PERFORMANCE AUDIT OF THE VICTORIAN AUDITOR-GENERAL AND THE VICTORIAN AUDITOR-GENERAL'S OFFICE

31 July 2020

ALLEN+CLARKE
CONSULTING

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Ms Lizzie Blandthorn, MP
Chair, Public Accounts and Estimates Committee
Parliament of Victoria
Spring Street
EAST MELBOURNE VIC 3002

31 July 2020

Dear Ms Blandthorn,

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

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

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

Yours Sincerely,
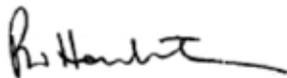
Paul Houliston
Managing Partner (Australia)
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About Allen + Clarke Consulting

Allen and Clarke Consulting Pty Ltd (*Allen + Clarke*) is a consultancy firm based in Melbourne and Wellington, New Zealand. We specialise in evaluation and research, operational management and risk, policy and program development and implementation, business change, and governance and secretariat services. A key component of our work is undertaking reviews and assurance processes and developing and implementing policies that improve outcomes for the public. Our company works extensively for a range of government agencies in Australia and New Zealand, and international clients and non-government organisations in the Pacific and Asia. More information about our work can be found on our website: www.allenandclarke.com.au.

Acknowledgements

EXECUTIVE SUMMARY

Introduction

The Auditor-General is an independent officer of the Victorian Parliament, supported by the Victorian Auditor-General's Office (VAGO), to provide assurance to Parliament and the Victorian community about how effectively public sector agencies are providing services and using public money. This role is achieved through an annual program of financial and performance audits of state and local government public sector agencies.

The *Audit Act (1994)* (the Act) establishes the legislative framework governing the ongoing role and functions of the Auditor-General. This Act requires that an independent performance audit be conducted of the Victorian Auditor-General and VAGO at least once every four years. The Public Accounts and Estimates Committee (PAEC) of the Parliament of Victoria is required under Section 82 of the Act to recommend, to both Houses of Parliament, the appointment of a suitably qualified person to undertake the performance audit. *Allen + Clarke* was appointed to undertake this performance audit.

Audit objective and scope

The objective of this performance audit is to provide assurance to the public and Parliament that the Auditor-General and VAGO are achieving their objectives effectively, economically and efficiently, and in compliance with the Act.

In accordance with the terms of reference provided by PAEC, the performance audit involved assessing and recommending improvements relating to nine key areas, which the 2016 PAEC performance audit set out as characteristics of an effective audit office.

Overall conclusion

Based on the evidence gathered, we conclude that the Auditor-General and VAGO are operating in compliance with all relevant Acts of Parliament. Moreover, the Auditor-General and VAGO are, in all material respects, operating effectively, economically and efficiently and achieving their objectives in compliance under the Act.

Key findings

Independence and objectivity

VAGO has a strong cultural understanding of the importance of maintaining independence, which is underpinned by policies and methodologies for performance and financial audit that meet legislative and auditing standard requirements for independence. These arrangements establish the full range of activities the Auditor-General and VAGO staff may engage in with the public sector. VAGO has a range of effective mechanisms for systematically monitoring and assuring the adherence of staff and contractors to minimum standards of independence. However, the application of the Declaration of Independence for individual performance audits needs to be strengthened. VAGO has adequate processes to identify and manage actual and/or perceived risks to its independence including identifying appropriate mitigation strategies.

Contribution to an effective and efficient public service

VAGO understands the need to add value by helping improve the effectiveness and efficiency of the public sector. It has adequate processes to clarify for both public agencies and VAGO staff the nature, variety and limits of engagement to support public sector agencies to operate more effectively and efficiently. VAGO's focus on engaging with audited agencies has appropriate regard to its mandate, objectives and core functions. While actual risks to VAGO's independence by its financial and performance audit teams' engagement with agencies are effectively mitigated, VAGO could strengthen its mitigation of perceived risks.

VAGO develops an appropriate Annual Plan using a sound evidence-based approach. The annual planning process results in a good mix of audits which are appropriately risk-based and targeted, and optimally focused on supporting the effectiveness and efficiency of the Victorian public service. The annual audit plan dovetails with VAGO's business planning process resulting in an efficient and effective use of resources.

Since 2016, VAGO has delivered a good mix of performance audits that reflect improvements to the extent of VAGO's scrutiny of public sector projects and programs. While indications are productivity has been fairly consistent it has remained relatively high compared to Australian counterparts. There have been some efficiency gains with the average cost per performance audit decreasing.

Professional and respectful relationships

Both financial and performance audit staff conduct audit engagements professionally and respectfully. There are clear and transparent processes in place for receiving and addressing feedback from auditees which have been consistently applied. When persistent or significant disagreements occur VAGO staff meet with auditees, if appropriate, to work through the disagreement and to explain VAGO's position and proposed actions. From a stakeholder perspective there have been some issues in resolving disagreements in relation to performance audit findings that have involved advice from subject matter experts. For both financial and performance audits VAGO maintains its independence and objectivity, conducting audits without fear, favour or affection.

However, VAGO does not have an effective stakeholder engagement strategy or plan that it measures its performance against. While VAGO has some mechanisms for gathering feedback on stakeholder engagement it does not have a systematic approach to monitoring and measuring the effectiveness of stakeholder engagement.

Performance audit methodology, tools and techniques

VAGO has a comprehensive performance audit methodology which has been regularly reviewed to ensure compliance with the Act and requisite standards. Although VAGO has adequate tools to implement its methodology there was variance in their application. A contributing factor was the lack of guidance in the use of MS Teams (Teams). VAGO has developed a training schedule to systematically train new staff in its performance audit methodology. However, there remain gaps in meeting the training needs of some staff cohorts, especially managers. VAGO is developing a capabilities framework which should help address this.

Embedded in VAGO's performance audit methodology are key quality assurance review steps which form part of VAGO's quality control framework. While the quality assurance process was largely well applied there were weaknesses in reviews undertaken by Engagement Leaders. Between late 2015 and late 2019, performance audits were not subject to regular independent post performance audit assurance reviews. This was a significant gap in the quality control framework which has only recently been addressed.

Indications are that the audit plan, criteria and evidence collected adequately support the findings, conclusions and recommendations contained within performance audit reports. Most recommendations were clear, specific, actionable and addressed the root cause of issues. Reports were developed through a rigorous process that was devoid of fear, favour and affection.

Financial audit methodology, tools and techniques

VAGO's financial audit methodology and guidance is comprehensive and has been regularly reviewed and enhanced internally to ensure it continues to comply with the Act and requisite standards. In 2019, VAGO launched a new financial audit methodology and is in the process of modernising its financial audit software. While VAGO has provided regular training on new accounting standards and the new financial audit methodology there was no systematic training for financial auditors at different staff classification levels. VAGO has also not developed a clear training progression path. VAGO is in the process of addressing this issue.

Since 2016, VAGO has continued to make improvements to its financial audit quality control framework. These arrangements would benefit from VAGO adapting ACAG's *Governance and Audit Framework for Self-Assessment and External Review (2014)* to the operational context in which it undertakes its work. From the year ended 30 June 2017, there have been regular quality assurance reviews of in-house and Audit Service Provider audit files. Senior management have acted promptly and effectively to address issues that have emerged. Examination of a selection of in-house and Audit Service Provider financial audit files confirmed compliance with the Australian Auditing Standards and other relevant statutory requirements. However, some minor issues need to be addressed such as reissuing engagement letters and ensuring financial audit files are closed within 60 days of issue of the auditor's report.

Focus on quality and continuous improvement

While VAGO has made good progress in completing and implementing the majority of recommendations from the 2016 PAEC performance audit of VAGO, three recommendations have not been completed. Two of these recommendations remain relevant and progress against implementing them should be prioritised.

VAGO has not consistently maintained a fully resourced audit quality team. Contributing factors have included restructuring the team and developing a new service catalogue. The period of under resourcing contributed to a backlog of work which VAGO is addressing. Given the new structure has only recently been implemented it is too soon to determine whether the changes will lead to sustained improvements to audit quality.

The leadership team has strengthened its focus on accountability for continuous improvement and business improvement project management. However, the continuous improvement process for performance audit could be improved by ensuring lessons learnt through post-performance audit debriefs are effectively captured and integrated into the business improvement program. While VAGO leverages some survey results to inform its continuous improvements projects, there are opportunities for improvements which could be addressed more promptly and systematically.

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Strong practice management

Since 2017, VAGO has enhanced its approach to performance audit annual planning resulting in a comprehensive process. The process is probably becoming more efficient with costs over the past two years decreasing in nominal terms. VAGO's annual business planning cycle effectively and efficiently supports the resourcing and scheduling of performance audits. VAGO's approach to resourcing and scheduling financial audits is adequate given that there is minimal change from year to year.

VAGO's Strategic Plan is up-to-date and well embedded. Senior leadership monitor progress against high-level strategic objectives annually. While VAGO effectively monitors progress against BP3 measures, it does not have a framework to measure outcomes. This means VAGO cannot reliably determine to what extent completed continuous improvement and business improvement projects and initiatives have contributed to progress against key strategic areas.

VAGO has systems and processes in place that efficiently and effectively support the setting, management and monitoring of audit, divisional and office-wide budgets. While indications are that VAGO has achieved some cost efficiencies resulting from workforce restructures these have been offset to some extent by increased expenditure on contracted audit services.

VAGO has appropriate quality control frameworks for performance and financial audit. However, there are opportunities to strengthen its implementation more broadly.

Directors engage in a range of tactics to address staff morale and engagement. However, these actions have not effectively addressed some ongoing issues. In addition, training and development opportunities could be improved including the timeliness of these opportunities and ensuring individual learning and development plans for financial audit staff are completed effectively.

Participative leadership and inclusive culture

Overall, perceptions from VAGO staff are that the leadership team has made a positive impact on aspects of the organisation and that it is progressing towards having a more cohesive culture. However, there is room for improvement with the continued existence of some issues. That said, VAGO senior leadership has engaged in a range of positive and appropriate actions in response to issues raised by staff which indicate a willingness to respond and to address staff matters that are raised.

VAGO has an up-to-date vision, strategy, workplace values and culture plan which promote and support building an inclusive culture. VAGO's working culture resonates with most employees particularly in relation to its values that were developed through a ground-up staff participative approach. These are widely recognised and understood by staff.

Engaged staff and a focus on wellbeing

It is not possible to determine the extent of the senior leadership's progress in improving staff engagement, morale and wellbeing due to a lack of consistent survey data and incomplete exit survey data. While the People Matters Survey results for 2018 and 2019 indicate that VAGO's performance is similar to comparable organisations, the results also indicated that there are some negative behaviours that need to be addressed. Senior leadership's response to the 2019 People Matters Survey results suggest these issues are being taken seriously.

Although there are some early signs of improvement, since 2017, VAGO's turnover rate has remained relatively high compared to other Australian audit offices. While incomplete, exit survey data indicates most staff are not leaving due to dissatisfaction with VAGO. There are some indications that staff recognition has improved but this could be strengthened further by ensuring there is equality of recognition across business units. In addition, VAGO does not have a formal succession plan or approach for retaining staff including a structured approach to identify and develop talent. During the course of this audit, VAGO has developed a People Matters Action Plan which should help address these concerns.

RECOMMENDATIONS

Key Area 1: Independence and objectivity

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Recommendation 1:

That VAGO's performance audit business unit model the processes established in financial audit to support maintaining independence including:

- ensuring the process of completing and documenting a declaration of interest by all team members during the audit initiation phase is consistently applied and appropriately filed

- introducing a review of declarations of independence at least once during performance audits

- developing a policy around rotation of directors.

Key Area 2: Contribution to an effective and efficient public service

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Recommendation 2:

That VAGO develops a data science strategy that clearly outlines VAGO's approach to integrating data science within performance audit practice.

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Recommendation 3:

That VAGO develops a systematic approach to measuring the impact of performance audits taking into account allocated/invested resources.

Key Area 3: Professional and respectful relationships

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Recommendation 4:

That VAGO updates and implements its stakeholder engagement strategy and implementation plan to ensure that it meets VAGO's unique needs as an audit organisation including providing:

- guidance on VAGO's limits to stakeholder engagement

- minimum expectations of Engagement Leaders outside of audits including expected frequency of contact with portfolio departments and agencies and examples of what good stakeholder engagement looks like

- clearly defined standards of professional behaviour and engagement between VAGO and the public sector.

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Recommendation 5:

That VAGO includes in its audit initiation briefings information about:

- types of audits and scope including the significance of what has and has not been specifically scoped out

- roles, responsibilities and expectations of conduct of VAGO, agency staff, and where relevant subject matter experts.

