

An investment approach to Annual Planning

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VAGO

What will I cover today?

- Annual planning framework:
 - Legislative requirements under the *Audit Act 1994*
 - How annual planning supports our strategic objectives

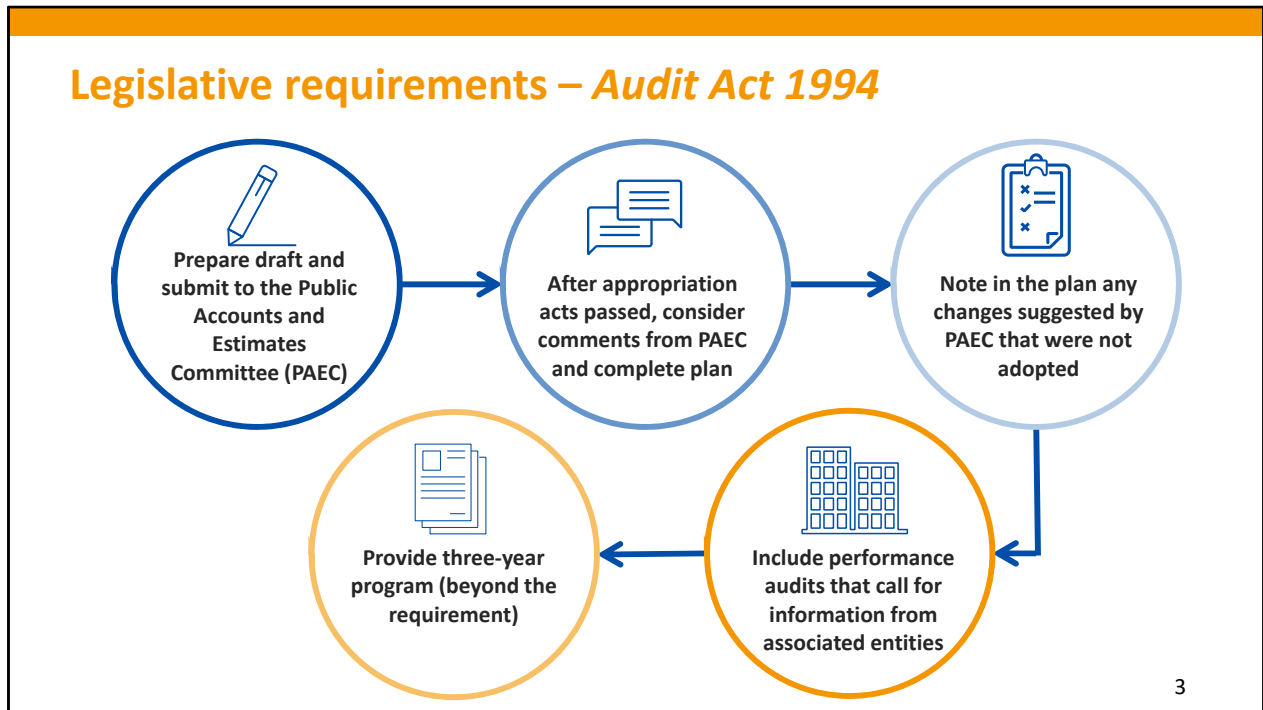
- Investment approach to annual planning

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What am I going to talk about today:

Our annual planning framework.

