

# SECTION D: OTHER

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## CHAPTER 19: REVIEW OF ANNUAL REPORTS OF DEPARTMENTS AND AGENCIES

### Key Findings of the Committee:

- 19.1 Overall the Committee was reasonably satisfied with the level of compliance of annual reports with the *Financial Management Act 1994* and the *Standing and Financial Reporting Directions of the Minister for Finance*.
- 19.2 Departments in particular, have continued to make improvements to the non-financial reporting practices in their annual reports. The Committee was particularly pleased to note the improvements made in the reporting of budget output measures.
- 19.3 For the second year running, the Committee has identified a high level of non compliance with the Occupational Health and Safety reporting requirements of FRD 22B. Only the Departments of Education and Justice fully complied with these requirements.
- 19.4 There was a low level of compliance, among the non-departmental government agencies, with *Financial Reporting Directions* covering workforce data disclosures (FRD29) and the Victorian Industry Participation Policy (FRD 25).
- 19.5 While the standard of reporting by the selected non-departmental government agencies has shown improvement from 2006-07, the Committee identified a number of instances where agencies failed to comply with certain aspects of the *Financial Reporting Directions*.
- 19.6 Reporting of performance in annual reports could be improved through better use of historical and benchmarking data and by including detailed analysis and explanations of the data provided. Most department and agency annual reports provide only basic performance data and very limited discussion of performance.
- 19.7 Few annual reports effectively and clearly linked performance to corporate goals and objectives, budget output measures and *Growing Victoria Together* visions. The Committee had previously recommended that government departments and agencies integrate output performance data throughout the report rather than separating them into an appendix.
- 19.8 Similar to its 2006-07 finding, the Committee identified that that few agencies had fully applied the guidelines in the Department of Treasury and Finance *Model Annual Report* to the development of their annual reports, leading to highly variable structures and styles which often lacked purpose.
- 19.9 The quality of annual reporting has risen over the last four years, however, most government departments and agencies could improve their annual reports by adopting some of the better practices identified by the Committee from the department and agency annual reports reviewed in the last two years.

## 19.1 Introduction

Annual reports are an important mechanism for the provision of open and accountable government. An annual report should provide accessible information regarding performance, resource expenditure and service delivery, from which the reader can gauge the efficiency and effectiveness of government departments and agencies.

Public sector annual reports are required to comply with the *Financial Management Act 1994* and the *Standing Directions* and *Financial Reporting Directions* (FRD) issued by the Minister for Finance. The *Financial Management Act 1994* requires that the annual report of government departments and public sector agencies include a report of operations and financial statements. *Standing Directions* and FRDs detail requirements for providing general information about operations and performance and an assessment of results and financial position.

The presentation of performance reporting is a separate aspect of annual reports, providing information on outcomes from the previous year's operation against prior established performance indicators and where applicable, an account of departmental performance in executing the Government's budget.

Following an extensive review of the annual reports encompassing eight FRD's in the 2006-07 report, the Committee has this year focused on four FRD's and the reporting of performance outcomes and outputs.

## 19.2 Review criteria

The Committee has selected review criteria that focus upon:

- financial performance;
- position and results of the Victorian Government;
- performance of government departments and agencies in executing the State budget; and
- the Government's *Growing Victoria Together* visions.

Departments and agencies must meet legislated requirements for reporting specific information and this is reviewed as compliance with reporting requirements. However, when it comes to presentation of performance reporting, departments choose the form of presentation, including how the reporting of performance outputs is incorporated.

An assessment of compliance with selected reporting requirements and the format and content of performance reporting are the basis of the Committee's review of annual reports.

### **19.2.1 Compliance with the *Financial Management Act 1994*, the *Standing Directions* and *Financial Reporting Directions* of the Minister for Finance**

Departments and agencies are required to produce annual reports that comply with legislated and government directions. Based on the findings of the 2006-07 Outcomes report, the Committee has selected four FRD's to assess compliance of government departments and transport related public sector agencies (a different agency focus will be used in next years report).

While departmental compliance was assessed against all four FRDs listed below, the remaining agencies have only been assessed against the final three:

- FRD 12A - Major Contracts;
- FRD 22B - Standard Disclosure in the Report of Operations;
- FRD 25 – Victorian Industry Participation Policy Disclosures in the Report of Operations; and
- FRD 29 - Workforce Data Disclosure.

### **19.2.2 Performance reporting**

The reporting of department or agency performance is the interpretation of output data and project and program outcomes. As such, performance reporting needs to be accessible, balancing detail with context while providing accurate and sufficient reporting of the year's activities.

Unlike legislated reporting requirements, performance reporting varies widely from department to department and between agencies. To review performance reporting the Committee used the criteria outlined below to assess how successfully annual reports integrate aspects of performance reporting. Additionally the Committee assessed how annual reports report performance in the context of *Growing Victoria Together*.

The Committee, in reviewing the various approaches taken to performance reporting, used the following reporting expectations that annual reports include:

- performance against the departmental output targets specified in the State budget and provide clear and detailed explanations for variations from these targets;
- an effective and detailed review of a department or agency's performance which identifies and provides detailed analysis of performance against milestones, outcomes and budget targets for significant projects and programs;
- historical performance information as a context for assessing the relative performance of a department or agency. The Committee considers a minimum of at least three years worth of historical data (where available) as necessary for comparative analysis of performance;
- clear and detailed explanations where actual performance varies significantly from the target or the previous years result, including the identification and explanation of the factors that caused the variance and the implications of this in a department or agency's ability to achieve the related output/objective; and
- accessible interpretation of performance data with reference to the intended outcomes. To effectively communicate performance, annual reports should clearly identify and report performance against the goals and objectives established in corporate plans.

## **19.3 Summary of findings**

### **19.3.1 Compliance with the Financial Management Act 1994, Standing Directions and Financial Reporting Directions of the Minister for Finance**

Overall, the Committee was satisfied with the level of compliance from departments and agencies in relation to the requirements of the *Financial Management Act 1994*, SDs and FRDs of the Minister for Finance. Eighteen agencies were reviewed and of these: 10 were departments and seven were transport related agencies.

Of the departmental annual reports reviewed, it was clear that the disclosures had improved from last year. The Committee noted improvements in all annual reports reviewed in relation to organisational charts and the summary of financial information (as required by FRD 22B). The information contained in the Report of Operations of both departments and agencies generally complemented the information presented in the financial statements.

The overall standard of reporting by non-departmental government agencies also improved. However, Committee analysis identified instances where agencies had failed to comply with certain aspects of the FRDs.

The Committee notes that the area of greatest concern regarding annual reports, in the *Report on the 2006-07 Financial And Performance Outcomes*, was in relation to the reporting of Occupational Health and Safety matters (as required by FRD 22B). The 2006-07 inquiry found that only two departments (Department of Education and Early Childhood Development and Department of Justice) had complied fully with this reporting direction.

This year, the disclosures made were only marginally improved – whilst the majority of departments had included a statement on Occupational Health and Safety, only 3 departments had good disclosures in this area. The remaining departments generally included high level information on Occupational Health and Safety policies but failed to mention the performance indicators adopted to monitor such matters or outline the agency’s performance against any such indicators. Results for agencies were similar to that for the departments, with all agencies having some information on high level Occupational Health and Safety policies, but none including detailed information on performance indicators or performance against these indicators.

The 2006-07 Outcomes report included the recommendation:<sup>507</sup>

*That all government agencies identify and report against the full range of performance indicators adopted to monitor Occupational Health and Safety matters, in future annual reports.*

The Government agreed with this recommendation and noted that:<sup>508</sup>

*Current and future Model Reports for Victorian government departments will require that departments disclose Occupational Health and Safety Information in their annual reports.*

The Committee is disappointed that this has not resulted in a greater level of compliance with this element of FRD 22B.

**Recommendation 70:**

**All government agencies identify and report against the full range of performance indicators adopted to monitor Occupational Health and Safety matters as per the requirements of FRD 22B. The *Department of Justice Annual Report 2007-08 Appendix G* provides an excellent example of the type of clear and detailed response to this requirement the Committee expects to see.**

There was a lack of clarity regarding reporting of consultancies valued in excess of \$100,000, as required by *FRD 22B - Standard Disclosures in the Report of Operations*. For five out of the 17 departments and agencies reviewed, it was unclear as to whether the amounts reported for these consultancies included GST despite this being a clear requirement of the Direction. Furthermore, there were inconsistencies in the reporting of the expenditure for the reporting period and total approved project fees for these consultancy arrangements.

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<sup>507</sup> Public Accounts and Estimates Committee, *Report on the 2006-07 Financial and Performance Outcomes*, May 2008, p.666, recommendation 74.

<sup>508</sup> Victorian Government, *Government’s response to the PAEC report No.79, 2006-07 Financial and Performance Outcomes*, p.50.

**Recommendation 71:** All departments and government agencies identify and report individually on each consultancy arrangement greater than \$100,000 as per the requirements of FRD 22B. The Department of Human Services Annual Report 2007-08 page 170 provides an excellent example of the type of clear and detailed response to this requirement the Committee expects to see.

The Committee's review of annual reports for non-departmental government agencies covered three key reporting directions – these being FRDs 22B, 25 and 29. Of the 7 agencies reviewed, the Committee identified that all had failed to address one or more aspects of *FRD 29 - Workforce Data Disclosures*. Furthermore, four agencies provided only the total aggregated number of staff.<sup>509</sup> This issue was also identified in the 2006-07 Outcomes report, where only 27 per cent of agencies assessed fully addressed this Direction. This is a very low level of compliance in relation to this Direction and is still of considerable concern to the Committee. FRD 29 includes detailed information about the minimum reporting requirements, and also provides sample tables to illustrate how the information could be presented. The *Victorian Auditor-General's Office Annual Report 2007-08* provides an excellent example for all smaller government organisations on how to present workforce data.<sup>510</sup>

**Recommendation 72:** All government agencies annually review their reporting responsibilities in relation to the *Financial Management Act 1994*, the *Standing Directions and Financial Reporting Directions of the Minister for Finance*, and put in place controls to ensure that all relevant requirements are addressed fully. The *Victorian Auditor-General's Office Annual Report 2007-08*, page 41-44, provides an excellent example for all smaller government organisations on how to present workforce data.

Other areas of concern that were noted from the Committee's review of annual report disclosures included:

- *FRD 22B – Disclosures in the Report of Operations (consultancies)* – 3 departments did not report clearly on all aspects of the FRD in relation to consultancies – they only provided general aggregated information;
- three out of the seven agencies assessed failed to fully comply with the disclosure requirements of *FRD 25 – Victorian Industry Participation Policy, Disclosures in the Report of Operations*.<sup>511</sup> It was noted that the majority of agencies included details on the total number of contracts (and amount) at an aggregated level, but did not include any information on the regional/metropolitan split, or information on local content, employment and skill/technology transfer commitment. Whilst the rate of compliance had improved slightly since the previous year, the Committee is still concerned with the level of non-compliance with essential aspects of this reporting Direction.