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Recommendation 6:

That VAGO develop a subject matter expert policy, or include in the Performance Audit Methodology manual, a process for the engagement of subject matter experts which includes:

- providing audited agencies an opportunity to raise any issues in relation to conflicts of interest with proposed subject matter experts at audit commencement

- establishing a transparent process for VAGO and agency subject matter experts to engage on technical findings.

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Key Area 4: Performance audit methodology, tools and techniques

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Recommendation 7:

That VAGO provides good practice guidance including examples of exemplar audit files and templates in relation to treatment and filing of documents, including working papers, to ensure each audit file can be easily navigated and the links between the application of the audit criteria, the analysis of evidence collected and audit findings and recommendations are evident.

Recommendation 8:

That VAGO updates its record keeping policy and procedures to provide clear guidance on the use of Teams in relation to the conduct of an audit. In particular, the storage of evidence and drafting/ storage of working papers, approvals and whether there is expected to be a single repository for an audit file. The record keeping policy and procedures should be linked to VAGO's performance audit and financial audit methodologies.

Recommendation 9:

That VAGO develops an e-learning program to supplement the existing training so that new staff can access modules in a timely fashion.

Recommendation 10:

That VAGO reviews the performance audit methodology to make explicit the oversight function of Engagement Leaders as a crucial component in the quality control framework. This includes enhancing the evidence trail to include attestation of evidence/working paper quality during the conduct phase of audits.

Recommendation 11:

That VAGO formalises its expectations of performance audit staff managing contractors/ consultants and applies this practice consistently.

Key Area 5: Financial audit methodology, tools and techniques

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Recommendation 12:

That VAGO ensures all changes to the financial audit methodology are sufficiently documented and readily identifiable.

Recommendation 13:

That VAGO conducts the future piloting of replacement software tools in a more structured manner led by an expert team to ensure adoption of a consistent approach and all issues are identified and resolved prior to full rollout. Staff feedback should be obtained and addressed after this.

Recommendation 14:

That VAGO adapts ACAG's *National Competency Framework for Financial Auditors* to ensure it covers all staff classifications consistent with the financial audit methodology and signing officer delegation arrangements.

Recommendation 15:

That VAGO establishes a training strategy aimed at consistent delivery of targeted training to financial audit staff at their different levels.

RECOMMENDATIONS Continued

Recommendation 16:

That VAGO maintains an up-to-date list of all training provided by staff classification which is regularly reviewed to ensure that staff receive training relevant to their level/classification.

Recommendation 17:

That VAGO considers obtaining confirmation from Audit Service Providers that their staff on VAGO audits are systematically trained in the use of a contemporary financial audit methodology.

Recommendation 18:

That VAGO adapts the ACAG *Governance and Audit Framework for Self-Assessment and External Review (2014)* to its context. This may be done by reference to the Australian National Audit Office and New South Wales Audit Office that have both developed their own comprehensive quality control frameworks.

Recommendation 19:

That VAGO ensures consistency in the understanding and application of its Engagement Quality Control Reviewer policy by identifying inconsistent practices during active file reviews and Post Audit and Assurance Quality Reviews and implementing corrective action.

Recommendation 20:

That VAGO develop procedures ensuring compliance by both in-house staff and Audit Service Providers with ASQC 1 as this relates to completion/closure of audit files within 60 days of issue of the auditor's report.

Key Area 6: Focus on quality and continuous improvement

Recommendation 21:

That VAGO develops and implements a leadership charter.

Recommendation 22:

That VAGO establish an effective process to ensure post-performance audit debriefs are regularly collated and analysed with a view to identifying any reoccurring or thematic issues. This should be led by the audit quality team so that there is a separation of functions between the conduct of audits and identification of thematic issues across these audits.

Key Area 7: Strong practice management

Recommendation 23:

That VAGO develops an outcomes framework to enhance planning and monitoring progress against achieving strategic plan objectives. The outcomes framework should be built around appropriate intervention logic.

Recommendation 24:

That VAGO develop an evaluation approach to enable the systematic measurement of impact against the outcomes framework. This should include assessing the contribution of outputs (in the form of business improvement projects and initiatives) to established outcomes measures. In addition, VAGO should systematically check whether there are unintended consequences and monitor them to enable effective oversight over any outcomes beyond organisational objectives.

Recommendation 25:

That VAGO undertakes a training needs assessment for members of the Audit Quality and Financial Reporting Advisory team. Based on this analysis VAGO should develop training programs to ensure members are appropriately qualified to maintain and monitor the quality control framework.

Recommendation 26:

That VAGO develops a proactive professional development program for junior and mid-level staff which may include opportunities for broader development targeted at developing high performing staff for future leadership roles.

Key Area 8: Participative leadership and inclusive culture

Recommendation 27:

That VAGO consolidates its numerous relevant policies into one overarching whistle-blower policy.

Recommendation 28:

That VAGO ensures all members of the Health and Safety Committee and the Persons Carrying on a Business Undertaking are provided with and attend appropriate training.

Key Area 9: Engaged staff and a focus on wellbeing

Recommendation 29:

That VAGO fully implements its project Implementing Outcomes of Performance Audit Sexual Harassment which has emerged from the performance audit it conducted called *Sexual Harassment in the Victorian Public Service*; and its People Matters Action Plan. This includes closely monitoring whether these initiatives have effectively addressed issues relating to sexual harassment.

Recommendation 30:

That VAGO puts in place a systematic process to effectively identify high performing staff and a clear pathway to develop these staff so that they are capable of taking on more senior roles.

Recommendation 31:

That VAGO develops and implements formalised succession planning.

INTRODUCTION

Purpose

The Public Accounts and Estimates Committee (PAEC), as required by Section 82 of the *Audit Act (1994)* (the Act), requested the appointment of a suitably qualified person to undertake a performance audit of the Victorian Auditor-General (Auditor-General) and the Victorian Auditor-General's Office (VAGO). Under the legislation, an independent performance audit must be completed once every four years to determine whether the Auditor-General and VAGO are achieving their objectives effectively, economically and efficiently and in compliance with the Act. *Allen + Clarke* was appointed to conduct this performance audit.

The Auditor-General and VAGO provide assurance to Parliament and the Victorian community about how effectively public sector agencies are providing services and using public money. It achieves this through an annual program of financial and performance audits of state and local government public sector agencies. VAGO's work promotes accountability and transparency in government as well as service efficiency and effectiveness. In addition to providing assurance about past public sector performance, its work contributes to continuous improvement in the performance of public sector agencies.

PAEC independent performance audits of the Auditor-General and VAGO provide assurance to the public and Parliament that it is operating as expected. Just as VAGO's work promotes continuous improvement, this audit provides the Auditor-General and VAGO with the same opportunity.

Audit objective and scope

This audit provides assurance to the Victorian Parliament on whether the Auditor-General and VAGO are achieving their objectives effectively, efficiently and economically[1] and in compliance with all relevant Acts of Parliament.

In accordance with the Terms of Reference (TOR) provided by PAEC, this performance audit included assessing and recommending improvements relating to nine key areas. To facilitate the conduct of the performance audit an evaluation framework was developed. The key lines of inquiry and criteria were set out in the terms of reference established by PAEC and are included in Appendix C.

Approach and methodology

Our overall approach and methodology consisted of five phases:

- audit inception and planning: develop an effective performance audit plan for the performance audit

- outcomes workstream: examine how effectively, efficiently and economically the Auditor-General and VAGO are achieving their desired outcomes

- performance audit workstream: examine how effectively and efficiently VAGO carries out its performance audits of public sector agencies

- financial audit workstream: examine how effectively and efficiently VAGO carries out its financial audits of public sector agencies

- synthesis and reporting: synthesise findings from across the three workstreams – outcomes, performance audit and financial audit – to assess the Auditor-General and VAGO's performance and report accordingly.

A range of methods were used to investigate the nine key areas. These included:

- examining key documents, for example: strategies, policies and procedures, surveys, performance audit and financial audit documentation

- reviewing and analysing VAGO performance data and related information

- discussions and interviews with VAGO senior leadership, VAGO staff, contractors, consultants and Audit Service Providers

- facilitating focus groups with junior staff within VAGO

- consulting key external stakeholders, such as: departmental secretaries, Audit and Risk Committee chairs, performance audited public agencies and Parliamentarians. This included, in line with natural justice principles, engaging with VAGO and PAEC secretariat on our summaries of findings and draft reports.

In conducting this performance audit, we examined documentation from nine performance audits completed between February 2017 and October 2019 and 38 financial audit files. We also conducted a total of 56 internal and external stakeholder interviews and facilitated four focus groups. See Appendix D for further details on the approach and methodology for this audit.

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1   Our assessment of whether VAGO is operating economically is based on assessing VAGO's efficiency and productivity.

Structure of this report

This report is divided into the following key areas in which we examine:

Key Area 1: Independence and objectivity

- whether VAGO has an effective and efficient framework for assuring the independence and objectivity of the Auditor-General and his staff

Key Area 2: Contribution to an effective and efficient public service

- if VAGO is effectively leveraging appropriate opportunities to support and improve the effectiveness and efficiency of the public sector

Key Area 3: Professional and respectful relationships

- if VAGO engages professionally and respectfully with stakeholders and if it is striking the right balance between consultation and preserving its independence and objectivity

Key Area 4: Performance audit methodology, tools and techniques

- if VAGO's performance audit methodology, tools and techniques are sound and effectively applied to audits

Key Area 5: Financial audit methodology, tools and techniques

- if VAGO's financial audit methodology, tools and techniques are sound and effectively applied to audits

Key Area 6: Focus on quality and continuous improvement

- if VAGO has a strong continuous improvement culture supported by effective governance and accountability arrangements that drive the efficient and effective implementation of improvement initiatives

Key Area 7: Strong practice management

- if VAGO has appropriate practice management systems, strategies and processes

Key Area 8: Participative leadership and inclusive culture

- examine the leadership team's impact on the organisation and its progress in improving organisational culture and cohesion

Key Area 9: Engaged staff and a focus on wellbeing

- examine the leadership team's progress in improving staff engagement, morale and wellbeing.

Navigating this report

As part of the TOR an explanation of each key area was provided. This has been included at the beginning of each chapter. In addition, a summary of findings for each key area is provided. There is some crossover in a number of areas of the TOR which has resulted in some repetition across the report. While cross-referencing has been used where possible, some content has been repeated to ensure clarity of the audit findings and readability.

Key Area 1:
Independence and objectivity

An Auditor-General plays an important role providing independent and objective assurance on financial reporting and the efficient and effective management of public resources.

Terms of reference

Determine whether VAGO has an effective and efficient framework for assuring the independence and objectivity of the Auditor-General and his staff.

Summary of findings

VAGO has a strong cultural understanding of the importance of maintaining independence. This is underpinned by policies and methodologies for performance and financial audit that meet legislative and auditing standard requirements for independence. They establish clear expectations and provide adequate guidance to the Auditor-General and VAGO staff on the full range of activities they may engage with in that interface with the public sector and audited agencies. VAGO staff understand the limits of acceptable activities.

VAGO has a range of effective mechanisms in place to monitor and assure the adherence of staff and contractors to defined minimum standards of independence. However, the application of the Declaration of Independence procedure for individual performance audits needs to be strengthened.

VAGO has adequate processes in place to identify and manage actual and/or perceived risks to its independence including the identification of appropriate mitigation strategies. This could be further strengthened in performance audit by fully embedding the process to mitigate against claims of conflict of interest by audited agencies when using a consultant or subject matter expert.

1.1 Clarifying and establishing expectations of independence

Terms of reference

Consider whether VAGO has codified policies, standards or guidance that clarify the concept of 'independence' as it applies to the Auditor-General, VAGO staff and the full range of activities they engage in that interface with the public sector and audited agencies.

VAGO's staff code of conduct is guided by the Code of Conduct for Victorian Public Sector Employees of Special Bodies, in financial audit the Accounting and Professional and Ethical Standards Board statements and VAGO's workplace values (Accountability, Respect, Collaboration and Innovation). VAGO's workplace values form the basis for how staff work with each other. For example, the value Collaboration is an inwardly focused value in which the definition includes staff enjoying working together, sharing knowledge and insights and giving constructive feedback. The focus and orientation of this value differs from 'collaborative initiatives', as defined by PAEC,[2] which could give rise to risks to independence by undertaking work with audited agencies that exceeds or could be perceived to exceed its mandate.

While VAGO's workplace values and the Code of Conduct do not explicitly include the value of Independence, discussions with VAGO staff demonstrated a high level of cultural understanding of what independence in a public sector audit office involves and its implications for the way they work. This includes the importance of maintaining professional scepticism, political neutrality and professional distance. VAGO staff also place importance on having a working culture which actively encourages staff to challenge findings. VAGO staff recognise the value of having a quality assurance process which ensures senior staff outside of the audit team interrogate the validity of findings.