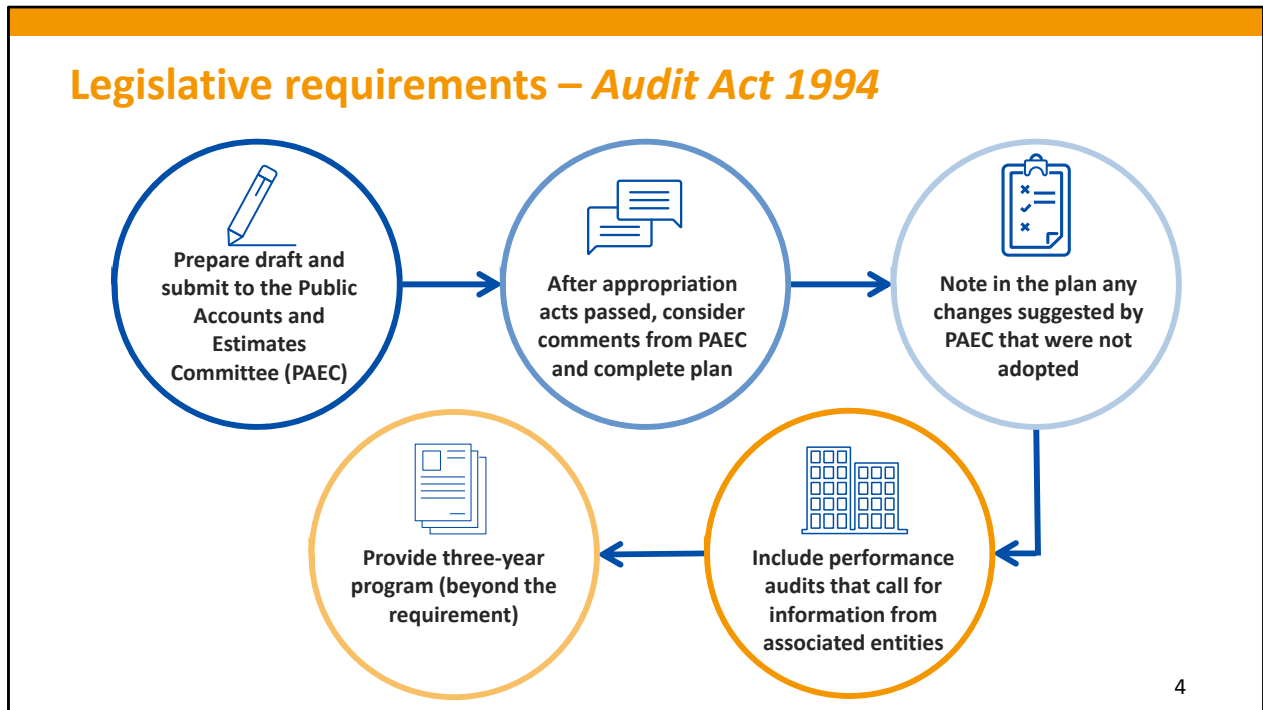
Why do we call it an 'Investment approach'?



So lets start by examining the framework within which we work. Under the *Audit Act 1994* we are required to:

prepare a draft annual plan describing our proposed work program for the year ahead and submit it to the Parliamentary Accounts and Estimates Committee (PAEC) before the beginning of each financial year

After the passage of the annual appropriation Acts for a financial year, we are required to **complete the annual plan for that year**, considering any comments from the PAEC Parliamentary Committee. The Annual Plan must note the nature of any changes suggested by the PAEC that are not adopted. Our work program must include details of any performance audit that includes an associated entity – that is a person or body that provides a service or performs a function for or on behalf of an Authority/State, for which the Authority/State is responsible. They can be contractors or sub-contractors, private providers or from the community sector – examples of Associated entities include rail and tram operators, health service providers, child care centres and private prison operators



What did we do before?

At the Victorian Auditor-General’s Office (VAGO), we have chosen since our 2017-18 Plan, to develop and deliver a rolling three year planning cycle for our performance audit program, and this goes beyond our legislative requirement to deliver a one year annual plan.

So why have we done that? Well, having a three-year forecast horizon provides our stakeholders with an understanding of our goals and priorities.

It provides us with an opportunity to engage early with our stakeholders, which include Parliament, the public sector and the community, about our work program, and allows audited agencies to prepare for scheduled audits well in advance.