<sup>509</sup> V/Line, Southern and Eastern Integrated Transport Authority, Southern Cross Station Authority, VicTrack provided only aggregated staff numbers

<sup>510</sup> Victorian Auditor-General's Office, *Annual Report 2007-08*, pp.41-44

<sup>511</sup> V/Line, VicRoads, VicTrack failed to comply fully with FRD 25.

### 19.3.2 Performance reporting

A variety of approaches were taken to performance reporting in the annual reports reviewed by the Committee. In assessing the quality of performance reporting the Committee focused upon:

- the integration of numerical reporting of performance outputs with narrative accounts of works undertaken and their outcomes;
- the quality of reporting within the context of the Government's *Growing Victoria Together* vision; and
- the completeness of reporting including provision of historical performance data.

Within an annual report, the presentation of performance data should allow the reader to easily understand the relevance and importance of the data. The most accessible and effective means of doing this involves integrating the performance data with commentary and analysis about the results in relation to the organisation's goals and objectives.

The extent to which performance data was integrated with corporate goals and objectives and with the *Growing Victoria Together* visions varied among reports, as did the level and quality of the commentary. The Committee was pleased to see some departments and agencies using innovative features to enhance performance reporting. While there were some good overall examples of performance reporting, there remains room to improve in 2008-09.

Three approaches were taken to reporting output data and details of performance outcomes. The Committee considers the most successful approach to be that where report chapters fully integrate output performance data within the broader commentary around the achievement of goals and objectives. This approach presents the best opportunity to ensure adequate explanations for variations in performance are provided. In most cases where this approach was used, there was scope for more detailed reporting on project and program outcomes.

The second approach presented output performance data in an initial chapter with commentary and discussion in subsequent chapters. This approach makes the output performance data accessible, but the lack of a clearly established link between the data and commentary of subsequent chapters can make analysis of the performance data difficult.

The third approach involves locating output data in the appendices after the financial report. This has the effect of burying the data in among ancillary information, making it more difficult to locate and associate the output performance data with the relevant commentary in the Report of Operations.

#### **Recommendation 73:**

**Government departments and agencies integrate output performance data and details of performance outcomes within Report of Operations chapters based on high level goals and objectives or *Growing Victoria Together* visions in their 2008-09 annual reports. The Department of Education and Early Childhood Development *Annual Report 2007-08* provides an excellent example of this approach.**

None of the annual reports reviewed stands out on its own as an ideal example of what a government department or agency annual report should look like. However, most were of a high standard and all provided at least a modest attempt to objectively analyse and report the performance of the department or agency involved. A combination of the best features from each of the annual reports reviewed would produce an accessible, detailed and critical account of performance outcomes. Some of the reporting highlights include:

- clear and consistent page formats throughout the report (Department of Education and Early Childhood Development);
- clear explanation and use of strategic objectives to illustrate performance in context (Department of Human Services and Department of Justice);
- identification of future priorities as a conclusion to performance reporting (Department of Planning and Community Development);
- graphic indicators of performance:
  - colour coding performance as positive, stable and negative (Department of Sustainability and Environment); and
  - upward and downward arrows indicating performance trends (V/Line).

However, the Committee found that the standard of reporting of historical data and the identification of performance targets beyond budget output performance measures was either mixed or largely absent. These two reporting aspects are vital if an annual report is to provide credible analysis of a department or agency's performance and a high level of accountability is to be demonstrated to Parliament and the Victorian public. The Committee would like to see all departments and agencies improve their reporting in these two important areas next year and recommends that the Minister for Finance further develop the FRDs to increase the quality and consistency of performance reporting in annual reports along the lines indicated in this chapter.

If departments intend to present performance information in appendices to the report, the Committee considers it prudent that they consider making use of electronic mediums such as CD or DVD to present the financial statements and appendices, thus minimising paper consumption and the consequent environmental impacts.

**Recommendation 74:**

**The Minister for Finance further develop the *Financial Reporting Directions* to enhance the quality and consistency of performance reporting in annual reports including:**

- (a) **a requirement to report detailed performance outcomes linked to corporate objectives and performance measures, and *Growing Victoria Together*;**
- (b) **the inclusion of three years of historical performance data in all reporting (where available); and**
- (c) **guidelines for the incorporation of useful and acceptable graphic indicators of performance.**

### **19.3.3 Timeliness of Reporting**

All Government departments and entities are required by the *Financial Management Act 1994* to make their annual report available to Parliament within four months, or 18 weeks, of the end of the financial year to which they relate. Of the 10 departmental annual reports reviewed by the Committee, all were tabled on the last sitting day prior to the deadline, in this case 30 October.



The Committee’s New Directions in Accountability, Preliminary Report identified that:

*better practice in other jurisdictions, in relation to the timeliness of reporting the financial results of individual agencies to Parliament, is within three months of the end of the financial year. Sweden, British Columbia, New Zealand and Western Australia have this benchmark.*

Table 19.1 compares the date that the Auditor-General issued his opinion on the financial statements with the date of tabling for departments in 2008.

**Table 19.1: Annual Report tabling dates 2007-08**

Department / Agency	Auditor-General’s Opinion Issued	Annual Report tabled in Parliament	Elapsed Time (Days)
Education and Early Childhood Development	5/09/2008	30/10/2008	55
Human Services	9/09/2008	30/10/2008	51
Innovation, Industry and Regional Development	8/09/2008	30/10/2008	52
Justice	25/08/2008	30/10/2008	66
Planning and Community Development	8/09/2008	30/10/2008	52
Premier and Cabinet	18/08/2008	30/10/2008	73
Primary Industries	25/08/2008	29/10/2008	65
Sustainability and Environment	26/08/2008	30/10/2008	65
Transport	29/08/2008	30/10/2008	62
Treasury and Finance	23/09/2008	30/10/2008	37
<b>Average Period between Opinion and Tabling</b>			<b>58</b>

Source: Public Accounts and Estimates Committee

Table 19.1 reveals that all departmental annual reports were tabled in Parliament on either the second last or last sitting day before the deadline established in the *Financial Management Act 1994*.

The average time delay between the Auditor-General issuing his opinion on the financial statements and the annual report being tabled in Parliament was 58 days. The Department of Premier and Cabinet had the longest time delay (73 days) while the Department of Treasury and Finance produced their Annual Report within 37 days.

Departments advised the Committee that the sign-off of financial statements is only one element of preparation for tabling annual reports, and that regardless of the timing of this sign-off, this time is also necessary for preparing the other statutory reporting items, writing, editing, approval, production and printing of the final product.

While the Committee accepts that time is required to complete the Report of Operations and the various other statutory reporting items, development and design work and some of the non-financial information can be prepared prior to the year end. It is the Committee’s belief that when presented a deadline, departments and agencies will work exclusively towards that deadline. In the case of tabling annual reports, the Committee believes that were the deadline to be foreshortened, departments would be capable, as in other worldwide jurisdictions, of preparing their annual reports for tabling within three months of the end of the financial year. The Committee also notes that public companies are required to report within three months of the end of the financial year.

In 2008, Parliament sat on 10 separate days across September and October, providing ample opportunity for annual reports to be tabled before the 30 October deadline. In 2009, as Parliament will sit on six separate days in September and three in October it is the desire of the Committee that departments and agencies table their annual reports within three months of the end of the financial year.

This issue will also be considered in the Committee's *New Directions in Accountability report*, due to be tabled in 2009.

**Recommendation 75:** All departments and agencies table their annual reports within three months of the end of the financial year.

## 19.4 Detailed findings of review

### 19.4.1 Department annual reports

#### ***Department of Education and Early Childhood Development***

The Department of Education and Early Childhood Development annual report is a good example of integrated reporting. The format used is concise and the presentation clear and consistent. However, further use of comparative data would provide the opportunity for more credible and data supported reporting.

Financial and performance outputs formed the core reporting focus. Statistical information was presented in one chapter, which included brief comments next to each output measure explaining reasons for variations. Subsequent chapters addressed major reporting categories with details of key programs and projects underpinning these output targets. While the Committee considers the Department's presentation of target based performance reporting to be amongst the most effective, it would like to see statistical data integrated within the relevant chapters.

Despite the use of extensive comparative data when reporting on *Growing Victoria Together* targets (seven years) the Department has only included data from the previous year for comparison on both financial and performance output reporting. This restricts the scope for critical analysis. The Committee considers that the addition of comparative data to the 2008-09 annual report will improve on its already high standard of reporting.

Highlights of the Annual Report include:

- identified links to *Growing Victoria Together*;
- integrated reporting on financial and performance output reporting; and
- clear presentation.

The Committee would like the Department to consider adopting of the following points in future Annual Reports:

- provide a minimum three years of historical data wherever possible; and
- incorporate further detailed critical assessment of performance.

#### ***Department of Human Services***

The health sector accounted for 27 per cent of the Victorian Government's budget in 2007-08.<sup>512</sup> The difficulty faced by the Department of Human Services, as the department responsible for health services, is that this large amount of budget allocation means a large amount activity to be reported. Consequently, the Annual Report suffers from brevity when compared with other departments. The Committee identified a strong focus on reporting program and project highlights with insufficient focus placed on performance reporting.

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<sup>512</sup> Victorian Budget Overview 2007-08, p.10

The six objectives of the Department's long term strategy form the basis of the Annual Report, with separate chapters based on each objective. The Department uses a four page annotated index for these chapters which is a constructive approach to addressing the quantity of information it has to report.

The report is segmented into chapters addressing departmental objectives, with performance data located in the appendices. The Committee would like to see greater alignment and integration of financial and performance output reporting with the departments identified objectives.

A further highlight of the Department of Human Services Annual Report is the *Responding to Diversity* appendix. This outlines achievements in reducing inequality and significantly, identifies strategies for the forthcoming year.

Highlights of the department's Annual Report were:

- prioritised objectives combining short and long-term targets;
- chapters based on department objectives; and
- a strategic approach to population diversity.

The Committee would like the Department to consider adopting of the following in future Annual Reports:

- identify performance targets and provide comparative data;
- integrate reporting on financial and performance outputs and strategic objectives; and
- critically review department performance and outcomes, including links to future directions.

### **Department of Transport**

As with the Department of Human Services, the size and scope of the Department's activities make clear and concise reporting difficult. Although the longest Annual Report by some 10 per cent, the Department of Transport Annual Report is easy to navigate and contains a significant level of performance data beyond the output performance reporting requirements.

