

19 November 2012

File No.: 13.02/1-4

Mr Philip R. Davis MP  
Chairman  
Public Accounts and Estimates Committee  
Parliament House, Spring Street  
EAST MELBOURNE VIC 3002



Dear Mr Davis

## **Response to the Public Accounts Estimates Committee's Report on the 2012-13 Budget Estimates – Part One and Two**

I am writing to respond to recommendations directed to VAGO in your Committee's *Report on the 2012-13 Budget Estimates – Part One and Two*.

With regard to recommendation 1 of Part One of the Committee's report, I previously wrote to you on 18 April 2012 outlining my basis for discontinuing the use of audit client survey results as BP3 measures.

My position remains the same as that outlined in my previous correspondence – although I value highly the feedback provided by our audit clients through this Survey, I do not believe it forms the basis of a necessary or appropriate BP3 Output Performance Measure for our Office's services, and do not support this recommendation.

Client survey results are used and shared publicly in an increasing number of ways by my Office: to measure progress against our Strategic Plan, in our Annual Report and now available year-round via our website. We report back to audited agencies on survey results and, importantly, our actions to address them, and share them with the independent members of our own Audit Committee.

However, I do not believe that overall client satisfaction metrics are **appropriate** or **relevant** quality measures for our outputs, at a whole of Office level. This is for the following reasons:

- Linking organisational appropriations to targets for audit client satisfaction metrics can create perverse incentives for auditors bound by professional standards of independence, running counter to my statutory obligation to report 'without fear, favour or affection'. Both private and public sector audit firms approach these kinds of numerical targets with trepidation, especially since the corporate collapses and auditor independence failures of the 1980s and 1990s.
- Audit client satisfaction with reports to Parliament is not a relevant indicator of the quality of those reports, as it does not have a logical or consistent relationship with

our outputs: the audit client is neither the intended recipient of the product nor the best judge of whether the product meets exacting standards of professional quality. Low satisfaction with an audit report does not necessarily suggest the audit report is of poor quality.

Replacement Output Performance Measures introduced by VAGO in 2010 and 2011 more effectively and objectively measure output quality (through external assessment and peer reviews) and primary stakeholder satisfaction (through surveys of Parliamentarians).

As with all Committee recommendations directed at my Office, I am happy to engage more broadly on this issue and learn more of your perspective and rationale.

By engaging with my Office at a formative stage, facts can be checked, contexts more clearly defined and understood, and thus, comprehensively informed, the Committee would be best placed to finalise its recommendations.

Finally, with regard to recommendations directed at VAGO in Part Two of the Committee's report (recommendations 34 and 54), my Office accepts these recommendations. We will consult with you further on these issues as part of the development of the *Annual Plan 2013-14*.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D D R Pearson', written in a cursive style.

D D R Pearson  
*Auditor-General*