VAGO Strategic Plan 2017–2021				
Our vision		Better lives for Victorians through our insights and influence		
Our purpose		To help the Parliament hold government to account and help the public sector improve its performance		
				
	Increase our relevance	Grow our influence	Invest in our people	Lead by example
Our objectives	Be more relevant by delivering credible and authoritative reports and advice about things that matter and will make a difference	Be valued for our independence and more influential because of the unique perspectives we provide	Enable high performance by our people through a supportive culture, professional development and collaboration	Model exemplary performance in everything we do
Our directions	<p>Modernise our auditing methods</p> <p>Update how we audit to reflect new and emerging technology-enabled practices</p> <p>Explore our full mandate</p> <p>Rebalance our audit programs to evenly cover efficiency and effectiveness, governance and compliance</p> <p>Take a longer-term perspective</p> <p>Analyse audit results through time to identify what works on complex and interconnecting issues</p>	<p>Strengthen our engagement</p> <p>Build more productive relationships based on mutual respect and understanding of our respective roles and organisational contexts</p> <p>Better leverage our access</p> <p>Use our access to cross-government datasets to provide our clients with new insights they can use</p> <p>Increase accessibility to our work</p> <p>Develop new interactive channels with our stakeholders and open up access to our data to allow tailored use to meet specific needs</p>	<p>Be clear about what we stand for</p> <p>Demonstrate leadership and accountability in how we work and live our values and culture</p> <p>Invest in excellence</p> <p>Support our people to harness new and emerging technologies by developing their technical, analytical and people management capabilities</p> <p>Get the mix right</p> <p>Ensure our workforce composition builds our capability to position us to meet future business needs</p>	<p>Simplify our business</p> <p>Eliminate unnecessary internal red tape, and streamline and increase automation of core business processes</p> <p>Embrace new technology</p> <p>Invest in cloud technology, implement the best software solutions to integrate our business systems, and share information to improve our practice</p> <p>Better intelligence to drive decisions</p> <p>Develop a comprehensive portfolio of service, product and project performance measures</p>
What success looks like	<p>Our audit program effort is targeted across efficiency, effectiveness, economy and compliance</p> <p>The benefits realised by the public sector show an increased return on investment from our audit work</p>	<p>More of our performance audits originate from requests from Parliament, the public sector and the public</p> <p>Use of our reports and associated datasets in government service delivery and for parliamentary purposes has increased</p>	<p>Employee engagement has increased</p> <p>We develop, attract, and retain the talent we need</p>	<p>Workforce productivity has increased</p> <p>Our internal practices set the benchmark for public sector entities and other audit offices</p>

Our annual plan also helps us meet our strategic objectives, which are;

- Increase our relevance – by exploring our full mandate and taking a longer-term perspective
- Grow our influence – by strengthening our engagement and better leveraging our access
- Invest in our people through greater engagement and collaboration, and
- Lead by example – by better intelligence to drive decisions

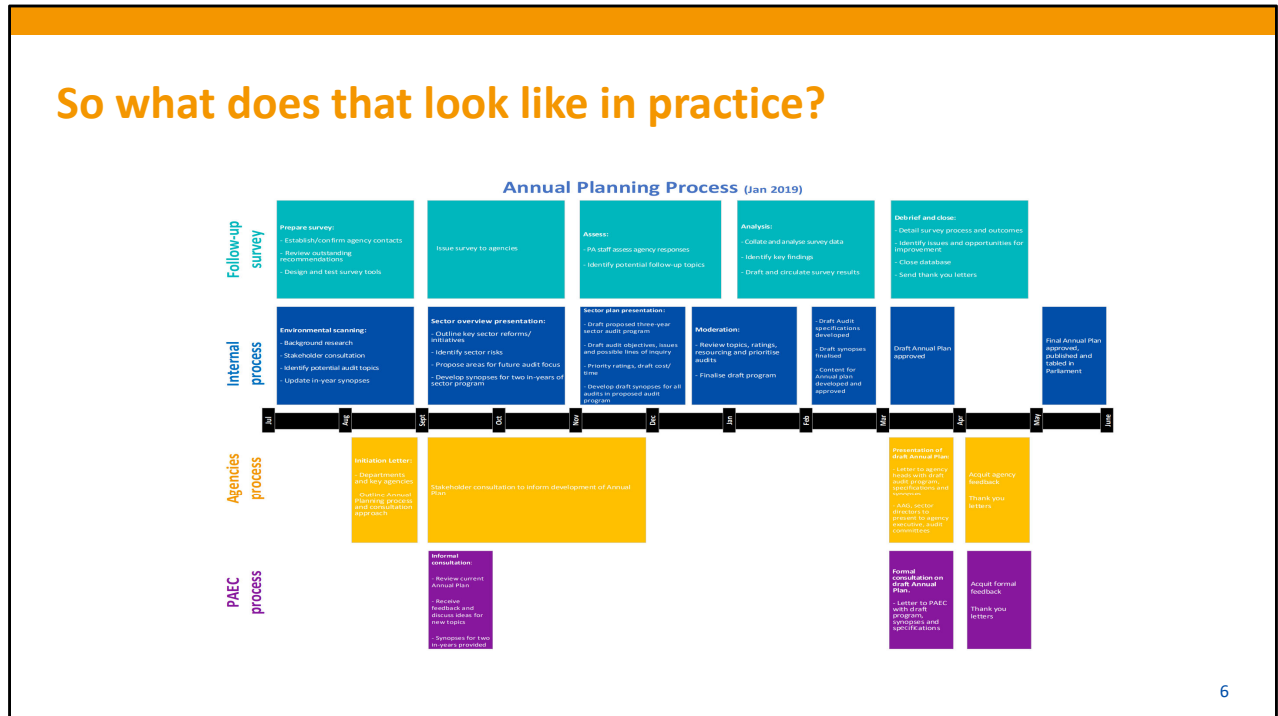
One of our strategic objectives is to increase our relevance. Something that may resonate with Audit committees.