The Committee notes the extensive presentation of performance information in the chapters on Public Safety and Security, and Access and Mobility, but believes that the report could be strengthened by reproducing this type of data in the other chapters of the Report of Operations.

The Department made good use of historical data throughout to identify trends, including specific trend reporting sections in the Environmental Performance Report. Output performance data, while comprehensive, comprising 20 pages, is clearly set out with brief introductory sections and detailed notes to accompany the tables. However, output performance reporting could be further improved with the inclusion of historical data.

As noted in the Committee's Report on the 2006-07 Financial and Performance Outcomes, better use could be made of outcome and program goals and targets to provide a supporting framework on which to hang the 73 pages of information about the activities and achievements of the Department. In addition, the 10 pages of information about the portfolios, ministers, business groups and executive staff could be condensed to help reduce the overall size of the report. The Committee supports and encourages sustainable paper use practices and the use of electronic alternatives across all departments.

Highlights of the department's Annual Report were:

- excellent use of historical information including identifying and analysing trends;
- the use of personal case studies to lighten the document; and
- the inclusion of non-output based performance data in the Report of Operations provides valuable insight into the performance of the Department.

The Committee would like the Department to consider adopting of the following points in future Annual Reports:

- consider ways to make the report more compact
- greater focus on reporting performance against stated objectives; and
- extend the excellent presentation of historical information seen elsewhere in the report to the output performance section.

### ***Department of Innovation, Industry and Regional Development***

The Department of Innovation, Industry and Regional Development Annual Report provides, in addition to the statutory financial and performance information, a detailed review of activities and achievements for the financial year.

The three introductory chapters (Secretary's Foreword, Economic Context, and Role and Structure of the Department) provided an insightful and useful overview of the department and its operating environment. These sections clearly established the role of the Department in relation to the *Growing Victoria Together* visions and explained the links between the operating divisions and the Department's strategic objectives. The report included a number of insightful case studies which emphasised the role of the Department and the impact of its programs.

Performance information was constrained to the appendices which made it difficult to correlate the data with the commentary that appeared in the Report of Operations. The Committee was pleased to note that for the first time in a number of years, the Department detailed performance against the Output Cost measures set out in the budget papers and provided explanations for variations of more than 10 per cent from target on the output performance measures.

The Committee also noted that the Department reverted to an entirely paper based Annual Report while the Financial Statements and Appendices had been provided on CD in 2006-07. This would have almost halved the printed material and delivered corresponding environmental savings. However, the Committee was pleased to note the use of environmentally sustainable paper.

While all Annual Reports were made available on department and agency websites, none of the 2007-08 Annual Reports reviewed by the Committee made use of electronic media such as CD or DVD to reduce the quantity of printed matter used.

Highlights of the Department's Annual Report were:

- detailed breakdown of administered grants;
- inclusion of output cost information and explanations for variances from target; and
- clear and detailed information about the economic context, the strategic objectives and the role and structure of the Department.

The Committee would like the Department to consider adopting of the following points in future Annual Reports:

- outline targets and milestones within the Report of Operations;
- integrate performance data into the main body of the Report of Operations, thus tying it to the operational activities and the strategic outcomes of the Department; and
- make further use of benchmarking and historical data to support the reporting of performance.

## **Department of Justice**

The Committee found the reporting of financial and performance outputs to be detailed and thorough. The Department provided a clear link between output categories and *Growing Victoria Together*, a synopsis of services delivered, a minimum three years of comparative data and detailed commentary that was not limited to explanations for variations.

The Report of Operations provided a narrative account of programs and projects, broadly grouped under three headings:

- *Delivering on Social Reform*, which explored the Department's activities to deliver social reform;
- *Improving our Services*, which explored activities aimed to improve the efficiency and effectiveness of justice systems and services; and
- *Report on Performance*, which examined the performance of the Department in relation to pre-established targets and historical performance.

Under the first two sections, the report addressed activities associated with the five strategic themes identified in the Department's *Strategic Priorities 2008 – A statement of our focus and direction*. The content of these sections was well structured, incorporating concise summaries and detailed contextual information, however, the report would be enhanced with further integration of performance data into this discursive text.

Performance information was generally restricted to the *Report on Performance* section, however, this section provided the most comprehensive analysis and discussion of performance evidenced in any Annual Report reviewed by the Committee. The detailed discussion included in the *Report on Performance* section of the report is a good example to all departments on effective performance reporting.

Highlights of the Department's Annual Report were:

- the most comprehensive analysis and discussion of output performance data of any report reviewed by the Committee;
- a focus on service improvement in addition to the delivery of policy objectives; and
- inclusion of concise and meaningful summary data in the Report of Operations.

The Committee would like the Department to consider adopting the following points in future Annual Reports:

- inclusion of benchmarking data and analysis of performance in comparison with other organisations; and
- inclusion of relevant target and milestone information within the sections on *Delivering Social Reform* and *Improving our Services*.

## **Department of Planning and Community Development**

The Department of Planning and Community Development Annual Report for 2007-08 followed the structure and design of the 2006-07 Department of Victorian Communities Annual Report. This reporting format had a strong focus on reporting performance and achievements in relation to the major outputs/deliverables established in *Budget Paper No.3*, which was retained in 2007-08.

Throughout the Report, performance output information was consistently integrated with detailed summaries of selected programs, explanations for variations and the identification of future priorities. The identification of specific program and project targets in support of performance output information would further enhance the Department's commendable reporting framework.

A major departure from previous reporting practices was the removal of a separate chapter focusing on how the Department delivered its five main objectives.<sup>513</sup> This was replaced by a series of case studies intended to illustrate key activities and programs undertaken during the financial year. While these case studies provided an interesting insight into the focus of the new Department, this section could be enhanced by establishing more explicit links with Department policy, goals and objectives.

The Committee considers that an Annual Report should provide an overview of all significant programs and projects undertaken by a department and it hopes that the Department of Planning and Community Development can find a way to expand the scope of reporting without diminishing the successful reporting format it has developed.

Highlights of the Department's Annual Report were:

- the integrated reporting of project highlights, output performance, variations and future priorities;
- the identification of future priorities; and
- clear presentation of environmental data.

The Committee would like the Department to consider adopting the following points in future Annual Reports:

- incorporation of comparative data from at least three previous years; and
- an expanded commentary on performance beyond explanations of variations.

### **Department of Premier and Cabinet**

The Department of Premier and Cabinet Annual Report focuses on detailing the key operational activities of the various branches and offices within the Department. This enables the reader to establish a clear understanding of the work undertaken by the Department and of responsibilities within the Department. However, it is more difficult to establish the nature of the strategic objectives and targets which inform and direct these activities.

The Report of Operations also includes a number of stand-alone pages which provide case study examples including the work undertaken on specific major initiatives such as; The next stage of the Government's water plan: boosting Victoria's water supplies; and Engaging the community on climate change. These sections provide more detailed information about the progress and development of these initiatives.

A key feature of the Department's Annual Report for several years has been the identification of future plans and activities. The Committee is pleased to note that this feature is being adopted by increasing numbers of departments and agencies in their Annual Reports.

All performance data is contained within the appendices of the Report, and while commentary and analysis are included where required, this is relatively minimal when compared with other Departments. There is little historical or benchmarking data to support the performance data in the report and there is little performance data within the Report of Operations.

Highlights of the Annual Report include:

- information on the key achievements of each business unit;
- information on the future plans and challenges identified by each business unit; and
- case study reports on major Department initiatives.

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<sup>513</sup> Department of Planning and Community Development, *Annual Report 2006-07*, pp.16-39

The Committee would like the Department to consider adopting the following points in future Annual Reports:

- outline targets and milestones within the Report of Operations;
- include relevant performance data to support the achievements and actions detailed in the Report of Operations; and
- make further use of benchmarking and historical data to support the reporting of performance.

### **Department of Primary Industries**

The Department of Primary Industries 2007-08 Annual Report is presented in two parts, the Report of Operations and the Financial Statements and appendices. The main content in the Report of Operations is structured around the Department's six strategic objectives, however, it also contains three easy reference sections at the start of the report, year in review, financial review and strategic review.

The financial statements and appendices present all of the financial and performance data pertaining to the Department's activities. The output performance measures are clear and concise, with adequate explanations provided for variations in performance. Other performance information, while limited to the key requirements of the relevant FRDs, is supported by detailed contextual evaluation.

The Report of Operations is well structured and the content informative about the operations of the Department. It would, however, benefit from the inclusion of the goals, objectives and targets associated with the strategies around which it is structured. This would provide a reference point for readers to assess how well the Department has performed in relation to its own targets. The performance information included in the Report of Operations is not supported by the inclusion of targets, benchmark data or historical data. This severely limits the usefulness of this information.

The inclusion of output performance information in the appendices of the report isolates this information and makes it difficult to link the data to the discussion contained the Report of Operations. This is compounded by the lack of any obvious connection between the corporate strategies around which the Report of Operations is structured and the major outputs/deliverables around which the output measures are structured.

Highlights of the Annual Report include:

- Report of Operations is structured around the Department's corporate objectives, which helps to focus the content on the Department's core activities;
- performance information relating to the 2007-08 financial year is included within the body of the Report of Operations to support and affirm the statements made about the achievements of the Department; and
- the performance data in the financial statements and appendices report is well supported with evaluative commentary and explanations of variances.

The Committee would like the Department to consider adopting the following points in future Annual Reports:

- present clear linkages between *Growing Victoria Together*, corporate strategies and the major outputs/deliverables identified in the budget papers;
- objectives, goals and targets associated with the strategies around which the Report of Operations is structured;
- target, historical and benchmark data to support the performance data in the Report of Operations; and
- providing the financial statements and appendices in an electronic format rather than as a separate book.

## **Department of Sustainability and Environment**

The Department of Sustainability and Environment presented a clear account of its performance measures and outcomes for 2007-08. There is, however, room to improve some aspects, particularly the integration of reporting to achieve a better balance between quantitative and qualitative reporting.

The Committee found the division of performance reporting into environmental, social and Financial Sections to be accessible and easy to understand. This could be further enhanced by being linked directly to the *Growing Victoria Together* visions.

The Department's environmental performance reporting is the most thorough of the three sections, and the Annual Report demonstrates that clear identification of objectives and targets can establish a context and focus for critical performance reporting.

However, the emphasis placed on environmental reporting is disproportionate to other departments and subsequent reporting (social and financial) was not maintained at the same high level. The Committee would like to see DSE approach all of its reporting with the same level of detail and analysis it provides for environmental performance.

The use of targets and critical analysis also allowed DSE, in a small number of instances, to identify actions for next year. For example, energy intensity for 2007-08 rose – against trend – and the Department stated its intention to analyse its energy usage and identify saving opportunities during 2008-09.<sup>514</sup>

The environmental section also facilitated immediate assessment of DSE's performance through the use of colour coded text within tabulated data that highlighted positive, stable and negative performances.