The importance placed on independence by VAGO was confirmed in discussions with key external stakeholders. These discussions indicated that VAGO staff maintain an independent mindset in their interactions with agency staff. Moreover, key external stakeholders interviewed valued VAGO maintaining its independence and considered it to be a crucial component of VAGO's work in providing meaningful assurance to Parliament. They respected VAGO for maintaining its independence even if at times it was a source of tension.

Results from the last survey of Audit and Risk Committee Chairs in 2017/18 support these findings and that the mechanisms in place are effective. The survey results indicate that VAGO successfully maintains its independence, with 98% of respondents agreeing or strongly agreeing with the statement 'VAGO is independent'. The other 2% of respondents were neutral in their response.

This strong cultural understanding by VAGO staff of the integral importance of maintaining independence is underpinned by a range of policies and mechanisms which meet legislative and auditing standards requirements. These include the following standards: ASAE 3000, ASAE 3500, APES 110, APES 320, ASQC 1 and ASA 102.

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[2] Collaborative initiatives are defined as activities undertaken by VAGO that involve working with audited agencies in a manner that exceeds, or could be perceived to exceed, its mandate as stipulated in the relevant legislation and auditing standards. Agreed in consultation with the PAEC secretariat.

These policies and mechanisms provide guidance and implicitly establish expectations in relation to independence as it applies to the Auditor-General and VAGO staff. Policies and mechanisms include the:

- Employee Declaration of Independence procedure. This procedure establishes expected standards for managing actual, perceived or potential conflicts of independence. The procedure requires all VAGO staff to annually disclose declarable interests. It also requires senior leadership and directors to make an annual declaration of private interests

- Financial Audit Policy, Process and Procedure manual. This sets out audit procedures including compliance with independence expectations, such as requirements of the Code of Ethics for Professional Accountants (APES 110) and VAGO's Conflict of Interest policy in relation to individual financial audits

- Performance Audit Methodology manual. This establishes the expectation that all auditors must comply with all procedures for ethics and independence throughout the performance audit. This includes the requirement during the audit initiation phase for each audit team member to declare any conflicts of interest in regard to the audit. A record of this declaration should be stored on VAGO's Audit Method Performance (AmP) system

- contractual requirement for consultants[3] (contracted for performance audits) and Audit Service Providers (contracted to undertake financial audits) to maintain independence.

In addition, VAGO's Gifts, Benefits and Hospitality policy advises staff to refuse all gifts, benefits or hospitality that could be reasonably perceived to affect independence. The policy requires a register of all offers made to employees over $50 in value be maintained and uploaded on a quarterly basis to VAGO's website. However, this has not consistently occurred with the register not updated between 30 June 2019 and 31 March 2020. A limitation of the policy is the lack of guidance as to whether VAGO staff can socialise with auditees and/or in which instances such socialising should be declared. We encourage VAGO to both update the register quarterly as per its policy and to provide guidance regarding VAGO staff socialising with auditees.

A further strength of VAGO's systems and processes is the rotation of key audit staff. This ensures independence by mitigating the risk of familiarity and that VAGO staff are not unduly influenced by audited agencies. The financial audit methodology requires the rotation of financial auditors every seven years and financial audit managers every five years. Performance audit directors are rotated on a more flexible basis. Given the much lower risk of familiarity in performance audit we consider this arrangement to be adequate.

In addition to VAGO's policies and mechanisms, VAGO exists within legislative arrangements that are consistent with the Lima Declaration of Guidelines on Auditing precepts.[4] However, a survey of Independence of Auditors-General, commissioned by VAGO and undertaken in 2009 and 2013, highlighted the issue of VAGO's audit office budgets being open to review and scrutiny directly by government officials. Legislative changes made in Victoria since 2013 render findings from these surveys out-of-date. Discussions with the Auditor-General indicated that there was the potential to further increase VAGO's independence, particularly relating to the setting and approval of VAGO's annual budget and requirements that VAGO comply with some broader Victorian Public Sector policies. VAGO advised that it initiated a project aimed at strengthening independence in February 2020. The first phase of this project, which involves a review of the 2013 survey of Independence of Auditors-General, is underway.

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3   In performance audit, consultants are procured to undertake specific pieces of work. Performance audit also uses contractors who work in-house alongside other VAGO performance audit staff.

4   These specify the financial independence of Supreme Audit Institutions (SAIs), outlining that SAIs shall be provided with the financial means to enable them to accomplish their tasks; shall be entitled to apply directly for the necessary financial means to the public body deciding on the national budget; and shall be entitled to use the funds allotted to them under a separate budget heading as they see fit.

Terms of reference

Consider whether VAGO has effective arrangements for systematically monitoring and assuring the adherence of all staff and contractors to any defined minimum standards, strategies and/or processes designed to assure VAGO's independence.

VAGO has effective arrangements in place for systematically monitoring and assuring all its staff adhere to the annual Employee Declaration of Independence procedure. The Human Resources team is responsible for monitoring and assuring adherence to this procedure, including maintaining a Conflict of Interests register in which employee declarations of independence and mitigations are recorded. By 30 September each year, all staff should have completed their Employee Declaration of Interest. Our review showed progress was effectively tracked at leadership weekly briefings over this period,[5] with appropriate follow-up of staff who had not yet complied.

At an audit level, VAGO's financial audit and performance audit quality assurance processes provide an effective mechanism for ensuring independence is maintained during the course of audits. In particular, these processes involve the Auditor–General and Assistant Auditors–General Financial and Performance Audit conducting reviews. This provides the Executive with an effective mechanism for monitoring and assuring the adherence of all staff and contractors to minimum standards. Through our review of selected financial and performance audit files we tested how VAGO assures its financial and performance audit staff maintain their independence during audit assignments by examining the application of its Executive quality assurance processes. We found these processes were effectively and consistently applied (see sections 4.2 and 5.2 for more detail). In addition, there were no indications that there was a risk to VAGO's independence in how audit teams conducted audits.

A weakness in VAGO's processes was the consistency of the application of Declaration of Independence procedure for performance audits. Our review of selected performance audits showed the process of team members declaring any conflicts of interest with respect to the specific audit during the audit initiation phase was not consistently fully applied. However, this weakness does not detract from our overall conclusion that VAGO has effective arrangements for ensuring staff maintain VAGO's independence. The matter is reported to assist VAGO assure greater consistency of practice.

While our review indicated that completing the Declaration of Independence procedure had improved, the level of variance in the performance audit files needs to be addressed given the crucial importance of independence. Although the risks this poses are mitigated to some extent by the annual Declaration of Independence, completion of these declarations for individual audits provides an opportunity for all audit staff involved to explicitly consider whether they have actual or perceived conflicts of interest in relation to the specific audit they will undertake.

As part of the procurement process, consultants engaged in performance audits sign independence declarations. These declarations are stored on VAGO's record management system. However, our review of selected performance audits indicated that they were not consistently documented in AmP. During the course of our audit VAGO has rectified this by adding the requirement for signed contractor declarations to be documented in AmP for completeness.

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[5]   These are 30 minute meetings held at the beginning of every week which focus on the office administrative priorities for the week. Members of the Operational Management Group attend these meetings. Operational Management Group members consist of the Chief Operating Office (Deputy Auditor–General), Assistant Auditor–General Financial Audit, Assistant Auditor–General Performance Audit, Executive Officer (Office of the Auditor–General), Human Resources Director, Chief Information Officer, Finance Director. The Auditor–General is an ex officio member and may attend any of the meetings.

In financial audit, our examination of selected financial audit files showed declarations of independence are completed by financial audit staff members. Likewise, the selection of Audit Service Providers showed conflict of interest declarations were maintained on their audit files. Both the selection of audit files and the rotation register indicated rotation of financial audit directors and financial audit managers occurs.

VAGO has effective arrangements to monitor and ensure Audit Service Providers do not engage in activities that could impair their independence. VAGO's contracts with Audit Service Providers specify that unauthorised engagement in such activities is cause to terminate an Audit Service Provider's contract. VAGO effectively monitors the number and value of non-assurance work requests by Audit Service Providers, and the Auditor-General reviews all requests on a case by case basis. During 2019 of the eight requests received, two were rejected. This suggests that most Audit Service Providers did not pursue non-assurance work and for the few that did VAGO did not conclude that approving this work impaired independence.

Findings concerning the effectiveness of financial audit and performance audit procedures in relation to maintaining independence while developing and reporting findings are discussed in section 3.2.

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Recommendation 1:

That VAGO's performance audit business unit model the processes established in financial audit to support maintaining independence including:

- ensuring the process of completing and documenting a declaration of interest by all team members during the audit initiation phase is consistently applied and appropriately filed

- introducing a review of declarations of independence at least once during performance audits

- developing a policy around rotation of directors.

Auditor-General's response:

Recommendation accepted.

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1.2 Defining acceptable activities and managing risks to independence

Terms of reference

Consider whether VAGO has defined:

- *the nature and domain of acceptable activities with audited agencies and those which should be avoided under all circumstances in order to preserve VAGO's actual and/or perceived independence and the reasons why*
- *the risks to VAGO's actual and/or perceived independence arising from all functions and activities that interface with the public sector and audited agencies and the actions and mitigation strategies to be followed by all staff.*

VAGO adequately defines the nature and domain of acceptable activities with audited agencies. In performance audit, its methodology sets out the limits of acceptable activities. Through objective and independent examination of public administration, performance audit activity contributes to improved efficiency and effectiveness of the public sector. As discussed in section 1.1, VAGO staff demonstrated that they understood the limits of acceptable activities.

One important vehicle for managing risks to its independence is VAGO's enterprise risk register which sets out risks, likelihood of occurrence, impact and mitigation strategies. For example, the enterprise risk register identifies as a medium risk *failure to design processes that provide sufficient and appropriate assurance in financial and performance audit.*

Embedded in VAGO's performance audit methodology are a range of activities to effectively manage risks to its actual and/or perceived independence arising from performance audit activity. These include: drawing on multiple sources of evidence, requiring auditors to be alert to confirmation bias[6] to ensure analysis is fair and balanced, creating a team environment in which findings are contested and undertaking an acquittal process at key audit stages (see section 3.2).

Also, in performance audit, VAGO has a process to mitigate the risk that audited agencies do not accept findings based on a conflict of interest between themselves and a VAGO consultant or subject matter expert. This process involves, at the commencement of an audit, giving audited agencies an opportunity to raise concerns about the independence of consultants or subject matter experts. However, this process is not embedded or applied consistently. Moreover, this process is not specified in either the Performance Audit Methodology manual or VAGO's Employee Declaration of Independence procedure. We encourage VAGO to embed this practice in its processes to ensure it consistently occurs.

The financial audit methodology has specific requirements for the ongoing identification, evaluation and addressing of threats to its independence in accordance with the Australian Auditing Standards. In terms of independence these are that under the Act all financial audits are required to be conducted in accordance with the Australian Auditing Standards; and all financial audit staff are either current or aspiring members of Professional Accounting bodies bound by APES 110 Code of Ethics.

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6   Confirmation bias refers to uncritically accepting or seeking information or evidence that confirms preconceived ideas.
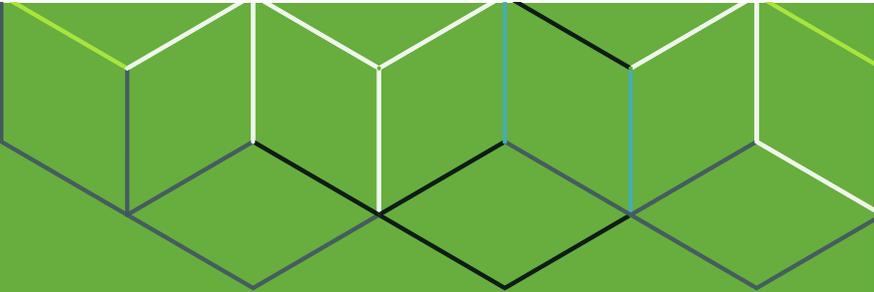
Key Area 2:
Contribution to an effective and efficient public service

An effective and respected audit office works collaboratively with agencies and authorities to deliver its mandate in a way that engages productively and supports the public sector's ability to operate in a more effective and efficient manner.

Terms of reference

Determine if VAGO is effectively leveraging appropriate opportunities to support and improve the effectiveness and efficiency of the public sector.