For us, success is about

- Making sure our audit program effort is balanced across efficiency, effectiveness, economy and compliance
- More audits originate from stakeholder requests
- Our reports and associated datasets are used more by government and parliament
- We receive regular feedback from stakeholders, including auditees, about the value of our work

Assessing our relevance comes down largely to the impact we make through our audits. Measuring and thinking about our impact is important. It's not about headlines, it's about using the mandate, our experience, our independence and our relationships to craft meaningful reports that cut-through. It's about writing and testing recommendations that can be adopted by the agencies in a reasonable time period. For me, that's inside 18 months.

So what does that look like in practice?



So what does this look like in practice?

Well, here is our current Annual Planning process workflow.

This guides the steps we take, the documentation we prepare and our main points of engagement with stakeholders throughout the year, in order to produce our annual plan.

At the bottom, in purple, that represents our engagement with Parliament, through the Public Accounts and Estimates Committee.

Above that, in Gold, we have our key points of engagement with government agencies.

The dark blue represents our internal annual planning tasks, including the development of internal presentations, development of draft audit topic synopses and specifications, along with review and approval points

And the light blue, at the top, sets out the key steps in conducting our follow-up survey, which this year will be in the form of our first limited assurance review. Through the follow-up survey, we request agencies that have been included in past performance audits to provide us with an update on the status of recommendations that have been directed to them. That provides us with information we are able to leverage to identify potential follow-up audits in the forward plan.

Key Steps:

- A. Understand the environmental context
- B. Decide potential areas to audit
- C. Consulting with stakeholders on proposed work program

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So our approach can really be broken down into three substantial key components:

- First – We implement a number of strategies to ensure we understand the environmental context
- Second – Against this informed understanding we develop and assess potential audit topics against a series of criteria
- Finally – We consult on our proposed work program and incorporate feedback where relevant

So lets break these down in a little more detail.

A. Understand the environmental context

July - September

➤ Sector team structure at VAGO

- Central Agencies and Whole of Government
- Education
- Environment and Planning
- Health and Human Services
- Infrastructure and Transport
- Justice and Community Safety
- Local Government and Economic Development

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First, by way of background I'll just explain the sector team structure we have in place at VAGO.

We have seven matched sector teams in Performance Audit (PA) and Financial Audit (FA) as set out on this slide.

All government Departments and agencies will sit within one of these sector portfolios and Sector Directors have responsibility for managing the relationship with each agency that falls within their portfolio, along with any relevant external stakeholders

Performance Audit Sector Directors lead their team, and consult with their paired Financial Audit team to research, consult and develop proposed performance audits for that sector. All staff are involved throughout most of the year. There is a shared responsibility and team effort that supports staff ownership of the plan and engagement in audit subject matter.