DSE's reporting on programs and projects is extensive and detailed, reflecting the Department's attempt to enhance reporting through the use of 'clearer story telling, analysis and presentation.'<sup>515</sup> However, the narrative accounts did not include a standard method for stating targets, such as that used to underpin the robust reporting in the environmental section.

A number of features in the DSE Annual Report provide a reporting model that sets the standard in Government departmental reporting. In many instances these are developments that DSE have been honing progressively each year.

Highlights of the Annual Report include:

- division of the report into sections which are broadly aligned with *Growing Victoria Together* visions;
- identifying objectives and targets and linking them to Department policies; and
- accessible critical reporting alongside identified objectives and targets, including the use of colour coded text.

The Committee would like the Department to consider adopting the following points in future Annual Reports:

- the quality of environmental performance reporting extended to social and financial sections;
- defined objectives and targets in narrative accounts of projects and programs;
- categorising reporting on programs and projects with the Government's budget format; and
- the reinstatement of comparative data in the Report of Operations.

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<sup>514</sup> Department of Sustainability and Environment, *Annual Report 2007-08*, p.11

<sup>515</sup> *ibid.*, p.8



## **Department of Treasury and Finance**

The Department of Treasury and Finance Annual Report presents an excellent example of integrated performance reporting and the Committee is pleased to note a number of improvements to the layout and content of the 2007-08 report over the 2006-07 report.

As in 2006-07, the Report of Operations is structured around six output groups as established in the budget papers. Each chapter contains a description of the major outputs/deliverables, key projects and initiatives, a summary of output performance and the output data. New for 2007-08 is the inclusion of case studies which reflect the activities and achievements of key programs and initiatives in the Department.

Unlike most departments, the Department of Treasury and Finance does not detail variances in performance in table footnotes. This allows more flexibility in reporting and in some cases provides more detailed information than may be contained within a footnote, however, it does make it more difficult to tie the commentary to the data in the tables. The Department could make better use of historical and benchmarking data to support this performance information.

The Committee was also pleased to note the additional information around the functions and services of the Department which provided useful context to support the performance information which is the focus of the Report.

The appendices of the Report contain the remaining information required by the *Financial Reporting Directions* and the use of graphical charts and diagrams provided a welcome break from the large quantities of tabular data contained in this section.

Highlights of the Annual Report include:

- use of case studies to provide information about key departmental initiatives;
- report structured around the main performance indicators for the Department with clear concise supporting commentary; and
- the inclusion of contextual information about the functions, services and operating environment of the Department.

The Committee would like the Department to consider adopting the following points in future Annual Reports:

- better use of historical and benchmarking data to provide greater opportunity for the reader to view the information presented in context;
- use of colour or other graphical means to identify performance trends, as also used by the Department of Sustainability and Environment; and
- better use of selected non-output based performance indicators.

### **19.4.2 Government agency annual reports**

#### **Port of Melbourne Corporation**

The Statement of Corporate Intent section of the report provides an insight into the future plans of the Port of Melbourne Corporation and set the context for its performance measures, accompanied by forward targets for the subsequent three years.

The inclusion of historical data would have further strengthened the reporting in this section, while more information on the goals and targets associated with the achievements detailed earlier in the report would have enhanced the information presented.

The Committee considers that there is scope to improve reporting against FRD 29, Workforce Data Disclosures.

### ***Southern and Eastern Integrated Transport Authority***

The Southern and Eastern Integrated Transport Authority (SEITA) was established to facilitate the delivery of the Eastlink project. While Eastlink was completed in June 2008, SEITA has maintained an ongoing role to manage the contract with ConnectEast on behalf of the Government.

The Report of Operations focuses on the development and completion of the Eastlink project, including a section entitled *Objectives Accomplished*. However, the information provided does not relate the achievements to project targets or milestones. This would have enabled a greater appreciation of the efficiency or effectiveness with which SEITA activities were undertaken. The Committee encourages SEITA to set achievements against performance indicators in future Annual Reports utilising measures such as timeliness and quality.

### ***Southern Cross Station Authority***

Southern Cross Station Authority (SCSA) is responsible for monitoring and assessing the performance of the private operation of the Southern Cross Railway Station. Given this oversight role, its Annual Report contains sections on corporate governance, operation reports and financial statements.

The SCSA Annual Report identifies six key objectives and the report would be considerably enhanced with the inclusion of performance information regarding the achievement of these objectives, including measures of quantity, quality and timeliness.

### ***Transport Ticketing Authority***

The Transport Ticketing Authority responsible for overseeing the current Metcard public transport ticketing system and the design, build and delivery of a replacement ticketing system. The Transport Ticketing Authority Annual Report identified five performance measures on which its performance is assessed. The identification of targets in the Annual Report is commended by the Committee.

However, the performance measures focus exclusively on the delivery of the new ticketing system and does not take into account performance issues relating to the development of the new ticketing system, nor the oversight of the current ticketing system. Consequently, the Committee would like the Transport Ticketing Authority to include in future Annual Reports, performance measures that measure the progress of the design and building of the new system against targets and the ongoing performance of the existing system.

### ***V/Line***

The presentation of key performance data is enhanced by graphic indicators on how performance compared with the previous year, but would be enhanced by including a minimum of three years comparative data as used by V/Line in reporting reliability and punctuality.

Performance information in the report lacks detail in regard to identified performance targets and as a consequence, the reporting lacks critical analysis.

While the Committee welcomes the emphasis placed on safety, including a list of all serious level crossing incidents, V/Line did not report Occupational Health and Safety information as recommended (Recommendation 74) in *Report on the 2006-07 Financial and Performance Outcomes*.

## **VicRoads**

VicRoads presented one of the most comprehensive and complete Annual Reports of all of the non-departmental agencies reviewed. The report provided key performance indicators for each of the VicRoads *Aims*, supported with a performance summary section explaining the results. The Committee was particularly pleased to note the inclusion of discussion about opportunities for improved performance and the use of a minimum three years of comparative data throughout the report. The report also provides high quality information around the highlights of the year, organisational structures and responsibilities, and corporate governance practices.

Reporting against the requirements of the *Financial Reporting Directions of the Minister for Finance* was complete, with notable improvements from 2006-07, particularly in relation to *FRD 29 – Workforce Data Disclosures*.

## **VicTrack**

The report identifies the relevant government strategies and links VicTrack objectives and goals with the *Growing Victoria Together* visions. The Committee's 2006-07 Outcomes report identified the need for VicTrack to discuss the performance challenges faced in executing its business in addition to reporting achievements.<sup>516</sup> While the content of each chapter is limited to program and project highlights, each chapter in the 2007-08 Annual Report contains a *looking forward* section which at least in part addresses this issue.

Statutory and financial reporting are for the most part complete although the Committee identified only partial reporting in some categories assessed, including Occupational Health and Safety, environment and workforce data and non reporting of FRD 25.

The VicTrack Annual Report did not provide any performance targets or data to analyse its performance.

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<sup>516</sup> Report on the 2006-07 Financial and Performance Outcomes, p.677

## **CHAPTER 20: VICTORIAN AUDITOR-GENERAL'S OFFICE**

### **Key Findings of the Committee:**

- 20.1** During 2007-08, the previous practice of tabling multiple audit reports within compendium reports was replaced by an approach whereby audits are published as a series of discrete reports. As a result, the target of 16 reports for 2007-08 was revised to 31 and as from 2008-09, the performance measure titled 'Major audit reports' has been retitled 'Auditor-General's Reports'.
- 20.2** With an unprecedented 33 reports tabled in Parliament during 2007-08, the Victorian Auditor-General's Office is congratulated for completing a workload that exceeded the revised target of 31.
- 20.3** The Committee noted that 83 per cent of Parliamentarians who responded to the Office's parliamentary survey for 2007-08 (a 40 per cent participation rate was achieved) were satisfied overall with the Auditor-General's reports and services, compared with 90 per cent in 2006-07 (a 30 per cent participation rate was recorded). The number of Parliamentarians who were 'very satisfied' (21 per cent up from 14 per cent in 2006-07) was noted by the Committee.
- 20.4** A large majority of respondents to the parliamentary survey (over 80 per cent) agreed that reports and services produced by the Office provided valuable information on public sector performance, were generally of a high quality, helped to improve public sector administration and generally communicated issues clearly. Positive comments focussed on the quality of the research and planning underpinning the reports, the lack of bias and the professionalism of the Auditor-General and his Office.
- 20.5** While participation of 40 per cent of Members of Parliament in 2007-08 in the Office's annual survey of Parliamentarians was a marked improvement on the 30 per cent recorded in 2006-07, the Office claimed there was nevertheless an opportunity to improve this response rate further, particularly as some jurisdictions had been able to achieve participation in the order of 60 per cent of Parliamentarians.
- 20.6** In terms of measuring client feedback on performance audits, the Office achieved an overall rating of 72 in 2007-08 against a stretch target of 80. This outcome, which represents an average rating over three areas: audit process, audit reporting and the value of the audit to the agency, has remained at a constant level below the stretch target over the past three years.
- 20.7** With regard to measuring client feedback on financial audit services and reports, the Office received an overall client satisfaction rating of 73.4 in 2007-08, which was under the stretch target of 80, but a slight increase from the 2006-07 result.

- 20.8 According to the benchmarking of client feedback on financial audits, specific areas where Victoria was the top ranked Office in 2007-08 related to demonstrating an adequate understanding of client organisations, interacting with client staff in a professional manner, the reasonableness of audit fees and the involvement of senior staff in the audit (in all but the latter case, these top rankings also applied to 2006-07). Areas requiring improvement related to staff being responsive to client needs, the reporting of findings in an accurate and balanced/fair manner and the audit providing value to the client.
- 20.9 The overall voluntary turnover rate for 2007-08 was 27.2 per cent compared to 23.1 per cent for the previous year. Under the umbrella of the newly developed Strategic People and Culture Management Framework, a number of strategies have been implemented to address this issue.
- 20.10 The Office's Annual Report for 2007-08 was tabled on 21 August 2008. The Committee was advised that a priority of the Office was to lead by example and deliver its Annual Report in a timely manner. To enable this to be achieved, systems and processes for ongoing monitoring and the timely acquittal of both financial and non-financial outcomes on a progressive basis throughout the year were set in place.
- 20.11 The overall actual costs for the 29 performance audits tabled in 2007-08 (which included one of the better practice guides titled *Local Government Performance Reporting*) exceeded budget by 4.4 per cent; an outcome that was within the Office's internal target of 10 per cent. For 11 audits, actual costs exceeded the original approved budget by more than 10 per cent. The two largest overruns related to the audits covering the *Implementation of the Criminal Justice Enhancement Program* and *Delivering HealthSMART* where the actual costs incurred exceeded budget by 94.4 per cent and 89.7 per cent respectively. In the first instance, the budget overrun was due to the provision of new information after the end of the audit conduct phase and unplanned changes in staff due primarily to staff turnover. In the second case, in addition to staffing issues, delays were experienced in obtaining access to key information.
- 20.12 In contrast, for four performance audits, actual costs incurred were less than the original approved budget by more than 10 per cent. Audits covering the topics *Maintaining the State's Regional Arterial Road Network* and *Records Management in the Victorian Public Sector* had the largest variations, coming in at 28.3 per cent and 22.1 per cent below budget respectively.
- 20.13 The Office has been successful in reducing the average cost of performance audits, while increasing the number undertaken. Since 2003-04, the average cost of undertaking a performance audit has reduced by 38.8 per cent from \$466,823 (nine performance audits completed in 2003-04) to \$285,896 (29 performance audits tabled including one of the better practice guides) in 2007-08.
- 20.14 In relation to audit fees generated from financial audits, write-offs exceeded write-ons by \$0.252 million in 2007-08, which equates to 1.4 per cent of the Office's total audit fees of \$17.9 million.