Summary of findings

VAGO understands the need to add value by helping improve the effectiveness and efficiency of the public sector. This is reflected in its purpose: *to help the Parliament hold government to account and help the public sector improve its performance.*

While VAGO does not have an explicit strategy, it has adequate processes embedded in its audit methodologies to clarify at the commencement of audits the nature, variety and limits of VAGO's engagement with agencies. Similarly, there are adequate processes which clarify for staff the nature, variety and limits of engagement to support public sector agencies to operate more effectively and efficiently.

VAGO's focus on engaging with audited agencies has appropriate regard to its mandate, objectives and core functions. This includes staff finding a balance between engaging with auditees to support a successful financial or performance audit and maintaining separation, and as a result safeguarding VAGO's independence. VAGO effectively mitigates actual risks to its independence by its financial and performance audit teams' engagement with agencies. However, it could strengthen its mitigation of risks associated with perceptions of inappropriate collaboration and/or working collaboratively.

VAGO achieves its purpose by designing an appropriate Annual Plan. VAGO has a sound evidence-based approach to determining its performance audit effort. The annual planning process results in a good mix of audits which are optimally focused on supporting the effectiveness and efficiency of the Victorian public service.

VAGO's performance audit effort and mix is appropriately risk-based and targeted. By using a three-year rolling plan, VAGO is able to forward plan for future audits and adapt to changes in risks and public sector priorities to ensure audit topics in the coming year are the most relevant. The annual audit plan dovetails with its business planning process resulting in an efficient and effective use of resources.

Since 2016, VAGO has delivered a good mix of performance audits that reflect improvements to the extent of VAGO's scrutiny of public sector projects and programs. Indications are that productivity, as measured by the number of performance audits delivered each year, has been fairly consistent. However, VAGO's delivery of performance audits has remained relatively high compared to Australian counterparts. Since 2017/18 there have been some efficiency gains with the average cost per performance audit decreasing.

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2.1 Collaborating with the public sector

Terms of reference

Consider if VAGO has a transparent strategy that clarifies, both for staff and agencies, the nature, variety and limits of collaborative initiatives it will employ to support the public sector to operate more effectively and efficiently.

We found no evidence of VAGO engaging in collaborative initiatives or collaboration that sits outside of its mandate. However, VAGO staff engage at different points during the audit process with the aim of supporting the public sector to operate more effectively and efficiently.

While VAGO does not have an explicit strategy, it has adequate processes embedded in its audit methodologies to ensure at the start of audits the nature, variety and limits of engagement are clarified for agencies. For example, in performance audits, initiation briefings are held to ensure auditees understand the nature of the engagement, VAGO's mandate, independence requirements and legislative powers. In financial audit, an audit strategy memorandum which outlines the planned audit approach, significant events, key risks and areas of audit focus, materiality and the audit timetable is provided at the planning stage of the audit.

VAGO also has adequate mechanisms for clarifying the nature, variety and limits of engagement with public agencies to staff. These mechanisms include staff induction, training arrangements and steps outlined in VAGO's audit methodologies which help ensure staff understand and adhere to the Australian Auditing Standards (see section 1.1). Discussions with VAGO staff and key external stakeholders confirmed that VAGO staff understand the types of engagement that is appropriate and within VAGO's mandate.

Terms of reference

Consider if VAGO's focus on collaborative initiatives is appropriate having regard to its mandate, objectives and core functions.

In our review of selected performance and financial audits we found no evidence of VAGO staff engaging in collaborative initiatives or collaboration that exceeded VAGO's mandate, objectives or core functions. We found that VAGO staff engage with key external stakeholders, including auditees, in an appropriate manner with regard to its mandate, objectives and core functions.

Discussions with both VAGO staff and key external stakeholders, including Members of Parliament, indicated building positive relationships with audited agencies is important for conducting successful financial and performance audits. For example, positive relationships can facilitate the collection of evidence which results in better quality audits. A failure to build such relationships can create risks to the relevancy, accuracy and impact of an audit.

VAGO staff understand key elements of having positive relationships include being respectful, non-competitive and open to listening to the views of auditees. However, VAGO staff indicated that building such relationships requires finding a balance between engaging with the audited agencies involved and maintaining separation, and as a result safeguarding VAGO's independence.

Terms of reference

Consider if VAGO is effectively mitigating the risks to its independence and self-review from current and/or planned collaborative initiatives by its financial and performance audit teams with agencies.

VAGO has an effective risk management approach built around its enterprise risk register which it uses to identify risks and mitigations (as described in section1.2). The Operational Management Group is responsible for developing, maintaining and monitoring the enterprise risk register. A standing agenda item for this Group's monthly meetings is risk/opportunity triggers. When required, the Operational Management Group updates the enterprise risk register in consultation with risk owners (Executives).

In addition to this, VAGO's Audit and Risk Committee has a standing agenda item to review and assess risks and controls at its quarterly meetings. This includes discussing specific risks in the enterprise risk register. On occasion, VAGO's Audit and Risk Committee has suggested amendments to the enterprise risk register.

At an audit level, VAGO has in place several mechanisms to effectively manage potential risks to independence that engaging with audited agencies could pose. The financial audit methodology is very structured and provides clear guidance on engagement with audited agencies. The financial audits we examined showed financial auditors adhered to these requirements.

VAGO has a comprehensive process for planning its performance audit effort (see sections 2.2 and 7.1). VAGO's performance audit methodology requires audit teams to progressively test their understanding of the audit context, facts and findings with agency's management and staff. Risks to independence are effectively mitigated through a range of mechanisms embedded in VAGO's performance audit methodology (see section 1.2). Moreover, VAGO has thorough review and approval processes that performance and financial audits must follow as part of VAGO's quality assurance processes (see sections 4.2 and 5.2).

VAGO could further mitigate against the perceived risk of engaging in inappropriate collaboration and/or collaborative activities. For example, discussions with key external stakeholders and VAGO staff indicated integration of data science within performance audits was viewed positively. However, there was a perceived risk among some key external stakeholders that data science could be used in ways that led to VAGO overstepping its mandate. For example, undertaking data science activities with the intention of generating a resource for use outside of audit reports. If this were to occur, such activity could potentially negatively impact VAGO's independence. There was no evidence of this occurring and, given VAGO's strong culture of independence, in our opinion the likelihood of this happening is low.

However, to effectively mitigate against perceived risks associated with the application of data science and to ensure its use is optimised, VAGO should develop a data science strategy that clarifies VAGO's objectives and the approach taken including the limitations of its use in performance audit. This should be a live document that is regularly updated. The strategy and guidance should be communicated to key external stakeholders with a view to establishing a joint understanding of VAGO's vision and objectives.

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Recommendation 2:

That VAGO develops a data science strategy that clearly outlines VAGO's approach to integrating data science within performance audit practice.

Auditor-General's response:

Recommendation accepted.

2.2 Performance audit effort

Terms of reference

Consider if VAGO has a sound evidence-based approach to determining its performance audit effort in terms of, but not limited to, the mix between 'in-flight' vs completed programs/projects, and broad vs limited scope audits and whether this demonstrates audits are optimally focused on supporting the effectiveness and efficiency of the public sector.

VAGO has a sound evidence-based approach to determining its performance audit effort. Discussions with performance audit staff indicate that a wide range of information is drawn on to evidence this. This includes regularly meeting with departments; engaging with a wide range of stakeholders such as agencies, peak bodies, unions and user groups; desktop research and liaising internally with financial audit directors. The information gathered forms the basis for VAGO determining its performance audit effort going forwards and assessing current performance.

The annual performance audit plan is produced in a manner consistent with VAGO's legislated role, which authorises the Auditor-General to examine whether the operations or activities of Victorian public sector agencies are achieving their objectives effectively and efficiently. VAGO plans for between 20 and 22 performance audits and approximately two follow-up audits annually.

In 2018/19 VAGO made changes to the annual planning process that has improved how VAGO plans for different types of audits. These changes included using three main categories of audit type: efficiency, outcomes focused (which includes effectiveness) and housekeeping,[7] with subcategories including longitudinal[8] and data analytics. VAGO's planning approach does not distinguish between broad or limited scope audits. However, as part of its investment approach to annual performance audit planning, VAGO considers scope and size in relation to projected impact.

The annual planning process involves both topic prioritisation through the application of audit planning criteria and a moderation process in which senior leaders review priority ratings (see below). As a result, VAGO plans an appropriate mix and balance of audits which are optimally focused on supporting the effectiveness and efficiency of the Victorian public service.

Our review of the performance audit annual plan indicates that VAGO plans for a good balance of audits across sectors with typically between two to four audits in each sector. In addition, the audit plan includes a mix of ongoing programs and projects as part of its longitudinal audits, completed projects and housekeeping audits. While most focus on effectiveness, the 2019/20 audit plan included one efficiency audit and a further two efficiency audits are included in the draft 2020/21 annual planning dashboard.

Terms of reference
Consider if VAGO's performance audit effort and mix is appropriately risk-based, targeted and demonstrably reflects an effective and efficient use of its resources.

Based on the evidence reviewed, VAGO's performance audit effort and mix is appropriately risk-based and targeted. VAGO's performance audit annual planning process is designed to select topics based on risk amongst other factors. Key steps that ensure a risk-based and targeted audit effort include:

- the audit topic prioritisation process. Performance audit directors apply logical criteria (including financial, social and environmental materiality and risk) to give each proposed performance audit topic a prioritisation score. In preparation directors gather information concerning key risks and challenges facing their sector including drawing on VAGO's risk profile of the Victorian public sector, both overall and by sector

- moderation process. The Auditor-General, Deputy Auditor-General and Assistant Auditors-General review audit topic priority ratings as part of the performance audit planning process.

VAGO's planning approach balances forward planning with audit topic relevance by using a three-year rolling audit plan. This risk-based approach enables VAGO to plan for future audits in years two and three while ensuring audit topics in the coming year are the most relevant. This process includes adapting to changes in risks and public sector priorities.

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7   Housekeeping performance audits are audits that focus on matters of good housekeeping and financial regularity that underpin service delivery.
8   Longitudinal performance audits are audits with a longer-term perspective. These audits are designed to analyse performance audit results through time, in order to identify what works, assess the adequacy of early planning in projects/programs and use longitudinal datasets to examine causal relationships.

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In addition to VAGO's annual audit planning process, VAGO's annual business planning process ensures effective and efficient use of resources. The business planning process identifies the number of FTE hours and budget needed for the performance audit business unit to deliver the outputs established in the annual plan. Our review found that the assumptions underpinning business planning and their application met our expectations for an audit office because the process resulted in a reasonable estimate of budgets and costs at an audit level and practice level. In addition, we found VAGO's annual business planning process resulted in an intentional and planned mix of external and internal resources which is able to deliver VAGO's planning outputs efficiently.

Indications based on comparison of staff utilisation rates[9] with other Australian State and Territory counterparts, and VAGO meeting its internal targets, are that the business planning process results in a reasonably efficient use of resources. For example, VAGO's performance audit staff utilisation rates are slightly higher[10] than other Australian State and Territory counterparts. These rates are based on the percentage of staff hours allocated to audit work. In addition, in 2018/19 the performance audit business unit met its internal target of 76.4% productive hours (as a percentage of available hours) by achieving 77.8%. Also, the average chargeable hours per non-attest staff[11] has increased from 1,052 in 2016/17 to 1,116 in 2018/19.

While indications are that staff resources are utilised efficiently, there is some evidence that based on ACAG Macro Benchmarking Surveys compared to other Australian audit offices, VAGO's performance audit costs are relatively high. Given the current utilisation rates, it is improbable that high costs are a result of inefficient audit resourcing, instead reflecting differences between performance audits conducted in each jurisdiction. Our review of comparable audit offices and discussions with VAGO senior leadership and performance audit directors, indicates contributing factors to higher costs per performance audit include undertaking bigger audits with multiple agencies rather than audits focusing on a single agency, and VAGO engaging more subject matter experts to enable them to examine particular topics which they could not otherwise audit. As a result, cost comparisons are informative but not conclusive.

We have concluded that VAGO is effectively and efficiently using its resources based on:

- VAGO completes its planned performance audits
- current staff utilisation rates
- indications average audit costs are decreasing
- the robust selection process for performance audits.

Moreover, the ongoing effectiveness of VAGO's performance audit effort is evidenced by Parliamentarian (2019) and Audit and Risk Committee Chairs (2017/18) survey results. These survey results indicate that VAGO successfully identifies and targets issues of significance through its performance audits and that its services and reports are contributing to improving public sector administration.

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9 Staff utilisation rates are a proxy measure for resource utilisation efficiency. As such they should be treated with caution as they provide an indication of efficiency rather than an absolute measure.