A. Understand the environmental context

July - September

- Environmental scanning - review of publicly available documentation
- Consultation - Engage with PAEC
- Sector overview presentations

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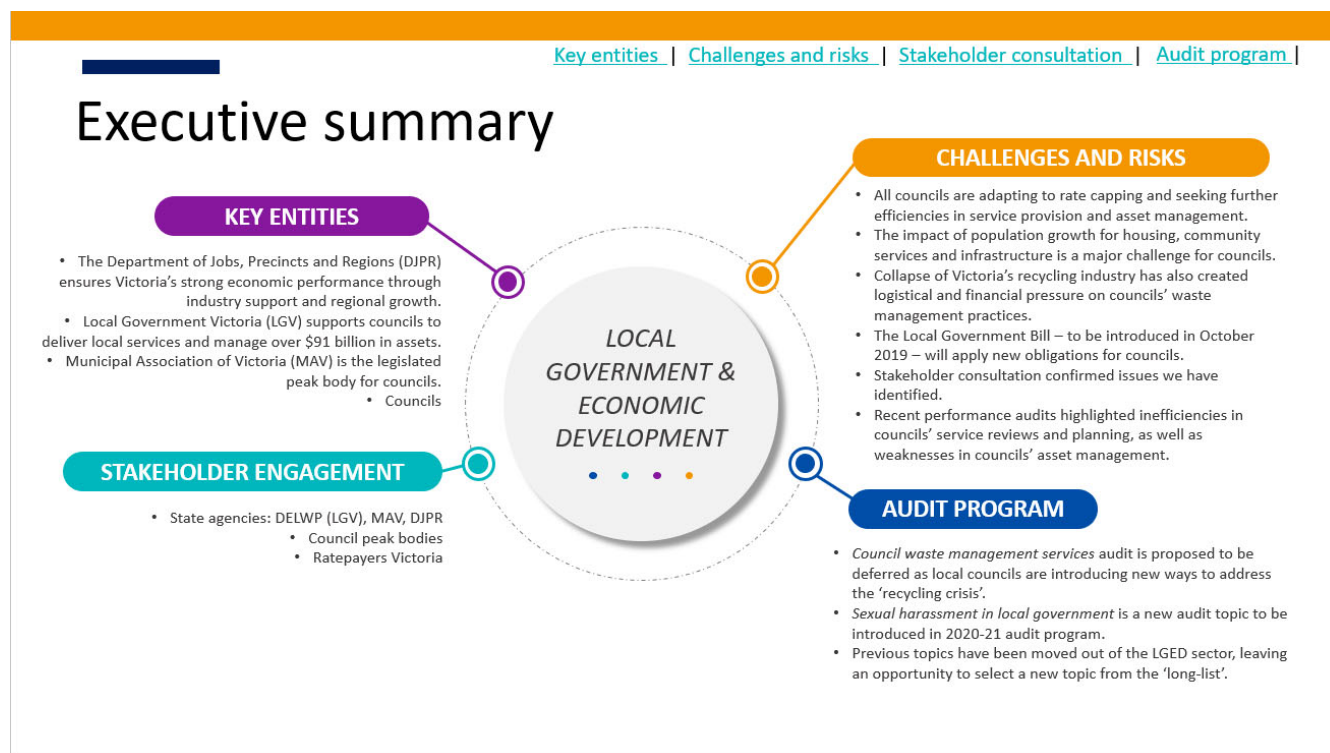
This starts by developing an understanding of the environmental context.

So team members undertake an environmental scan of publicly available information of relevance to their sector – that can include policy documents, academic and research papers, reports of other integrity bodies and so on...

In parallel, our sector directors and their teams will also carry out a broad consultation program with stakeholders, including with senior staff from the relevant government departments and agencies, but also non-profit and community groups, professional bodies. We meet with as many stakeholders as we can to identify what they see as the risks, challenges and emerging issues in their sector.

We consult with Parliament through the PAEC, meeting with them informally between August and October each year to hear the Committee's feedback on our existing program and to hear new topic suggestions. Add that input to the pool of information we gather to help develop our draft forward program

This background research leads to a sector overview presentation, which is delivered by each Sector Director and their team, to our executive group. The sector overview presentation is an opportunity for Sector Teams to present the information and they have gathered through their initial background research and engagement with stakeholders, and present what common themes, challenges and risks are emerging in their sector. It also provides an opportunity for a round table discussion to take place about potential audit topics, which address those issues, challenges and risks.