- 20.15** The largest increases in audit fees billed in 2007-08 compared to the previous year related to the following categories of clients/financial audits: State Accounts (14 per cent), universities and other educational institutions (13 per cent), regional library corporations (13 per cent) and departments and other independent budget sector agencies (11 per cent).
- 20.16** In terms of assessing the cost effectiveness of the Office's business units, preliminary results from the annual Australasian Council of Auditors-General (ACAG) Macro Benchmarking Survey shows that for 2007-08, the Office performed very well in relation to:
- finalisation of financial audits within four months of the financial year;
  - elapsed time for undertaking performance audits/performance management systems audits;
  - cost per unit output for State/Commonwealth financial audit opinions;
  - total audit costs per \$'000 of public sector assets and per \$'000 of public sector transactions; and
  - total financial audit costs per \$'000 of public sector assets and per \$'000 of public sector transactions.

## 20.1 Introduction

The Committee has identified a number of matters relating to financial and performance outcomes of the Victorian Auditor-General's Office for 2007-08 that are explained in the following sections of this chapter. These sections are aligned to key result areas identified in the Office's Strategic Plan covering the period 2007-08 to 2009-10, namely:

- Reports and advice;
- Parliament;
- Clients;
- People; and
- Organisation.

The Committee believes that its analysis of various outcomes derived in the initial year of the strategic plan may be useful in assisting the Office continuously improve its performance during the final two years of the Plan's three year duration.

## 20.2 Reports and advice

### 20.2.1 Major audit reports

During 2007-08, the target for the performance measure ‘major audit reports’ increased from the 16 disclosed in the budget papers<sup>517</sup> to 31<sup>518</sup> due to a change in approach adopted by the Office to tabling reports. This change involved single reports within compendiums being published as a series of discrete reports.<sup>519</sup> A summary of the reports tabled in 2007-08 compared to the target is shown in Table 22.1.

The Office is to be complimented for producing an unprecedented 33 **reports** for tabling in 2007-08 compared to the target of 31; an outcome which far surpasses past performance of the Office in this core area of the Office’s operations.

The reasons for the difference between the target set for 28 performance **audits** to be completed in 2007-08 as identified in the Office’s *Annual Plan 2007-08* (equating to 28 individual reports to Parliament) and the actual number of 25 **reports** tabled in 2007-08 are explained below:

- 24 performance **audits** identified in the Annual Plan were tabled in 21 **reports** to Parliament;
- of the four remaining performance audit **reports** tabled in separate reports, these comprised one replacement audit explained in note (a) to Table 22.1 and three new performance audits described in note (c) to Table 22.1;
- of the four proposed performance **audits** not completed in 2007-08, the background to these is explained in the notes (a) and (b) to Table 22.1.

**Table 20.1: Victorian Auditor-General’s Office Reports tabled compared to target 2007-08**

Audit Products:Reports tabled	Target	Actual
	2007-08	
Performance audit reports (a), (b) and (c)	28	25
Better Practice Guides	0	4
Report on examination of the State’s finances	1	1
Reports on financial audit results (d)	2	3
<b>Total products tabled</b>	<b>31</b>	<b>33</b>

- Notes:
- The proposed audit ‘Effectiveness of Workforce Management in Corrections Victoria’ identified in the Annual Plan 2007-08 was replaced by the audit ‘Services to Young Offenders’.
  - Of the three other performance audits that were identified in the Annual Plan 2007-08 but not completed during 2007-08, two were removed from the program after consultation with the Public Accounts and Estimates Committee and another was delayed and was scheduled for tabling in 2008-09 (refer to section 22.6.3 for further details).
  - Includes the following additional performance audit reports not included in the Annual Plan 2007-08: ‘New Ticketing System Tender’; ‘Discovering Bendigo Project’ – carried forward from 2006-07; and ‘Patient Safety in Public Hospitals’.
  - Comprises the following reports on financial results: “Results of Financial Statement Audits for Agencies with 30 June 2007 Balance Dates”; ‘Results of Audits for Entities with other than 30 June 2007 Balance Dates’ and the additional report titled ‘Local Government: Results of the 2006-07 Audits’.

Source: Victorian Auditor-General’s Office, Annual Report 2007-08, pp.8, 9 and 12

<sup>517</sup> Budget Paper No.3, *Service Delivery 2007-08*, p.259

<sup>518</sup> Victorian Auditor-General’s Office, *Annual Report 2007-08*, p.8

<sup>519</sup> *ibid.*, p.8 note (b)

As a result of the change in approach from the tabling of single reports within compendiums to a series of discrete reports, the Committee noted that in terms of 2008-09, the quantitative performance measure contained in the budget papers was changed from 'Major Audit Reports' to 'Auditor-General's Reports'.<sup>520</sup> This change in description was necessary because not all of the products counted in this measure as discrete items can be regarded as 'major audit reports' e.g. better practice guides or small performance audits.

### **20.2.2 Product mix of the Office – Better Practice Guides**

The Committee noted that in terms of promoting continuous improvement in the Victorian public sector, the Office produced the following better practice guides as a by-product of performance audits during 2007-08:

- Public Sector Procurement: Turning Principles into Practice;
- Local Government Performance Reporting: Turning Principles into Practice;
- Planning Scheme Amendment: Assessment Checklist; and
- Planning Permit Application: Assessment Checklist.

The Committee commends the Office for the production of these guides as they provide very useful guidance material to interested parties.

In inquiring about the criteria used to determine the number of better practice guides to be prepared and tabled in Parliament in a particular year, the Office advised that this form of audit product is produced where a performance audit or series of performance audits have 'lessons learnt' that form better practices and principles which the Office considers would enhance the performance of the broader public sector in that area.<sup>521</sup>

The Committee also learned that client surveys conducted by the Office had shown substantial support for these products from agencies in the Victorian public sector - an outcome that was consistent with the experiences of the other comparable audit jurisdictions in Australia.<sup>522</sup>

The Committee believes that feedback from client agencies that have accessed better practice guides prepared by the Office should be documented into a formal indicator to measure and report the extent to which the release of such guides has been beneficial to those parties that have an interest in those particular subject areas.

#### **Recommendation 76:**

**The Victorian Auditor-General's Office develop a performance indicator to measure whether better practice guides produced by the Office have been of use to those parties that have chosen to access these documents for guidance.**

#### **Recommendation 77:**

**The Victorian Auditor-General's Office disclose information in its annual report relating to the success or otherwise of the Office electing to prepare better practice guides.**

<sup>520</sup> Budget Paper No.3, *Service Delivery 2008-09*, p.271

<sup>521</sup> Victorian Auditor-General's Office, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, received 8 December 2008, p.14

<sup>522</sup> *ibid.*



## 20.3 Parliament

### 20.3.1 Survey of Parliamentarians

The Committee examined with interest the results of the annual Victorian Auditor-General's Office survey of Victorian Parliamentarians. The Committee noted that 40 per cent of Parliamentarians answered the 2007-08 survey compared with 30 per cent for the previous year's survey.<sup>523</sup>

In relation to the 2007-08 parliamentary survey, the Committee noted that 83 per cent of Parliamentarians were satisfied overall with the Auditor-General's reports and services, compared with 90 per cent in 2006-07, and that according to the Auditor-General the survey returned positive results overall.<sup>524</sup>

With regard to the five questions from the Office's Parliamentary survey Questionnaire that were benchmarked against other audit offices, the Committee was informed that the benchmarking agreement with other offices does not allow the Office to disclose the results of the other offices.<sup>525</sup> Victoria's rankings against broad areas are disclosed in Table 22.2.

In interpreting these results, the Auditor-General's Office brought to the Committee's notice that:<sup>526</sup>

- these results compare the frequency of respondents agreeing to these questions, and do not take into account the shift for several participants from 'Agreeing' to 'Strongly Agreeing' with the favourable statements in the questions; and
- last year, Victoria ranked well when benchmarked against other States in this survey. However, the introduction of a small cohort of strongly dissatisfied clients has affected Victoria's ranking in 2007-08.

Despite these limitations, the Committee believes that the Office will need to be conscious of the need to continually assess whether it provides valuable information on public sector performance and communicates issues clearly, especially in view of the performance audits undertaken each year that are directed at examining the adequacy of processes and systems as distinct from assessing effectiveness.

**Table 20.2: Victorian Auditor-General's Office Survey of Parliamentarians  
Results benchmarked with other Australian audit offices  
2007-08**

Survey Question	VAGO Ranking (1 = Top 4 = Bottom)
The Office's reports and services provide valuable information on public sector performance	4
The Office's reports and services help improve public sector administration	2
In general, the Office provides high quality reports and services	3
In general, the Office's reports communicate issues clearly	4
Overall, how satisfied are you with the Office's reports	3

Source: Victorian Auditor-General's Office, *Response to the Committee's Financial and Performance Outcomes Questionnaire 2007-08 - Part One*, p.22

<sup>523</sup> *ibid.*, p.23

<sup>524</sup> Victorian Auditor-General's Office, *Annual Report 2007-08*, p.20

<sup>525</sup> Victorian Auditor-General's Office, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, received 8 December 2008, p.22

<sup>526</sup> *ibid.*

In relation to the improvement in the number of Parliamentarians who were 'very satisfied' (21 per cent up from 14 per cent in 2006-07),<sup>527</sup> the Committee was interested in understanding which aspects of the reports they were particularly satisfied with. A large majority of respondents (over 80 per cent) agreed that reports and services provided valuable information on public sector performance, were generally of a high quality, helped to improve public sector administration and generally communicated issues clearly. Positive comments focussed on the quality of the research and planning underpinning the reports, the lack of bias and the professionalism of the Auditor-General and his Office.<sup>528</sup> The Committee commends the Office for achieving this positive outcome.