10 For example, based on the ACAG Macro Benchmarking Survey, the percentage of non-attest audit staff paid hours charged to non-attest audit activities was 56% in Victoria in 2018/19 compared to the State and Territory average of 54%. Similarly, the percentage of non-attest audit staff available hours charged to non-attest audit activities was 70% in Victoria in 2018/19, compared to a State and Territory average of 67%.

11 Non-attest staff refers to performance audit staff, data science staff and publishing staff.

Consider if changes to the number and mix of performance audits delivered by VAGO since 2016 reflect improvements to VAGO's efficiency, productivity and extent of scrutiny of public sector activities.

Since 2016, VAGO has planned for fewer audits in their audit plan, as depicted in the graph below. At the same time, in most years VAGO tabled fewer audits than planned for. For example, in 2017/18 VAGO tabled 18 performance audits and planned for 24 audits. However, in 2018/19 VAGO delivered a greater number than the annual plan indicating that they had addressed at least in part the shortfall.

Figure 1: Number of performance audits planned and delivered per year
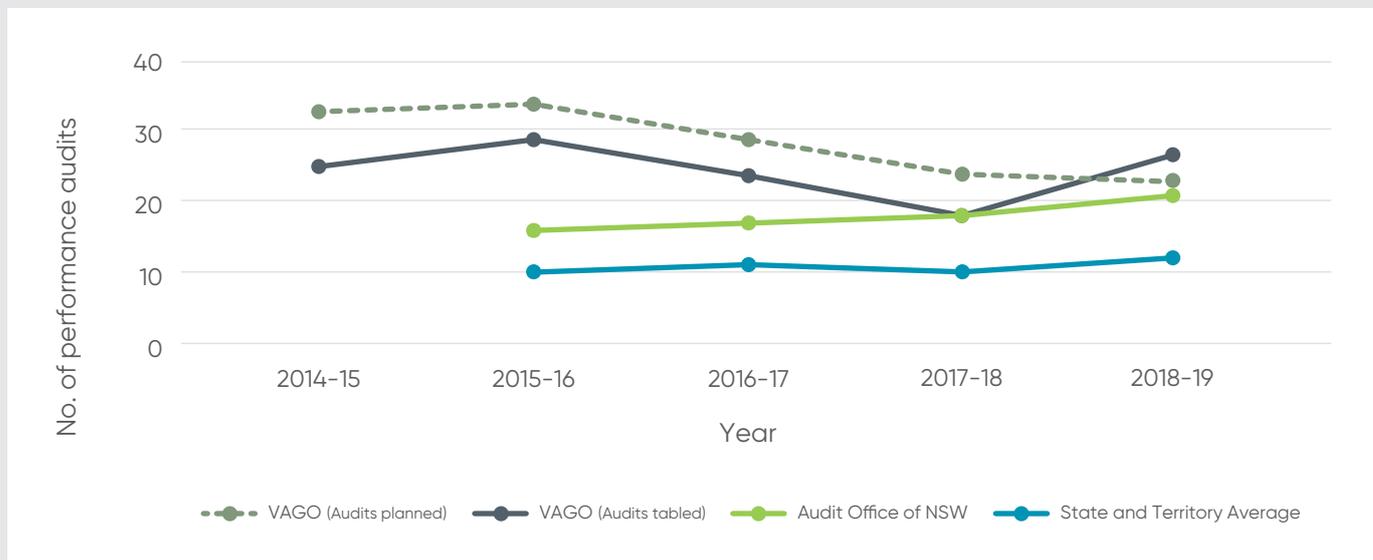
Sources: VAGO annual reports and annual plans, NSW Audit office annual reports, ACAG macro bench-marking.

Over this time, VAGO has delivered a good mix of performance audits. This has included:

- recently delivering three longitudinal audits
- three housekeeping audits under the 2018/19 annual plan
- an increased focus on efficiency with approximately two efficiency audits delivered each year
- between two and five performance audits conducted in each sector.

These changes to the mix of performance audits reflect improvements to the extent of VAGO's scrutiny of public sector projects and programmes.

A proxy for VAGO's productivity, measured by the number of performance audits delivered each year, indicates it is relatively high compared to Australian counterparts. We note that this is an imperfect measurement due to the variance in the nature, type, scope and complexity of performance audits between audit offices, as well as variances across budgets, resources and priorities of each audit office. However, while VAGO typically delivers more performance audits than other audit offices, as shown in the graph above, indications are that productivity has remained fairly consistent.

While in recent years VAGO's performance audit consultant/contractor expenses have increased,[12] since 2017/18 there have been some recent efficiency gains in the form of overall decreasing costs for performance audits. In 2017/18, VAGO's average performance audit cost was $650,000 against an average budget of $561,000. In 2018/19 this reduced to $563,000 against a budget of $568,000. In 2019/20 the average cost of performance audits is expected to be $538,000 against a budget of $550,000.[13]

We encourage VAGO to consider building on this output focused productivity measurement to develop a more robust approach to measuring productivity. One approach to measuring productivity is to evaluate the allocation/utilisation of resources relative to impact. VAGO currently attempts to monitor the impact of its performance audit effort through several mechanisms, including follow-up audits, client surveys and an internal External Impact Report. However, this could be strengthened through the development of a systematic approach to measuring performance audit impact. More systematic measurement would include identifying what VAGO is trying to achieve strategically through its performance effort, including identifying the different domains, for instance public confidence. VAGO could then map out which domains are most important and what information is needed to effectively measure and monitor the impact of its audits in relation to these. In addition, we encourage VAGO to investigate the appropriateness of impact measurement approaches used by some audit offices, such as the United Kingdom National Audit Office's dollar-add approach.

Recommendation 3:

That VAGO develops a systematic approach to measuring the impact of performance audits taking into account allocated/invested resources.

Auditor-General's response:

Recommendation accepted.

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12 In 2018/19, VAGO contracted $1,289,000 worth of work in non-attest audits, compared to a State and Territory average of $444,000. VAGO's average cost of contracted audit service provider expenses per audit is $47,740, compared to other audit offices such as NSW at $14,952 and Queensland at $58,785 per audit.

13 These numbers are not CPI adjusted.
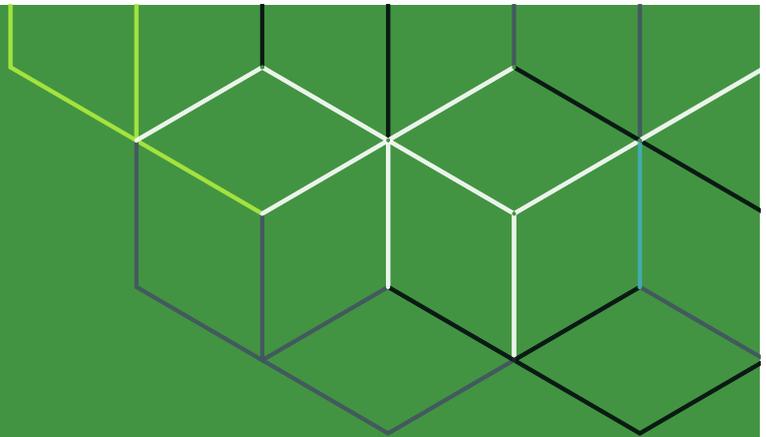
Key Area 3:
Professional and respectful relationships

Open, honest and effective consultation with stakeholders is fundamental to an effective audit office. At the same time, audit offices must maintain the right balance between consultation and preserving their independence and objectivity.

Terms of reference

Determine if VAGO engages professionally and respectfully with stakeholders, and if it is striking the right balance between consultation and preserving its independence and objectivity.

Summary of findings

VAGO does not have an effective stakeholder engagement strategy or plan that it measures its performance against. While VAGO developed a high-level stakeholder engagement strategy and a stakeholder engagement plan in consultation with some key external stakeholders, neither were implemented. VAGO is in the process of developing a strategy for stakeholder engagement in financial audit and also for Parliament.

VAGO has some mechanisms for gathering feedback on stakeholder engagement. However, they do not provide VAGO with a systematic approach to monitoring and measuring the effectiveness of stakeholder engagement. While VAGO staff generally engage well, there is room for improvement. This reinforces the need to have an effective means of evaluating stakeholder engagement to identify and understand areas in which engagement may be suboptimal. Adopting a systematic approach would enable VAGO to identify any potential underpinning issues and to strengthen its stakeholder engagement as part of its strategic objective to *Grow our influence.*

VAGO's financial and performance audit staff conduct audit engagements professionally and respectfully. There are clear and transparent processes in place for receiving and addressing feedback from auditees, including disagreements, which have been consistently applied. For more persistent or significant disagreements VAGO staff meet with the auditees to, if appropriate, work through the disagreement and to explain its position and proposed actions.

For performance audits, the rationale for decisions to adjust findings and/or the report are well documented, based on the evidence VAGO has in its files, and shared with audited agencies at key points in the audit process. From a stakeholder perspective there have been some issues in resolving disagreements that have arisen around highly technical areas in which VAGO has received advice from subject matter experts.

For both financial and performance audit, VAGO maintains its independence and objectivity. conducting audits without fear, favour or affection.

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3.1 Stakeholder engagement strategy

Terms of reference

Consider if VAGO has an effective stakeholder engagement strategy, developed in conjunction with stakeholders, that demonstrates a mutual commitment to clearly defined standards of professional behaviour and engagement between VAGO and the public sector.

As mentioned earlier, VAGO does not have an effective stakeholder engagement strategy or stakeholder engagement plan as neither have been widely shared or embedded within the organisation.

VAGO invested in developing a stakeholder engagement strategy in response to the 2016 PAEC performance audit and an internal audit into stakeholder engagement completed by an external provider in March 2017. Approved by the Strategic Management Group in December 2017, the stakeholder engagement strategy is a one-page strategy which links stakeholder engagement with VAGO's Strategic Plan 2017–2021. It was not developed in conjunction with stakeholders and it does not establish expected standards of professional behaviour and engagement.

In 2018, VAGO commissioned the development of a stakeholder engagement plan by an external provider. While development was informed by consultation with 12 key external stakeholders[14] and the Strategic Management Group, the plan does not clarify expected standards of professional behaviour. This includes providing examples of good stakeholder engagement and guidance on the limitations to stakeholder engagement given VAGO's mandate. The stakeholder engagement plan was finalised in February 2019.

In March 2019, the Operational Management Group decided to not implement the stakeholder engagement tools previously developed by the external provider as feedback about existing engagement had been largely positive. Discussions with financial and performance audit directors confirmed the stakeholder engagement plan had not been implemented. VAGO is in the process of developing a strategy for stakeholder engagement in financial audit and also for Parliament.

We found not implementing an effective stakeholder engagement plan has contributed to variability in stakeholders' experiences of engagement in different sectors, particularly experiences with performance audit directors outside of audits. Effective stakeholder engagement is important for ensuring public agencies have clear expectations and an understanding of VAGO's role. Discussions with public agencies indicated when regular engagement was maintained outside of performance audits these agencies felt they could call if needed, understood VAGO's role and were able to contribute to VAGO's annual planning. This was not the case for some agencies of a similar size and significance in different sectors which experienced little or no contact outside of performance audits.

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14 12 key external stakeholders were consulted across four different stakeholder groups – Parliament of Victoria, Whole of Government Agencies, Public Sector Departments and Organisations and external suppliers.

Recommendation 4:

That VAGO updates and implements its stakeholder engagement strategy and implementation plan to ensure that it meets VAGO's unique needs as an audit organisation including providing:

- guidance on VAGO's limits to stakeholder engagement

- minimum expectations of Engagement Leaders outside of audits including expected frequency of contact with portfolio departments and agencies and examples of what good stakeholder engagement looks like

- clearly defined standards of professional behaviour and engagement between VAGO and the public sector.

Auditor-General's response:

Recommendation accepted.

Terms of reference

Consider if VAGO regularly assesses stakeholders' and its own performance against the engagement strategy and if this is discussed with stakeholders and demonstrates that both parties are effectively and efficiently discharging their obligations.

As mentioned earlier, the stakeholder engagement plan was not implemented. VAGO did not apply the guiding principles provided in the unimplemented plan to evaluate its stakeholder engagement. This means VAGO cannot determine how effectively and efficiently it is discharging its obligations in this respect.

That said, VAGO has in place some other mechanisms to gather feedback on the effectiveness of stakeholder engagement. These mechanisms include post-performance audit client feedback and client surveys, including with Parliament. VAGO completes some analysis of the data captured which is reported in its annual report. In addition, the Auditor-General regularly meets with the PAEC and Departmental Secretaries to discuss any emerging issues, including stakeholder engagement. While these provide some insights, they do not provide systematic monitoring of VAGO's stakeholder engagement including whether it is achieving the desired results and what improvements, if any, need to be made. We encourage VAGO when developing its outcomes framework (see recommendations 3 and 21), to include stakeholder engagement as a domain.