So here is an example of a slide taken from a Sector Overview Presentation prepared by the Local Government and Economic Development Team.

The executive summary page, which identifies:

- the key entities in the sector,
- what stakeholder engagement on annual planning had taken place at that point in time,
- what challenges and risks had been identified – here we can see rate capping, recycling, asset management and population growth, mentioned, and
- initial thoughts on possible amendments to the audit program.

B. Decide potential areas to audit

September - December

- Proposed three-year sector program
- Synopses for every proposed audit topic
- Priority ratings, draft budgets, resource plan
- Internal program presentation
- Moderation process – Using data analytics

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So what happens next?

Well, armed with the outcomes of those discussions, each team now works to develop a draft three-year audit program for their sector, incorporating topics previously identified in years 2 and 3 of the previous year's annual plan, and developing new topics for inclusion in the out year.

Synopses are developed for every proposed topic. Our synopses are 2-3 page documents which identify:

- A proposed audit objective
- Issues and potential lines of inquiry
- Prior audit coverage and any gaps in that coverage
- What value and unique insights VAGO might be able to bring to the audit and
- Proposed agencies.

B. Decide potential areas to audit

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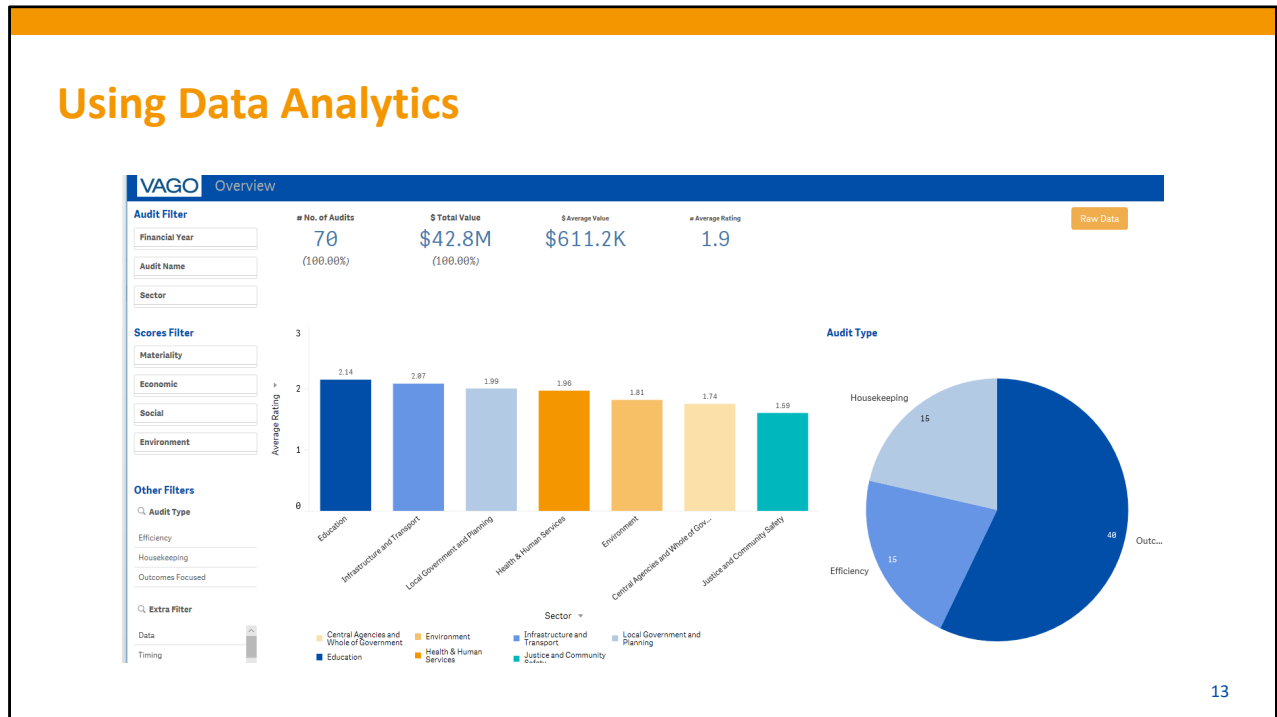
A priority rating for the audit is generated, based on the financial, social and environmental impact of the proposed audit topic area. Other characteristics are collated, such as:

- the audit type
- whether VAGO can add value through our unique Insights
- where we should follow-up on previous audits
- where we should take a longer term or longitudinal view,
- where we use data analytics for a more complete understanding of an audit topic.