Conversely, with regard to the small cohort (less than 5 per cent) who were 'very dissatisfied',<sup>529</sup> a small number of respondents provided negative comments on the Auditor-General's reports and services. These tended to focus on the need to be clearer in identifying under performance. Respondents mentioned the scope and topic of the audit, the clarity and format of the report, the inclusion of factual data and the timeliness of the report as key factors influencing their satisfaction.<sup>530</sup> The Committee considers that although these criticisms originated from a minority of respondents to the parliamentary survey, there would be value in these matters being kept in mind when undertaking performance audits.

The Committee was informed by the Office that experience in other jurisdictions suggests that audit office performance against the expectations of Members of Parliament often improves in response to broader and more active liaison with all Parliamentarians. As such, the Office will continue to support the Auditor-General in strengthening his approach to Parliamentary liaison in 2008-09, providing more information on both the role of audit and relevant audit findings to Members.<sup>531</sup> The Committee considers that the approach adopted for strengthening the level of Parliamentary liaison needs to be documented in an action plan which should be made public to ensure it represents the interests of Parliamentarians.

The Office also indicated that the expectations of all Members of Parliament would be better addressed through a greater participation rate by Parliamentarians to the Office's annual survey. As indicated earlier, while the participation rate in 2007-08 of 40 per cent was a marked improvement on the 30 per cent recorded in 2006-07, the Office claimed there was nevertheless an opportunity to improve this response rate further, particularly as some jurisdictions achieved participation of around 60 per cent of Parliamentarians.<sup>532</sup>

The Committee encourages all Members of Parliament to participate in the annual survey issued by the Victorian Auditor-General's Office. In order to boost the level of feedback received from Parliamentarians to the Auditor-General's annual survey, the Committee considers the Office should develop a performance measure and target associated with the response rate to the survey and disclose the findings each year in its annual report.

**Recommendation 78:**

**The Victorian Auditor-General's Office develop and publish a performance measure and target associated with the response rate achieved in terms of the annual survey of Parliamentarians.**

**Recommendation 79:**

**An action plan for broader and more active liaison by the Auditor-General with all Parliamentarians be made transparent to ensure it is representative of Parliamentary interests.**

<sup>527</sup> Victorian Auditor-General's Office, *Annual Report 2007-08*, p.20

<sup>528</sup> Victorian Auditor-General's Office, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, received 8 December 2008, p.22

<sup>529</sup> Victorian Auditor-General's Office, *Annual Report 2007-08*, p.20

<sup>530</sup> Victorian Auditor-General's Office, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, received 8 December 2008, p.22

<sup>531</sup> *ibid.*, p.23

<sup>532</sup> *ibid.*

## 20.4 Clients

### 20.4.1 Quality – client feedback on performance audits

Against a stretch target of 80, the Victorian Auditor-General’s Office achieved an overall rating of 72 in 2007-08 for performance audits. This outcome, which represents an average rating over three areas: audit process, audit reporting and the value of the audit to the agency,<sup>533</sup> has remained at a constant level below the stretch target over the past three years.

In placing this outcome in context, the Office advised the Committee that an audit report that contained adverse findings was more likely to generate negative feedback from a client compared to an audit report that disclosed positive findings. As a result, when considering client feedback, it is important to also consider the basis on which that feedback has been formed.<sup>534</sup> The Committee noted that, while the nature of performance auditing is vastly different to that of financial auditing, the stretch target for performance audits of 80 was set at the same level to that of financial audits.

Table 20.3 shows a summary of scores over the past three years for performance audits.

**Table 20.3: Victorian Auditor-General’s Office Client feedback scores on performance audits 2005-06 to 2007-08**

Process			Reporting			Value			Average		
2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
75	68	74	75	76	75	64	67	68	71	70	72

Source: Victorian Auditor-General’s Office, *Response to the Committee’s 2007-08 Financial and Performance Outcomes Questionnaire - Part One*, p.11

Based on the consideration by the Office’s Senior Management Group in September 2008 of these results and a range of other insights arising from the 2007-08 survey process, including qualitative information derived from interviews, the following actions for 2008-09 were approved at that time and communicated to the Office’s Audit Committee:<sup>535</sup>

- to drive improvement in **audit process** and **reporting**, the Office encourage greater consistency of approach, through training and a tighter focus on compliance with the Office’s performance audit methodology. This methodology (known as AmP) addresses many of the areas aimed at driving more positive survey results in audit process and reporting, in particular the provision of feedback on issues as they arise and ensuring the maximum opportunity for audit clients to comment on draft audit reports;
- to drive improvements in the **value of audits** to clients, the Office implement a revised topic selection framework, with a greater emphasis on risk and community expectation, and a more robust and transparent methodology. This focus is designed to improve the relevance of audit findings and recommendations to the audited agencies; and
- to further improve stakeholder feedback on **audit reporting**, guidance materials and training provided to performance audit staff be revised, focussing on improvements to the clarity and format of reports.

<sup>533</sup> Victorian Auditor-General’s Office, *Annual Report 2007-08*, p.12

<sup>534</sup> Victorian Auditor-General’s Office, response to the Committee’s 2007-08 Financial and Performance Outcomes Questionnaire, received 8 December 2008, p.11

<sup>535</sup> *ibid.*

Bearing in mind that all of the scores achieved over the past three years relating to client feedback on performance audits have been below the stretch target of 80 and the contextual factors outlined by the Office that are influenced by the nature of auditing, the Committee has formed the view that it would be beneficial for the Office to discuss with other audit jurisdictions that participate in the national benchmarking project:

- the appropriateness of persevering with the stretch target set at 80 for assessing the quality of performance audits. Based on this feedback, there may be a need to reduce this target in future, especially as the Auditor-General acknowledged in his Office's annual report for 2007-08 that *'our performance is measured against a stretch target of 80, which would represent a very high level of satisfaction with our performance audit; and'*<sup>536</sup>
- any good practices that have been employed to achieve a high level of client acceptance in this area, a practice which the Committee notes has been adopted by the financial audit business unit of the Office (refer to section 22.4.2 of this chapter).<sup>537</sup>

**Recommendation 80:** **Given the nature of performance auditing, the Victorian Auditor-General's Office initiate discussion with the other audit jurisdictions that participate in the national benchmarking exercise on whether the stretch target for satisfaction with performance audits that has been set at 80 remains relevant or should be reduced.**

**Recommendation 81:** **Good practice ideas implemented by those offices that benchmark very well in terms of client feedback on performance audits be investigated by the Victorian Auditor-General's Office.**

**Recommendation 82:** **As a further action to improve client feedback scores on performance audits, the Victorian Auditor-General's Office consider whether there is scope for strengthening avenues for communicating with clients and obtaining feedback on matters relating to process, reporting and providing value from the performance audit function.**

#### **20.4.2 Client feedback on financial audit services and reports**

The Committee noted that the Victorian Auditor-General's Office received an overall client satisfaction rating of 73.4 in 2007-08, which was under the stretch target of 80, but a slight increase from the 2006-07 result.<sup>538</sup>

Eighteen questions from the Office's financial audit client survey questionnaire were benchmarked against other audit offices. Although the benchmarking agreement with other offices does not permit the Office to disclose the results of the other offices, the Office was able to disclose Victoria's rankings against broad areas.<sup>539</sup>

<sup>536</sup> Victorian Auditor-General's Office, *Annual Report 2007-08*, p.12

<sup>537</sup> Victorian Auditor-General's Office, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, received 8 December 2008, p.21

<sup>538</sup> Victorian Auditor-General's Office, *Annual Report 2007-08t*, p.29

<sup>539</sup> Victorian Auditor-General's Office, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, received 8 December 2008, p.20

With regard to outcomes achieved from the benchmarking survey in 2007-08, the Office advised the Committee that financial audit clients ranked the Office in the top half of the benchmarking group for 14 out of the 18 questions, compared to 10 out of 18 in 2006-07.<sup>540</sup> More specifically:<sup>541</sup>

- in relation to process, the Office ranked in the top half of respondents for eight out of nine questions in this area;
- with regard to reporting, the Office ranked in the top half of respondents for five out of seven questions in this area; and
- in relation to providing value, the Office ranked in the top half of respondents for one out of two questions in this area.

Benchmarked results for the years 2005-06 to 2007-08 are shown in Table 22.4. Analysis of these trends by the Committee revealed that:

- Victoria was the top ranked Office in 2007-08 in demonstrating an adequate understanding of client organisations audited, interacting with client staff in a professional manner, the reasonableness of audit fees charged relative to the level of audit activity and the involvement of senior staff in the audit (in all but the latter case, these top rankings also applied to 2006-07);
- in terms of process, with the exception of audit staff being responsive to client needs which has deteriorated significantly compared to other jurisdictions, Victoria has continued to be one of the leaders in all of the other areas surveyed;
- with regard to reporting, while improvement was shown in some areas such as in relation to the presentation of management letters and the timely issuing of audit opinions on financial statements, an area of concern was that Victoria ranked poorly compared to other audit offices in relation to reporting findings to parliament in an accurate and balanced/fair manner; and
- in assessing value to the client agency derived from the financial audit, a worrying outcome was that Victoria continued to be an average to low performer.

In terms of the above criticisms, the Committee considers that in interpreting the results, one needs to be conscious of the fact that an effective Auditor-General, fulfilling his independent mandate to the fullest and reporting without fear nor favour, could to some extent have an adverse effect on the degree of satisfaction reported by clients through survey results.