3.2 Stakeholder engagement during conduct of audits

Terms of reference

Consider a representative sample of financial and performance audit engagements and determine if VAGO conducts audits professionally and respectfully. In so doing:

- *balance any feedback received from agencies against the perspectives of relevant VAGO staff, and validate any findings by reference to evidence on VAGO files*

- *consider if VAGO's correspondence, communication and approach to engagement demonstrates that it is receptive and responsive to agency feedback*

- *determine if VAGO maintains its independence by fairly and critically evaluating the issue, feedback or concerns raised by stakeholders during audits, and if it has responded appropriately to agencies in response to these issues where they have arisen.*

Financial audit

Examination of selected financial audit files indicated VAGO's financial auditors comply with the Australian Auditing Standards' requirements for communication with audited agencies. This includes a range of communications such

as audit strategy memorandums, management letters, closing reports and attending Audit and Risk Committee meetings. Discussions with key external stakeholders and client survey results indicate financial audit stakeholder engagement is viewed positively.

Performance audit

VAGO's performance audit methodology outlines a clear engagement process which seeks feedback from auditees at key audit steps. In our discussions with key external stakeholders there was recognition that, by its nature, performance auditing can involve having potentially difficult conversations. Most key external stakeholders commented that VAGO's performance audit teams are professional and engage in a respectful and collaborative manner.

These views were confirmed in client survey results which indicate that VAGO staff generally engage well. However, there is room for improvement. Results from the last three years' survey reinforce the need to have a more effective means of evaluating stakeholder engagement to understand the underpinning reasons why areas such as *the auditors adequately understood our organisation, including our operating environment* are suboptimal.

Both discussions with auditees and our review of performance audit files indicate that there are two factors which increase the risk of less positive stakeholder engagement during performance audits. These are:

• ineffective or inconsistent communication of the type and/or scope of the audit. Our discussions with a number of key stakeholders and review of selected performance audit files indicated that early and thorough engagement with an audited agency to work through and establish a common understanding of the scope of a performance audit is important. This includes ensuring auditees understand the significance and implications of what has and has not been specifically scoped out. When this does not happen, issues and/ or disputes are more likely to arise at the end of audit conduct and report drafting stages, including development of recommendations

• alterations to the audit process, including changes to or omission of steps and reduced timelines during the course of the performance audit. A few interviewed stakeholders expressed frustration when there were changes to the 'rules of engagement' of an audit, such as skipping or altering steps. These stakeholders felt that VAGO did not appreciate the negative impact it had on their ability to engage with and respond to findings. If changes to the audit process are required, we encourage VAGO to ensure that it effectively communicates the reasons for these changes and engages with auditees to understand the implications of the process change for both parties before implementing it.

Through post-performance audit debriefs there were other less significant stakeholder engagement concerns raised by auditees. These included that stakeholder engagement was at times not at an adequately senior level and that issues were not raised and/or escalated quickly enough. While the audited agency's internal liaison is responsible for the dissemination of findings internally during the audit, and senior VAGO staff routinely attend milestone briefings, it could be beneficial for VAGO senior staff to ensure executive departmental and agency staff have been kept well informed, particularly if there are political sensitivities or significant findings.

Findings concerning addressing feedback and dealing with disagreements are discussed next.

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Recommendation 5:

That VAGO includes in its audit initiation briefings information about:

• types of audits and scope including the significance of what has and has not been specifically scoped out

• roles, responsibilities and expectations of conduct of VAGO, agency staff, and where relevant subject matter experts.

Auditor-General's response:

Recommendation accepted.

Terms of reference

Consider if VAGO has a transparent and effective framework for managing disagreements with agencies during audits that assures its objectivity and independence is maintained. Consider if VAGO:

- *transparently records the basis of disagreements with agencies*

- *rigorously and fairly evaluates the merits of agency perspectives*

- *formulates appropriate responses that maintain the independence and objectivity of audits*

- *engages reasonably and effectively with agencies to explain the basis of its position in relation to any disagreements and proposed actions*

- *ensures that any changes it makes to draft reports in response to agency feedback or disagreements are evidence-based, appropriate and uphold the independence of VAGO.*

Financial audit

Discussions with financial audit directors and key external stakeholders indicate financial auditors engage reasonably and effectively with public agencies when disagreements occur. Such disagreements largely involve interpretation of complex technical accounting matters. When disagreements occur, VAGO staff seek to understand the basis of the disagreement and to reach an understanding with auditees, while maintaining independence and objectivity. This process involves engaging with the Chief Financial Officer and the finance team at the audited agency. Issues are also brought to the attention of the audited agency's Audit and Risk Committee, either for information or for resolution.

The financial audit methodology sets out a clear internal process for addressing disagreements. This includes the audit team seeking internal advice, consistent with the VAGO Consultations Policy, and consulting the Office of the Auditor–General, Financial Reporting Advisory and audit quality guidelines. When disagreements persist, outstanding technical issues are formally resolved via VAGO's technical panel.[15] The same process is followed for outsourced financial audits with the exception that Audit Service Providers communicate with the audited agency's Chief Financial Officer instead of VAGO staff. When communicating outstanding issues with the audited agency's Audit and Risk Committee, both the Audit Service Provider and the financial audit director attend.

Performance audit

VAGO's performance audit methodology sets out a comprehensive and effective acquittal process for managing feedback and/or disagreements with audited agencies. At the end of audit conduct and after each draft report auditees are given an opportunity to provide feedback. This is captured in an acquittal table that sets out the agency's comments and/or additional evidence which performance audit teams review and respond against. As part of quality assurance the Engagement Quality Control Reviewer, the Assistant Auditor–General Performance Audit and the Auditor–General review the acquittal table. A copy of the acquittal table is subsequently shared with auditees.

Across the nine selected performance audits, this process was uniformly applied, except for one audit where feedback was provided from the agency in a word file. Responses to requests for changes indicated that VAGO's independence and objectivity was maintained. The basis for decisions against each request for change was clearly set out, including whether the request was accepted, partially accepted, declined, or noted. When appropriate, or agreed to, VAGO also held meetings and discussions with agencies to talk through more substantial disagreements.

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A number of key external stakeholders raised concerns with VAGO's approach to dealing with technical areas in performance audits, particularly disagreements over findings where they felt VAGO had stepped outside of its expertise. These issues primarily relate to when VAGO receives advice from subject matter experts in areas where VAGO might not have the necessary technical expertise. Auditees indicated a lack of visibility of the subject matter experts' work can make it difficult to respond to matters of contention in areas that are highly technical.

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Recommendation 6:

That VAGO develop a subject matter expert policy, or include in the Performance Audit Methodology manual, a process for the engagement of subject matter experts which includes:

- providing audited agencies an opportunity to raise any issues in relation to conflicts of interest with proposed subject matter experts at audit commencement

- establishing a transparent process for VAGO and agency subject matter experts to engage on technical findings.

Auditor-General's response:

Recommendation accepted.

Terms of reference

Consider if VAGO's office culture and the perspective of audit staff on how VAGO and its contractors balance the focus on agency relationships with the need to conduct audits without fear, favour or affection.

Senior leadership has invested in reforming VAGO's office culture with a focus on developing respectful and collaborative relationships. Feedback from key external stakeholders and VAGO staff indicated that engagement had improved, becoming more collaborative and less adversarial. Discussions with VAGO staff demonstrated awareness of the need to balance this focus with the need to conduct audits without fear, favour or affection.

Our review of selected performance audit and financial audit files found VAGO conducts its audits without fear, favour or affection. This is evidenced particularly through VAGO's acquittal process and handling of disagreements. As discussed above, our review of performance audit files indicated that VAGO consistently upholds its independence and maintains a transparent process. Similarly, our examination of financial audit files indicated VAGO maintained independence throughout the audit process.

Acknowledging engagement has improved, our review of selected performance audits, discussions with key external stakeholders and client survey results indicate that there is a perception among the public sector that sometimes VAGO is not objective. These views include VAGO not starting performance audits from a neutral position, disagreements arising around issues of opinion rather than the facts and an unwillingness to alter findings. The risk of this perception persisting is that VAGO's credibility and effectiveness in contributing to an improved public service is eroded. It also increases the likelihood of auditees behaving defensively at the commencement of an audit and not implementing recommendations (even if accepted).

We recognise that perceptions are, by nature, subjective and that inevitably there will be occasions when auditees hold a different view from VAGO. We encourage VAGO to reinforce the importance to their staff of auditors being alert to confirmation bias as they undertake audits to ensure engagement and analysis is fair and balanced.

Key Area 4:
Performance audit methodology, tools and techniques
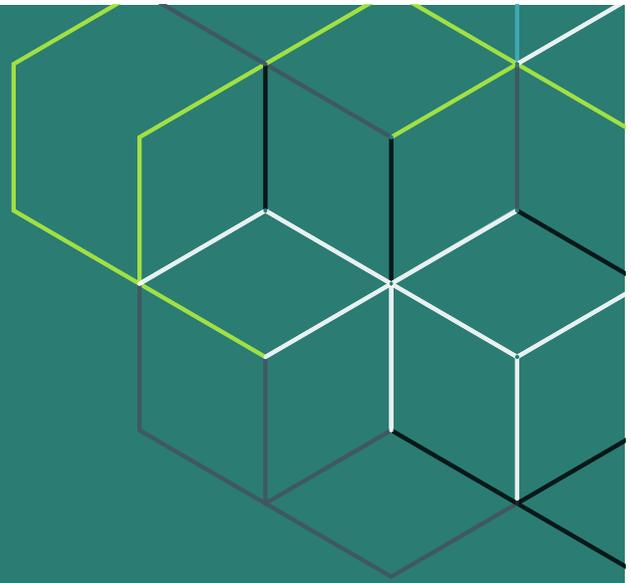
An audit office must ensure that it has access to methodologies that comply with relevant standards and legislation, supported by tools and techniques that assist the teams in the conduct of their audits.

Terms of reference

Determine if VAGO's performance audit methodology, tools and techniques are sound and effectively applied to audits.

Summary of findings

VAGO has a comprehensive methodology for performance audit which has been regularly reviewed to ensure compliance with the Act and requisite standards. While VAGO has adequate tools to implement its methodology there was variance in the application of these tools. A contributing factor was the lack of guidance in the use of MS Teams (Teams) which was introduced in 2018/19. This has generated confusion among some VAGO performance audit staff about when and how Teams should be used.

VAGO developed a training schedule to systematically train new staff in VAGO's performance audit methodology. However, there remain gaps in meeting the training needs of some staff cohorts, in particular managers who are new to performance audit. VAGO is developing a capabilities framework and has started to provide more advanced training which should address this issue.

Embedded in VAGO's performance audit methodology and guidance in AmP are key quality assurance steps which form part of VAGO's quality control framework. An important component of these quality assurance steps are the reviews undertaken by the Engagement Leader, Engagement Quality Control Reviewer, Assistant Auditor-General Performance Audit and the Auditor-General. While the application of the Engagement Quality Control Reviewer,

Assistant Auditor-General Performance Audit and the Auditor-General are well established, weaknesses were identified in the application of the Engagement Leader role. This is particularly the case during the evidence collection and analysis phase of performance audits.

Between late 2015 and late 2019, performance audits were not subject to regular independent post-performance audit assurance reviews. This was a significant gap in the quality control framework which had the potential to undermine VAGO's audit quality and/or stakeholder perceptions of VAGO's audit quality. VAGO has recently addressed this gap.

Evidence indicates that the audit plan, criteria and evidence collected adequately support the findings, conclusions and recommendations contained within reports. There was no evidence of material or unjustified omissions of adverse findings. While most recommendations were clear, specific, actionable and addressed the root cause of issues, there were a few instances where the recommendations were either not sufficiently targeted or were open ended and ongoing in nature. Reports were developed through a rigorous process that was devoid of fear, favour and affection. Indications were that Audit and Risk Committee Chairs and Departmental Secretaries valued the contribution VAGO's performance audits could make towards promoting a culture of ongoing improvement.

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4.1 Performance audit methodology, guidance and software

Terms of reference

Consider if VAGO's performance audit methodology, guidance and software is comprehensive, regularly reviewed and updated to ensure compliance with the Audit Act and requisite standards.

VAGO's performance audit methodology is comprehensive and compliant with the relevant standards and the Act. To ensure its performance audit methodology remains fit for purpose VAGO has regularly reviewed and updated it. The performance audit methodology was refreshed in 2017 and updated in June 2019 following amendments to the Act.

