 2010-11 - the overall index scores for individual audits ranged from 44 to 96 points, from a pool of 32. Low scores for one or two performance audits in the year can have a statistically significant effect on the average index.

In addition, there was a minor downwards trend on average across all three areas of process, reporting and value.

Reflecting VAGO's awareness of the subjectivity of audited agency survey feedback, VAGO has included additional quality measures in the 2011-12 Budget, including 'Average score of audit reports by external assessors' with a target 80%. This provides an independent measure of the quality of the audit report through the external assessment of selected performance audit reports by three external assessors. The criteria have been agreed at the Australasian Council of Auditors-General (ACAG) level and the assessments are coordinated through ACAG office.

## CONTACT DETAILS

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**The completed questionnaire must be returned by no later than COB, Tuesday, 13 December 2011.**

Please return the response (including an electronic version) of the questionnaire to:

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