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<sup>540</sup> *ibid.*, p.21

<sup>541</sup> *ibid.*

**Table 20.4: Victorian Auditor-General's Office Financial audit client feedback scores benchmarked to other jurisdictions 2005-06 to 2007-08**

Survey Question	VAGO Ranking (1 = Top 5= Bottom)		
	2005-06	2006-07	2007-08
<b>Process</b>			
Communication between the auditors and our organisation was effective.	4	1	2
The auditors demonstrated an adequate understanding of our organisation.	2	1	1
The auditors demonstrated that they had the professional skills and knowledge required to conduct the audit.	3	2	2
The auditors' interaction with our organisation's staff during the audit was conducted in a professional manner.	2	1	1
The Office's audit fees are reasonable relative to the level of audit activity undertaken.	1	1	1
The Office's audit program was undertaken in a timely manner.	2	2	2
Audit staff were responsive to our needs.	2	1	4
Senior audit staff were appropriately involved in the audit.	2	2	1
There was adequate continuity of audit staff on our audit.	2	1	2
<b>Reporting</b>			
Our organisation was provided with an adequate opportunity to comment on the audit findings and issues before the finalisation of the Office's management letters.	2	4	3
The Office's management letters clearly communicated the audit findings and issues.	4	5	3
The Office's management letters presented the audit findings and issues in a balanced/fair manner.	3	4	2
The Office's management letters were issued in a timely manner.	2	3	2
The Auditor-General's audit opinion was issued in a timely manner.	4	4	2
The Office's reports to Parliament that related to our organisation presented the audit findings and issues in an accurate manner.	3	5	4
The Office's reports to Parliament that related to our organisation presented the audit findings and issues in a balanced/fair manner.	3	5	4
<b>Value</b>			
The Office's financial audit services make a valuable contribution by providing our organisation with a sense of assurance.	3	4	3
The Office's observations and/or recommendations have the potential to improve the financial management of our organisation.	4	4	4

Source: Victorian Auditor-General's Office, *Response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire - Part One*, p.20

In view of these results, the Committee was interested in hearing about the remedial actions implemented or planned to address areas where improvement was shown to be necessary. The Office indicated that a number of actions were put in place to address the 2006-07 financial audit client survey findings, particularly to address the room for improvement in feedback received from clients in the areas of audit reporting and audit value. In response, both these areas showed improvement in 2007-08 results. These strategies included:<sup>542</sup>

- the Office's financial audit 'smoothing' initiative led to more timely issuing of management letters, greater use of interim management letters and greater use of other audit reporting tools such as client strategies and closing reports;
- all financial audit communication pro-formas were reviewed in 2007-08 for greater clarity and to better meet client needs;
- financial Audit Directors with higher than average positive client survey results in the area of reporting presented on their approaches at regular Directors meetings;
- survey results were provided in a more timely fashion and with more individual data to allow Directors to liaise more effectively with their clients on issues arising from the survey; and
- the Office's reporting templates were reviewed, with a greater emphasis placed on recommendations.

The Committee also learnt that in 2008-09, a number of further strategies had been initiated to address issues arising from the 2007-08 financial audit client surveys. These included:<sup>543</sup>

- continued emphasis on earlier and more disaggregated survey information to allow Directors to engage more effectively on a one-to-one basis with clients. For example, for the first time since 2005, recent survey results will be available for discussion at the Audit Service Provider Forum held in December each year, where private sector firms are briefed on key audit issues for the cycle ahead;
- to address ongoing concern over the level of audit fees, the Office will provide more information to clients on the basis of the fees, informed by a review of fees charged in other comparable jurisdictions and sectors. The client survey was revised in 2008-09 to include a question to evaluate whether this communication has been successful;
- the Office will seek ideas for good practice in audit reporting from those audit offices that benchmark very well, particular in the areas of the form, content and timing of communication with boards and management; and
- to improve client perceptions of responsiveness, the Office has placed greater emphasis on the 'gatekeeper' role of Financial Audit Directors in 2008-09, shifting more of the routine audit workload to audit teams and therefore increasing access to these senior staff for audit clients.

As in 2007-08, these initiatives are linked to Group business plans and will be tracked at regular Senior Management Group meetings.<sup>544</sup>

The Committee is of the view that as the Office's financial audit responsibilities extended over more than 600 organisations for 2007-08,<sup>545</sup> to enhance the quality of analysis of client feedback on financial audits and reports in future, the Office categorise client survey results according to the materiality of agencies and level of risk.

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<sup>542</sup> *ibid.*

<sup>543</sup> *ibid.*

<sup>544</sup> *ibid.*

<sup>545</sup> Victorian Auditor-General's Office, *Annual Report 2007-08*, p.26

Given that the Office engages a number of financial audit service providers to work on a large number of financial statement audits as agents of the Auditor-General (18 audit firms for 2007-08 at a cost of \$8,614,000<sup>546</sup>), the Committee maintains that the level of disclosure regarding feedback derived from financial audit clients would be improved by the Office revealing any areas where the level of dissatisfaction is significantly higher for financial audits carried out by audit service providers compared to in-house staff.

**Recommendation 83:** **Given the very wide coverage of financial audits undertaken by the Victorian Auditor-General's Office throughout the public sector, the quality of analysis of client feedback on financial audits and reports would be enhanced if client survey results are categorised in future according to the materiality of agencies audited and the level of risk.**

**Recommendation 84:** **The Victorian Auditor-General's Office publicly disclose a commentary on the level of client satisfaction in relation to audits performed by audit service providers compared to in-house staff.**

## 20.5 People

### 20.5.1 Staff turnover

By way of background, the Committee drew attention to the level of staff turnover in the Office in its previous Report on the 2006-07 Financial and Performance Outcomes. Among other things, the Committee reiterated the finding of the performance auditor of the Office in 2007 that:

*'even by the high levels of attrition typically experienced by private sector firms (it has not been unusual for audit firms to operate with an annual staff turnover of 20 per cent),<sup>547</sup> the Office has suffered a disconcertingly high staff turnover in the past 18 months...exit questionnaires completed by 31 of the staff who left the Office during the past 18 months showed that a large number cited lack of opportunities for career development as their principal reason for moving on'.<sup>548</sup>*

In terms of the Committee's current inquiry, the Committee noted that overall voluntary turnover rate for 2007-08 was 27.2 per cent compared to 23.1 per cent for the previous year.<sup>549</sup>

The Committee was interested in exploring how this level of staff turnover compared with other comparable jurisdictions/benchmarks and hearing from the Office about the acceptability of this level of staff turnover.

Similar to assessing cost-effectiveness, the Committee learnt that the most relevant benchmark associated with measuring staff turnover was sourced from the ACAG annual *Macro Benchmarking Survey* for 2007-08. This survey measures overall attrition as a percentage of full-time equivalent (EFT) for permanent staff only (excluding Executive Officers), and therefore does not compare directly to the Office's figures in its Annual Report for 2007-08.<sup>550</sup>

<sup>546</sup> *ibid.*, p.50

<sup>547</sup> Mr John Phillips, Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General's Office, November 2007, p.90

<sup>548</sup> Public Accounts and Estimates Committee, *Report on the 2006-07 Financial and Performance Outcomes*, May 2008, p.722

<sup>549</sup> Victorian Auditor-General's Office, *Annual Report 2007-08*, p.42

<sup>550</sup> Victorian Auditor-General's Office, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, received 8 December 2008, p.25



Using the ACAG survey criteria, the Office advised that its overall 2007-08 attrition rate, as a percentage of EFT, was 28 per cent, which was above the average across all audit offices of 24 per cent, though comparable with other offices employing staff on general public sector terms and conditions. According to the Office, the main drivers behind the level of its staff turnover in 2007-08 were a number of departures in the Corporate Services and Financial Audit groups. The Office indicated, however, that it should be noted that attrition in the Financial Audit group of the Office had reduced significantly compared to 2006-07.<sup>551</sup>

In determining that the level of staff turnover experienced on 2007-08 needs to be addressed, the Office advised that further strategies and activities were implemented to reduce the attrition rate going forward.<sup>552</sup>

The Office drew the Committee’s attention to its *Strategic Plan 2007-08 to 2009-10*, which identifies ‘People’ as a key result area and the strategic objective of ‘Being an employer of choice’ to be achieved. A Strategic People and Culture Management Framework (SPCMF) has been developed to support this objective. The SPCMF identifies a number of strategies and activities, including those to address staff turnover, such as:<sup>553</sup>

- improved workforce (including recruitment) and succession planning;
- revising the learning and development framework to assist career planning; and
- responsive employment conditions and revising the health, safety and wellbeing program.

In monitoring the continued relevance of its Strategic People and Culture Management Framework, the Committee believes the Office needs to evaluate whether its strategies to reduce the level of staff turnover are reflective of the factors contributing to staff exiting the organisation and are proving to be effective.

**Recommendation 85:**                                 **Within the next 18 months, the Victorian Auditor’s Office provide to the Public Accounts and Estimates Committee an assessment of whether the strategies under its Strategic People and Culture Management Framework have been effective in combating high staff turnover in the Office.**

## **20.6 Organisation**

### ***20.6.1 Timely preparation and tabling of Annual Report***

Given that the Office’s Annual Report for 2007-08 was tabled on 21 August 2008, the Committee was interested in obtaining an understanding of any innovative ideas introduced by the Office that enabled this outcome to be achieved. Sharing of such initiatives could assist other agencies improve their performance in this area. The Committee is of the belief that all agencies should be able to table their annual reports within three months of the end of the financial year.

The Committee was advised that a priority of the Office was to lead by example and deliver its Annual Report in a timely manner. To enable this to be achieved, systems and processes for ongoing monitoring and the timely acquittal of both financial and non-financial outcomes on a progressive basis throughout the year were set in place.<sup>554</sup>

Importantly, the focus of the Annual Report according to the Office was to provide a performance acquittal against the Office’s deliverables, rather than using it as a broader marketing tool which may detract from reporting of the core financial and performance requirements in a timely manner.<sup>555</sup>

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<sup>551</sup>     ibid.

<sup>552</sup>     ibid.

<sup>553</sup>     ibid.

<sup>554</sup>     ibid., p.2

<sup>555</sup>     ibid.

The Committee reiterates its continuing view that departments and agencies need to ensure that their annual reports are tabled in an earlier timeframe. The outcome achieved by the Victorian Auditor-General's Office in this regard should be used as a benchmark for the public sector. Further comment along these lines is included in Chapter 19 of this report. This issue will also be considered in the Committee's *New Directions in Accountability* report, due to be tabled in 2009.

### 20.6.2 Cost of performance audits

The Committee noted that the overall actual costs for the 29 performance audits tabled in 2007-08 (which included one of the better practice guides titled *Local Government Performance Reporting*) exceeded budget by 4.4 per cent; an outcome that was within the Office's internal target of 10 per cent. For 11 audits, actual costs exceeded the original approved budget by more than 10 per cent.<sup>556</sup> Table 20.5 shows these variances for each audit together with the reasons for each variance.