VAGO uses two software platforms, AmP and Teams, to undertake audits. AmP is designed to document work and evidence and to assist in managing and reviewing performance audits. It provides a sound basis for managing the performance audit process and provides a structure to generate a robust evidence trail. Our review of selected performance audit files showed variabilities in how AmP was applied. This variability was evident in how collected information was documented in AmP and in the approach to working papers. While there were examples of good practice within the reviewed audit files, in three audits documentation of evidence to support emerging findings was particularly difficult to follow. This should not be read as suggesting that there was inadequate evidence to support the audit conclusions reached. Rather, the documentation of the audit trail was lacking.

Teams was introduced to the performance audit business unit in 2018/19. The introduction of Teams is a positive addition to the performance audit toolbox as it enables audit teams to work collaboratively. It has advanced functionality and provides VAGO the ability to link to files within AmP rather than having to upload files.

While there is ample instruction in the Performance Audit Methodology manual as to how to use AmP to undertake an audit, this is not the case for Teams where there is no guidance provided. This has generated confusion among some performance audit staff. VAGO would benefit from providing clear guidance in the use of AmP and Teams to facilitate certainty and consistent practice.

Our review of selected performance audit files, discussions with and observations of performance audit directors showed that there are different practices applied when using Teams and AmP. While the auditing standards do not require a single repository to form an audit file, nor was there evidence of incomplete work, the result of inadequate guidance about appropriate use is that key files and documents are spread across both platforms in an inconsistent manner.

While VAGO senior leadership is comfortable with this arrangement, in our opinion, this creates a number of potential issues including:

- the combination of variability in practice and lack of guidance makes understanding and applying VAGO's systems and processes more challenging for staff with the potential to create confusion

- not having the equivalent guidance provided in Teams to support the audit team through the performance audit process creates additional challenges for new performance audit managers leading their first audit

- putting at risk the ability to retrospectively find files to effectively complete post audit reviews as it relies on someone who worked on the audit to know where files were stored.

Recommendation 7:

That VAGO provides good practice guidance including examples of exemplar audit files and templates in relation to treatment and filing of documents, including working papers, to ensure each audit file can be easily navigated and the links between the application of the audit criteria, the analysis of evidence collected and audit findings and recommendations are evident.

Auditor-General's response:

Recommendation accepted.

Recommendation 8:

That VAGO updates its record keeping policy and procedures to provide clear guidance on the use of Teams in relation to the conduct of an audit. In particular, the storage of evidence and drafting/storage of working papers, approvals and whether there is expected to be a single repository for an audit file. The record keeping policy and procedures should be linked to VAGO's performance audit and financial audit methodologies.

Auditor-General's response:

Recommendation accepted.

Terms of reference

Consider if performance audit staff and contractors are systematically trained in the use of the performance audit methodology.

VAGO has a training schedule which sets out a range of training modules to systematically train new staff (including people in ongoing, fixed term, secondment and contract positions) in its performance audit methodology. Each module is offered three times a year.

While all new staff are expected to attend this training, a limitation is that performance audit staff who commence outside of the training cycle end up out of sync with the schedule. Although VAGO provides other sources of support including a buddy, closer supervision by directors or managers and shadowing of other performance audit staff to provide on-the job training, discussions with performance audit staff indicated that such support did not consistently occur or adequately meet their needs. A few performance audit managers felt that how to undertake a performance audit was assumed knowledge. They had found it quite daunting to lead an audit without having completed training as they lacked experience in audit.

Discussions with both performance audit directors and managers highlighted that performance audit managers in particular have training and development needs that are not entirely being met. This includes preparing assistant managers to make the transition to manager. Both new managers and assistant managers would benefit from a structured training program which ensures they have all the necessary skills to manage performance audits well. VAGO has started addressing these training needs by offering more advanced training targeted at managers. In addition, VAGO also has a managers' forum which creates opportunities to share practice and to learn from peers.

In addition to this, performance audit managers more broadly would benefit from training that is more targeted to their needs. VAGO has a project underway to develop a capabilities framework that should address this issue. We encourage VAGO to complete this project and fully implement it.

VAGO provides external consultants with an induction when their contract commences. External consultants are procured to undertake a specific piece of performance audit work. The induction includes use of tools such as Teams and informal discussions about VAGO's performance audit methodology. We consider this level of induction and training to be suitable given they are likely to have previous experience in audit.

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Recommendation 9:

That VAGO develops an e-learning program to supplement the existing training so that new staff can access modules in a timely fashion.

Auditor-General's response:

Recommendation accepted.

4.2 Quality control framework and assurance

Terms of reference

Consider if VAGO has a sound quality control framework for performance audits that is consistently and effectively applied by all staff and contractors across all phases of the performance audit lifecycle, and which assures compliance with the Audit Act and auditing standards.

An important aspect of AmP is that key quality assurance steps, which are part of VAGO's quality control framework, are embedded in its guidance and workflow approval process for key audit milestones and products, such as reports. This includes setting out and enforcing VAGO's review and approval process which involves four levels: Engagement Leader, Engagement Quality Control Reviewer, Assistant Auditor-General Performance Audit and the Auditor-General. However, variability in the use of Teams has undermined AmP as a single platform used to manage these key quality assurance steps. In addition, use of Teams does not trigger the same process and as such does not provide the same safeguards.

Our review of selected performance audits indicated there are weaknesses in the application of the Engagement Leader role during the evidence collection and analysis phase of performance audits. While we understand that this role is increasingly performed in Teams, it was not possible to conclude to what extent and how effectively this was occurring due to a lack of evidence. This was in part due to Engagement Leaders (directors) adopting different approaches to overseeing this phase of the performance audit.

The lack of visible oversight over evidence collection and the analysis phase of the audit is concerning given the variability observed in the quality of audit trails documented in AmP. While it is appropriate for Engagement Leaders to use their judgment and to adapt their oversight based on a range of factors, it is important to ensure that adequate levels of oversight are maintained and that there is a record of the key issues emerging and how they have been addressed.

In addition, we observed issues emerging at the end of audit conduct that required considerable reworking of fieldwork and/or analysis in three of the selected performance audits. In two performance audits, this involved work completed by consultants that did not meet VAGO's quality standards. We understand from interviews that of those performance audit directors who use consultants, some now regularly have their audit managers check the quality of consultants' work and provide feedback on a regular basis. Nevertheless, it is not clear that this occurs consistently.

However, risks to the quality of findings in reports were suitably mitigated by the Engagement Quality Control Reviewer and the work carried out by the Assistant Auditor–General Performance Audit and the Auditor–General. Our review of selected performance audits indicated that the application of the Engagement Quality Control Reviewer role had improved both in consistency of application and the quality of feedback provided. The role is now well embedded in the performance audit methodology. The Assistant Auditor–General Performance Audit and the Auditor–General have consistently performed their quality assurance role, sometimes providing substantial commentary and feedback. There was a clear acquittal process in place to ensure that this feedback was adequately addressed (see section 3.2).

Recommendation 10:

That VAGO reviews the performance audit methodology to make explicit the oversight function of Engagement Leaders as a crucial component in the quality control framework. This includes enhancing the evidence trail to include attestation of evidence/working paper quality during the conduct phase of audits.

Auditor-General's response:

Recommendation accepted.

Recommendation 11:

That VAGO formalises its expectations of performance audit staff managing contractors/consultants and applies this practice consistently.

Auditor-General's response:

Recommendation accepted in part.

Terms of reference

Consider if performance audits are subject to regular quality assurance reviews that are promptly and effectively acted upon by senior management to improve performance audit practice.

Between late 2015 and late 2019, VAGO did not have in place independent quality assurance post-performance audit reviews. A robust post-performance audit quality review process provides an independent check mechanism on VAGO's performance audit quality and is a significant component of a robust quality control framework. The absence of independent quality assurance reviews is a gap in the quality control framework. It has the potential to undermine VAGO's audit quality and/or stakeholder perceptions of VAGO's audit quality. VAGO has recognised this gap and, as outlined below, is addressing it.

In September 2019, VAGO finalised its policy for independent quality assurance reviews (Performance Audit Post Audit and Assurance Quality Review policy). The policy requires that a program of post-performance audit quality reviews runs across a four-year cycle, with each director having at least one performance audit file reviewed every two years. In late 2019, VAGO's audit quality team started performing independent quality assurance reviews. This included seeking assistance from ACAG to appoint an independent reviewer to complete an external quality review. In addition, at the time of our audit the audit quality team had started developing a plan for a review program which will ensure that at least one audit from each performance audit director is reviewed every two years.

VAGO is encouraged to:

• progress implementation of its audit review plan with oversight by the Audit and Risk Committee

• implement the proposed plan for Performance Audit Post Audit and Assurance Quality Review and to continue working with ACAG as part of this.

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4.3 Reporting of performance audits

Terms of reference

Consider an examination of a representative sample of performance audits demonstrates:

- *the audit plan, criteria and evidence adequately support the findings, conclusions and recommendations contained within performance audit reports*

- *that reports are balanced and contain no material or unjustified omissions of adverse findings*

- *recommendations are clear, specific and actionable and address the root causes of issues*

- *VAGO's parliamentary reports are robust and developed through a rigorous process that is devoid of fear, favour and affection.*

Our review of selected performance audits showed that audit plans were appropriate and the criteria provided a reasonable basis for undertaking the audit. The combination of VAGO's acquittal and quality assurance processes are effective in ensuring the evidence adequately supports findings within performance audit reports (see sections 3.2 and 4.2). There was no evidence of material or unjustified omissions of adverse findings, rather the extent to which VAGO maintains its position on findings has been a source of tension for some performance audits.

Our discussions with key external stakeholders and responses from both client and Audit and Risk Committee Chair surveys indicate most performance audit reports are considered to be factually accurate and to provide a fair and balanced view. In addition, as part of a culture of ongoing improvement we heard that some Departmental Secretaries and Audit and Risk Committee Chairs seek to learn from performance audit findings that they are not directly involved in. Examples of good practice are welcomed as they provide useful information which can be used to support improvements in the effectiveness and efficiency of the public service.

Our review of selected performance audits, client survey results and discussions with key external stakeholders indicated that the recommendations were largely considered relevant and useful for organisations. This included that Audit and Risk Committee Chairs routinely included the recommendations in their plans and tracked progress against them.

However, there are opportunities to improve the usefulness of recommendations. Our review of selected performance audits, client surveys and feedback from key external stakeholders indicated:

- while the practicality of recommendations had improved slightly, there were a few occasions when they were not sufficiently targeted and as such did not address the root cause

- the recommendations were considered to add work but not value

- a minority of recommendations were open-ended and ongoing in nature and as a result cannot be fully implemented and closed off.

The report structure of two of the selected performance audits reviewed made it difficult to link the recommendations with the key findings. Given the value the public sector places on VAGO's findings, conclusions and recommendations from performance audits, a lack of adequate referencing between findings and recommendations creates a risk that valuable lessons may not be picked up or understood by organisations that were not directly involved in the audit. In addition, the clearer the recommendation, the easier it is to evaluate whether adequate action was taken if followed up. VAGO has developed a new report template which will enhance the grouping of relevant recommendations with the summary of findings. We consider this to be a positive enhancement and encourage VAGO to ensure that the new report template is fully implemented.

Key Area 5:
Financial audit methodology, tools and techniques

An audit office must ensure that it has access to methodologies that comply with relevant standards and legislation, supported by tools and techniques that assist the teams in the conduct of their audits.

Terms of reference

Determine if VAGO's financial audit methdology, tools and techniques are sound and effectively applied to audits.

Summary of findings

VAGO's financial audit methodology and guidance is comprehensive. It was reviewed and enhanced during the audit period to ensure continued compliance with the Act and requisite standards. In 2019, VAGO launched a new financial audit methodology referred to as Establish Plan Implement and Conclude (EPIC). VAGO has identified the need to modernise its financial audit software and is in the process of addressing this.

VAGO has provided regular training on new accounting standards and on EPIC which it is in the process of introducing. However, there was no systematic training for financial auditors at the different staff classification levels. Also, VAGO has not developed a clear training progression path from graduates to audit seniors/supervisors, managers and directors outlining minimum educational and training requirements at each level. VAGO is in the process of developing a capabilities framework which should in part address this issue.

Since the 2016 PAEC performance audit, VAGO has continued to make improvements to its financial audit quality control framework. In 2019, VAGO commissioned an internal audit review of its Financial Audit Quality Control Framework. The recommendations from this review have been substantially implemented. A new Engagement Quality Control Reviewer policy was introduced in February 2019. These arrangements would benefit from adapting ACAG's *Governance and Audit Framework for Self-Assessment and External Review (2014)* to VAGO's context.

VAGO's Post Audit and Assurance Quality Review policy is consistent with the requirements of ASQC 1. From the year ended 30 June 2017, there have been regular quality assurance reviews of in-house and Audit Service Provider audit files. Senior management has acted promptly and effectively to address issues that have emerged.