Sector teams will also develop a draft budget for each proposed topic based on the anticipated audit scope and approach, staffing and skill mix required.

Our sector teams then each present their draft three-year sector program to our executive team, where the proposed mix of audit topics for each sector is further refined.

Using Data Analytics



Our draft program of audits is then entered into our annual planning dashboard, which has been established using QlikSense software.

The dashboard allows us to review the proposed spread of audits by:

- Sector and agency
- Audit type, such as effectiveness, efficiency, economy, or compliance/housekeeping focused
- Cost and hours
- Priority rating
- Effectiveness, efficiency, economy (VFM), Outcomes, Housekeeping, where we can add value through our unique Insights, where we should follow-up on previous audits, where we should take a longer term or Longitudinal view, and where we use data analytics for a more complete understanding of an audit topic.

It supports an investment approach to decision-making

The annual planning dashboard allows us to quickly prioritise our assessment of the risk and materiality, resourcing requirements (cost, hours), impact on agencies, and type of audits we are thinking about.

We strive to achieve a balance across all of these dimensions, and while it is an art, it certainly gets a helping hand from the technology we use to support it.

The result: A draft three-year audit program is developed.

C. Consult on our draft Annual Plan

January - April

- Re-engage with stakeholders (PAEC, audit agencies)
 - Informal presentation and discussion
 - Formal documentation
- Receive and acquit feedback



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With our draft plan developed, we re-engage with our stakeholders, seeking their feedback and comments.

We provide synopses, and brief topic specifications for the full three-year program to the PAEC and all Departments and major agencies.

Our Sector Directors and Assistant Auditor-General present the program and discuss its content with Departmental Executive Boards.

We ask for their feedback and comments both informally and formally, and when received, we acquit that feedback and provide it to the relevant agency.

For smaller agencies, we focus our consultation on audits that will be tabling or commencing in the next financial year. We ask for their feedback and comments on our proposed topics.

D. Review and Finalise

May-June

- Final changes to program
- Follow-up audit topics
- Finalise plan content and internal approvals
- Publish and table Plan in Parliament



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Once we are satisfied with our program mix and we finalise our Annual Plan.

- We make any further changes which have resulted from our consultations on the draft plan
- Through the results of our follow-up survey and consultations with stakeholders we've identified 2-3 follow-up audit topics
- Once the plan content is finalised and internal approvals are complete, we table the Plan in Parliament,

Efficiencies

➤ Budget allocation – Annual Planning process

- 2016 - \$470,000
- 2017 - \$470,000
- 2018 - \$320,000
- 2019 - \$250,000



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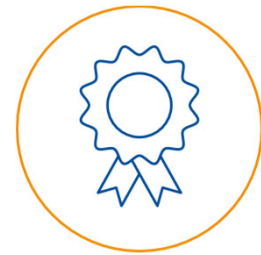
As we have refined our process over the past three years, we are seeing efficiency dividends.

Financially, our annual planning budget has fallen each year.

- In 2016, prior to the introduction of the current process, our annual planning budget was set at \$470k.
- Since 2017, we have been able to reduce our budget allocation base on the previous year's spend, as our approach had been embedded within the organisation.

Measures of success

- There is a greater balance across the audit program in line with our mandate
- Audit topics originate from wider array of sources
- Our reports and datasets are used more by government and parliament
- We receive regular feedback from stakeholders, including auditees, about the value of our work



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How will we know if we've succeeded?

- Greater balance across efficiency, effectiveness, economy and compliance
- More audits originate from stakeholder requests
- Our reports and associated datasets are used more by government and parliament
- We receive regular feedback from stakeholders, including auditees, about the value of our work