**Table 20.5: Victorian Auditor-General's Office Performance audits original approved budget exceeded by more than 10 per cent costs and reasons**

Audit	Actual cost greater than budget %	Reason for unfavourable variance		
		(a)	(b)	(c)
Implementation of the Criminal Justice Enhancement Program (CJEP)	94.4		X	X
Delivering HealthSMART – Victoria's whole-of-health ICT strategy	89.7	X		X
Project Rosetta (Streams 1 and 2)	40.7	X		X
Performance Reporting by Public Financial Corporations	24.3		X	x
Funding and Delivery of Two Freeway Upgrade projects - Concession Notes	23.8			X
Review of South East Water's Works Alliance	23.8		X	x
Parliamentary Appropriations: Output Specifications	22.9			X
Management of Specific Purpose Funds by Public Health Services	19.2			X
The New Royal Women's Hospital – a public private partnership	15.2	X		
Performance Reporting by Local Government	15.0			X
Funding and Delivery of Two Freeway Upgrade projects - Calder Tullamarine Interchange	11.9			X

Notes: (a) *Delays experienced in obtaining access to key information.*

(b) *Delays experienced in finalising preliminary and proposed audit reports due to new information being introduced and/or provided by the client after the end of the audit conduct phase.*

(c) *Unplanned changes in staff due primarily to staff turnover, especially at the engagement leader and audit manager level, which necessarily led to some duplication of effort, and in some cases to the need to deploy higher cost resources than originally planned.*

Sources: *Victorian Auditor-General's Office, Response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire - Part One, pp.3-4 and Attachment A (for question 2.1a)*

In relation to delays experienced in gaining access to Cabinet material, the Committee was informed that with regard to the planned performance audit report that was not able to be completed in 2007-08, this audit covering the 'Buy-back of Intra-State Rail Infrastructure' was adversely impacted by multiple delays and difficulties in obtaining access to Cabinet-In-Confidence and other material during the conduct phase of the audit.<sup>557</sup>

<sup>556</sup> *ibid.*, p.3

<sup>557</sup> *ibid.*, p.5

In addition to addressing this issue with the Secretary of the Department of Premier and Cabinet (DPC) and separately with departmental secretaries in May 2008, the Auditor-General's Office understands that the Secretary of DPC has reinforced his message with all secretaries, and they are now on notice that any future delays will result in the Office resorting to using the provisions of Section 11 of the *Audit Act* 1994. This section gives the Auditor-General the power to call for persons and documents to appear before him and to produce to him all such documents in the possession, custody or control of such a person as appear to be necessary for the purposes of their examination. The Auditor-General has also raised the Office's experience in accessing Cabinet in Confidence material with the Minister for Finance and Audit Committee Chairs.<sup>558</sup>

The Committee noted the following views of the Auditor-General on this issue that were included in the Office's Annual Report:<sup>559</sup>

*...over the year just ended, there has been a worrying trend in a few agencies to delay the provision of relevant documentation to VAGO in the course of our audits. Obstructions to the audit process directly affect the cost and timeliness of our audit program. They also delay the provision of advice and assurance to the Parliament. I have communicated my concerns at several forums and emphasised that cooperation with the audit process is an essential aspect of public sector accountability in Victoria.*

*In this respect, I have been comforted by the assurances I have since received of future agency cooperation. I am also pleased that recent collaboration with the Department of Premier and Cabinet is likely to minimise delays through the development of more explicit protocols protecting the Victorian Auditor-General's Office's timely and unfettered access to crucial documents.*

The Committee wishes to be kept informed if the Auditor-General experiences any difficulties in completing planned performance audits due to delays experienced in accessing Cabinet in Confidence material deemed necessary to discharge his legislative mandate.

In contrast to budget overruns, the Committee also observed that for four audits, actual costs were below the original approved budget by more than 10 per cent. These audits were:<sup>560</sup>

- Maintaining the State's Regional Arterial Road Network (28.3 per cent);
- Records Management in the Victorian Public Sector (22.1 per cent);
- Planning for Water Infrastructure in Victoria (15 per cent); and
- Funding and Delivery of Two Freeway Upgrade projects - Westgate Monash Upgrade (13.6 per cent).

The Committee believes the Office should identify the factors that enabled these audits to be completed significantly below budget, together with the composition of key cost items and cost items avoided, with a view to applying any of the lessons learnt to the conduct of future performance audits. In noting the remedial action taken to address the outcomes from the client survey covering the financial audit function for 2007-08, the Committee suggests that the technique, which involved Financial Audit Directors with higher than average client survey results in the area of reporting presenting on their approaches at regular Directors' meetings,<sup>561</sup> could also be applied to disseminating good performance audit practices at performance audit debriefings.

Any salient features surrounding the way these audits were conducted could also be used as a basis for continually updating the Office's performance audit methodology with a focus on undertaking performance audits in the most cost effective manner.

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<sup>558</sup> *ibid.*

<sup>559</sup> Victorian Auditor-General's Office, *Annual Report 2007-08-08*, p.6

<sup>560</sup> Victorian Auditor-General's Office, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, received 8 December 2008, p.3

<sup>561</sup> *ibid.*, p.21

The Committee is aware that the Office has been very successful in significantly reducing the average cost of performance audits, while substantially increasing the number undertaken. Since 2003-04, the average cost of undertaking a performance audit has reduced by 38.8 per cent from \$466,823 (nine performance audits completed in 2003-04)<sup>562</sup> to \$285,896 (29 performance audits tabled including one of the better practice guides) in 2007-08.<sup>563</sup>

**Recommendation 86:**

**The Victorian Auditor-General's Office investigate the factors that have led to the completion of some performance audits significantly below budget. The identification of good practices derived from such an analysis be used to update the processes contained in the Office's performance audit methodology.**

### 20.6.3 Expenditure incurred on financial audits

The Committee undertook an analysis of the fees generated in 2007-08 from financial audits compared to the prior year. Information provided by the Office relating to the setting of audit fees is set out below.<sup>564</sup>

In compliance with the *Audit Act* 1994, fees are set to recover reasonable costs and are not intended to generate a profit. While the setting of audit fees at the macro level is a relatively straight forward process, managing the fees for individual clients is much more difficult. This is due to client fees being driven by:

- the outcomes of the audit planning cycle and the impact on the number of audit hours required;
- costs associated with in-house labour costs and charge out rates for in-sourced audits;
- audit service provider costs for costs which are out-sourced;
- a change in scope of the audit due to change in functions of the audit. For example, where a dormant company has become active;
- amended accounting and auditing standards e.g. the new standard requiring increased disclosure of financial instruments; and
- rotation between audits being conducted in-house and outsourced.

These are issues that the Office seeks to moderate over time.

The 2007 Performance Audit of the Office concluded that it is reasonable to write-on time when financial audit costs are less than budget and to write-off time where costs exceed budget (where there is no justification for seeking an increased fee from an agency). In 2007-08, write-offs exceeded write-ons by \$0.252 million, which equates to 1.4 per cent of the Office's total audit fees of \$17.9 million.

Advice is that common industry standard is for the cost of audit fees to fluctuate by plus or minus 20 per cent. In 2007-08, the Office increased financial audit fees at a macro level by 8 per cent, subject to additional increases for the reasons outlined above.

The Committee noted that the largest increases in audit fees billed in 2007-08 compared to the previous year related to the following categories of clients/financial audits: State Accounts (14 per cent), universities and other educational institutions (13 per cent), regional library corporations (13 per cent) and departments and other independent budget sector agencies (11 per cent). Relevant particulars are shown in Table 20.6.

<sup>562</sup> Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Outcomes*, p.159

<sup>563</sup> Victorian Auditor-General's Office, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, received 8 December 2008, Attachment A

<sup>564</sup> *ibid.*, p.15

**Table 20.6: Expenditure incurred on financial audits largest variations in total fees billed 2007-08 compared to 2006-07**

Category of client	2006-07	2007-08	Variance	Variance
	Total fees billed (\$)	Total fees billed (\$)	(\$)	%
State Accounts (a)	475,630	543,620	67,990	14
Universities and other educational institutions	1,344,195	1,515,090	170,895	13
Regional library corporations	69,100	77,900	8,800	13
Departments and other independent budget sector agencies	2,536,658	2,808,520	271,862	11

Notes: (a) Comprises the audits of the Annual Financial Report and the Estimated Financial Statements.

Source: Table compiled by the Committee from information provided by the Victorian Auditor-General's Office in its Response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire - Part One, Attachment B.

#### **20.6.4 Cost effectiveness of the Office's business units**

In examining outcome achievement against the Office's objective to be cost effective,<sup>565</sup> the Committee inquired about how the Office assessed whether its business units were cost effective in 2007-08 and sought quantitative data to support outcomes achieved in this area.

The Committee was informed that the Office participates in the annual Australasian Council of Auditors-General (ACAG) Macro Benchmarking Survey, which compares the Office's performance with that of other Australian State and territory audit offices, and the Australian National Audit Office (ANAO).<sup>566</sup>

The preliminary results of the 2007-08 macro benchmarking report indicated the following:<sup>567</sup>

- the Office finalised 92 per cent of financial audits within four months of financial year end, which was well in advance of the average of other offices of 78 per cent finalised at that time;
- the Office's average elapsed time for Performance Audits/Performance Management Systems Audits reduced from 12.6 months in 2006-07 to 7.2 months in 2007-08, which placed the Office below the 2007-08 average of 9.4 months;
- for 2007-08, the Office had the lowest cost per unit output for State/Commonwealth financial audit opinions (\$31,193 compared to the average of \$66,880) and was slightly above the average cost per unit output for performance audits (\$285,529 compared to an average of \$278,289), notwithstanding the Victorian requirement for the preparation of an Annual Plan in consultation with the Public Accounts and Estimates Committee, and consultation with that Committee on individual performance audit specifications; and
- the Office's total audit costs per \$'000 of public sector assets of \$0.15 and per \$'000 of public sector transactions of \$0.32 is well below the national averages of \$0.21 and \$0.39 respectively. In addition, the Office has the lowest total financial audit costs per \$'000 of public sector assets of \$0.10 and second lowest total financial audit costs per \$'000 of public sector transactions of \$0.21.

The Committee congratulates the Office for operating in a cost effective manner compared to other audit jurisdictions in 2007-08. In view of the marked reduction in the elapsed time for performance audits, the Committee considers that this is an area where the Victorian Auditor-General's Office should disclose to the Committee the factors that have enabled this outcome to be achieved.

<sup>565</sup> Victorian Auditor-General's Office, *Annual Report 2007-08*, p.2

<sup>566</sup> Victorian Auditor-General's Office, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, received 8 December 2008, p.24

<sup>567</sup> *ibid.*

However, the Committee notes that not all financial audits were completed within four months of financial year end. In general, the Committee believes all agencies should issue their audited accounts within three months of the end of the financial year. As such, it is the view of the Committee that the Office should have a performance target of '100 per cent of financial audits completed within three months of the end of the financial year'.

**Recommendation 87:**

**The Victorian Auditor-General's Office brief the Public Accounts and Estimates Committee on the measures that enabled it to achieve a significant reduction in the average elapsed time for performance audits from 12.6 months in 2006-07 to 7.2 months in 2007-08.**

**Recommendation 88:**

**The Victorian Auditor-General's Office set a performance target for 100 per cent of financial audits to be completed within three months of the end of the financial year.**