Examination of a selection of in-house and Audit Service Provider financial audit files confirmed compliance with the Australian Auditing Standards and other relevant statutory requirements. However, some minor areas need to be addressed, including ensuring audit files are closed within 60 days of the issue of the auditor's report.

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5.1 Financial audit methodology, guidance and software

Terms of reference

Consider if VAGO's financial audit methodology, guidance and software is comprehensive, regularly reviewed and updated to ensure compliance with the Audit Act and requisite standards.

VAGO's financial audit methodology, Integrated Public Sector Audit Methodology (IPSAM), guidance and software is comprehensive. To ensure IPSAM continues to comply with the Act and relevant standards VAGO has reviewed and enhanced it. In 2017, in response to a 2016 PAEC performance audit recommendation concerning risk and control capability,[16] VAGO updated IPSAM to provide additional risk assessment and controls guidelines. IPSAM was updated again in 2018 and 2019 in response to changes in the Australian Auditing Standards.

In 2019, VAGO launched a new Financial Audit Methodology: Policy, Process and Procedures manual, referred to as Establish Plan Implement and Conclude (EPIC). VAGO commissioned a suitably experienced quality reviewer to perform an independent quality review of EPIC. The review found there were no significant departures from the requisite standards. However, a number of enhancements to the implementation section of the manual were recommended. While these recommendations were implemented, changes to the audit methodology were not readily identifiable.

Discussions with financial audit directors indicated that during the pilot of EPIC they had discretion on whether to adopt EPIC for one or all of their audits. In addition, there was inconsistency in the approaches used. VAGO could learn some valuable lessons from its piloting and roll-out of the EPIC methodology as the absence of a consistent and structured approach to piloting a new methodology has the potential to compromise the efficiency and effectiveness of audit teams.

Currently VAGO uses Lotus Notes as a database to store the audit manual and guidance for IPSAM. As there is uncertainty concerning whether ongoing support for this software will continue, VAGO has identified the need to modernise its financial audit software. At the time of this audit VAGO was in the process of procuring contemporary audit software.

Recommendation 12:

That VAGO ensures all changes to the financial audit methodology are sufficiently documented and readily identifiable.

Auditor-General's response:

Recommendation accepted in principle.

Recommendation 13:

That VAGO conducts the future piloting of replacement software tools in a more structured manner led by an expert team to ensure adoption of a consistent approach and all issues are identified and resolved prior to full rollout. Staff feedback should be obtained and addressed after this.

Auditor-General's response:

Recommendation accepted in principle.

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16 Recommendation 9, Risk and control capability. This recommendation included a suggestion that additional risk and control guidelines may need to be developed to support the Financial Audit and Information Systems Audit teams.

Terms of reference

Consider if financial audit staff and contractors are systematically trained in the use of the financial audit methodology.

During 2017 and 2018, VAGO provided training in the use of its financial audit methodology to financial audit staff and seasonal contractors.[17] However, we did not find evidence of systematic training for financial auditors at different staff classifications or a technical training framework that ensures systematic training in the financial audit methodology. There are two factors that could have contributed to this gap in training. These are the use of a competency framework that has not been adapted to VAGO's staff classification levels and the under-resourcing of VAGO's audit quality team (see section 6.2). In addition, while Human Resources maintains a training register and records staff training attendance, it is unclear how the training register is monitored to ensure staff receive the required training.

VAGO uses the ACAG *National Competency Framework for Financial Auditors* for training and competency assessment of financial audit staff. However:

- the framework has not been updated for the staff classification levels used by VAGO

- we could not draw a correlation between the curriculum contained in ACAG's framework and VAGO's financial audit technical training list provided for the period 2017 to 2018.

Between 2017 and 2019 training focused on new accounting standards with 25 training sessions provided in 2017, 7 in 2018 and 11 in 2019. However, through our examination of VAGO's financial audit technical training list we were unable to confirm staff at all classifications had received training as staff classification levels were not recorded. Also, the financial audit technical training list excluded graduate training provided in 2018 and 2019.

It was encouraging to find that an updated training schedule was prepared for 2019 which identified for each planned training activity, the targeted staff level and link to specific competencies in ACAG's framework. During 2019, VAGO also compensated for any shortcomings in technical training by providing mandatory training in EPIC. In addition, financial audit staff could attend drop-in sessions to raise queries and provide feedback on EPIC. We consider the content covered in these sessions to be appropriate.

Discussions with financial audit managers and directors indicated that they are positive about the nature and forms of training provided. However, some managers raised concerns that during 2019 too much training was provided, some of which overlapped. A more structured and systematic approach to training could overcome this.

Contractual arrangements for Audit Service Providers[18] require them to ensure their staff are competent and properly trained. While VAGO does not obtain a formal confirmation of compliance from Audit Service Providers, our meetings with four Audit Service Providers confirmed their compliance with this requirement.

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17 Seasonal contractors refers to casual staff engaged by VAGO at peak times in the financial audit cycle to assist in the conduct of in-house audits.

18 Audit Service Providers are contracted to conduct approximately 65% of VAGO's financial audits. This includes a few high risk audits of a specialist nature. However, the majority are small or low risk financial audits.

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Recommendation 14:

That VAGO adapts ACAG's *National Competency Framework for Financial Auditors* to ensure it covers all staff classifications consistent with the financial audit methodology and signing officer delegation arrangements.

Auditor-General's response:

Recommendation accepted.

Recommendation 15:

That VAGO establishes a training strategy aimed at consistent delivery of targeted training to financial audit staff at their different levels.

Auditor-General's response:

Recommendation accepted.

Recommendation 16:

That VAGO maintains an up-to-date list of all training provided by staff classification which is regularly reviewed to ensure that staff receive training relevant to their level/classification.

Auditor-General's response:

Recommendation accepted.

Recommendation 17:

That VAGO considers obtaining confirmation from Audit Service Providers that their staff on VAGO audits are systematically trained in the use of a contemporary financial audit methodology.

Auditor-General's response:

Recommendation accepted.

5.2 Quality control framework and assurance

Terms of reference

Consider if VAGO has a sound quality control framework for financial audits that is consistently and effectively applied by all staff and contractors across all phases of the financial audit lifecycle, and which assures compliance with applicable legislation and auditing standards.

Over the last three years, VAGO has continued to make progress in establishing a sound quality control framework and embedding this within the financial audit methodology for consistent application across all phases of the financial audit process. We note:

- an internal audit of VAGO's Financial Audit Quality Management Framework in May 2019 found gaps in the quality management framework which needed to be addressed. VAGO has made progress in addressing these. This includes finalising the audit quality team structure and establishing a process to formally track and follow-up agreed remediation actions resulting from in-house cold and active reviews

- VAGO finalised a new Engagement Quality Control Reviewer policy in February 2019. Before this, the Engagement Quality Control Reviewer policy was not sufficiently explicit. While VAGO advised this policy had been used in conjunction with ACAG's *Governance and Audit Framework for Self-Assessment and External Review*, this framework had not been adapted to VAGO's specific context and was not readily accessible for staff.

Both the new Engagement Quality Control Reviewer policy and EPIC methodology specify that Engagement Quality Control Reviewers must be appointed for high inherent risk engagements with requirements for timely reviews at appropriate stages of the financial audit process. It is encouraging that the new policy sets out specific timing of the reviews.

We found the other components of VAGO's quality assurance process for financial audits are robust. VAGO has a technical panel in place.[19] Issues brought to the technical panel are recorded on the Significant Account Matters and Significant Auditing Matters registers. Examination of these registers indicated there were a number of matters considered and resolved between 2017 and 2019. These matters mainly related to treatment of assets and uncertainty issues associated with auditing financial reports. Significant accounting and auditing issues that require consideration of a modified audit opinion are referred to the Auditor's Report Modification Panel. Our examination of the Auditor's Report Modification register showed approval of all modifications submitted.

Recommendation 18:

That VAGO adapts the ACAG *Governance and Audit Framework for Self-Assessment and External Review (2014)* to its context. This may be done by reference to the Australian National Audit Office and New South Wales Audit Office that have both developed their own comprehensive quality control frameworks.

Auditor-General's response:

Recommendation accepted.

Recommendation 19:

That VAGO ensures consistency in the understanding and application of its Engagement Quality Control Reviewer policy by identifying inconsistent practices during active file reviews and Post Audit and Assurance Quality Reviews and implementing corrective action.

Auditor-General's response:

Recommendation accepted.

Terms of reference

Consider if financial audits completed by in-house staff and contractors are subject to regular quality assurance reviews that are promptly and effectively acted upon by senior management to improve financial audit practice and compliance by in-house staff and contractors with requisite standards.

The Post Audit and Assurance Quality Review policy is consistent with ASQC 1. This standard requires the cyclical inspection, for example over a three-year period, of at least one financial audit for each person with delegated responsibility for the performance of financial audits. A selection plan for a three-year cycle from the year ended 30 June 2017 demonstrated a systematic selection of three in-house and 14 Audit Service Providers for each of the three years. For the audit year ended 30 June 2017, the financial audit files reviewed were consistent with the selection plan. For audit year ended 30 June 2018, we found this was not the case with two in-house and eight Audit Service Providers audit files reviewed. The rationale for the reduced number of files reviewed was documented as the EPIC methodology refresh project and timing and resource constraints.

Through the Post Audit and Assurance Quality Reviews, VAGO identified a range of issues, particularly in 2017/18 Audit Service Provider files. We found senior management acted promptly and effectively to address these issues. This includes the Audit Service Provider Panel Refresh Project, which aims to improve the quality of contracted financial audits. In October 2019, VAGO issued a *Request for Application to be appointed a Financial Audit Services Provider Panel* with the expectation of securing a smaller panel of ten Audit Service Providers. VAGO's request has a focus on audit quality, and data governance and protection.

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19 The technical panel is responsible for ensuring all significant accounting and auditing matters are brought to the attention of the Auditor-General for consideration and approval. Membership of the technical panel includes the Auditor-General, Assistant Auditor-General Financial Audit, Director Financial Reporting Advisory, Director Audit Quality, Senior Manager Financial Reporting Advisory, and the Financial Audit Director responsible for the Significant Accounting Matters/Significant Auditing Matters.

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In addition, in response to the 2016 PAEC performance audit recommendation 15 regarding coaching,[20] the audit quality team conducted ten active file reviews in 2019. Findings from these reviews have been used to provide coaching to financial audit teams to ensure compliance with the financial audit methodology. Discussions with financial audit directors indicated these reviews are welcomed as they are looking for opportunities to address gaps in staff understanding of the audit methodology.

5.3 Reporting of financial audits

Terms of reference

Consider an examination of a representative sample of financial audits completed by in-house staff and contractors demonstrates compliance with all relevant statutory requirements and Australian Auditing Standards for the conduct and reporting of financial audits.

Our examination of selected financial audit files demonstrates that, overall, financial audits completed by in-house staff and Audit Service Providers comply with all relevant statutory requirements and the Australian Auditing Standards. Specifically, we found:

• all stages of the audit process had been addressed as per the financial audit methodology

• audit risks were adequately identified and managed with the audit approach indicating appropriate responses to risks

• Engagement Quality Control Reviewers fulfilment of their responsibilities was consistent with IPSAM

• closing reports detailed how identified risks had been addressed to arrive at the recommended opinion in the auditor's report; these reports are shared with auditee Audit and Risk Committees.

However, we observed the following minor issues:

• a number of engagement letters dating back to 2015 and 2016 have not been reissued. While we acknowledge that the Act is clear on the terms of VAGO's engagement, it is good practice for VAGO to continue to reissue engagement letters when there are significant changes in either the client situation or in legal and regulatory requirements

• audit files were not always closed within 60 days of issue of the auditor's report, as required by ASQC 1 and the audit manual (both IPSAM and EPIC). In particular, there were a number of Audit Service Provider audit files which were either finalised after 60 days or remained unfinalised. Additionally, a small number of in-house audit files had error messages as the finalisation date was prior to the issue of the audit opinion.

A further minor issue is completion of internal concluding memorandum for in-house audits only. It is encouraging to note that VAGO intends to refresh its key deliverable reporting on completion of its Audit Service Provider Panel refresh.

Recommendation 20:

That VAGO develop procedures ensuring compliance by both in-house staff and Audit Service Providers with ASQC 1 as this relates to completion/closure of audit files within 60 days of issue of the auditor's report.

Auditor-General's response:

Recommendation accepted in part.

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20 Recommendation 15, Coaching. This recommendation included a suggestion of the audit quality team adopting a more proactive real-time quality monitoring.

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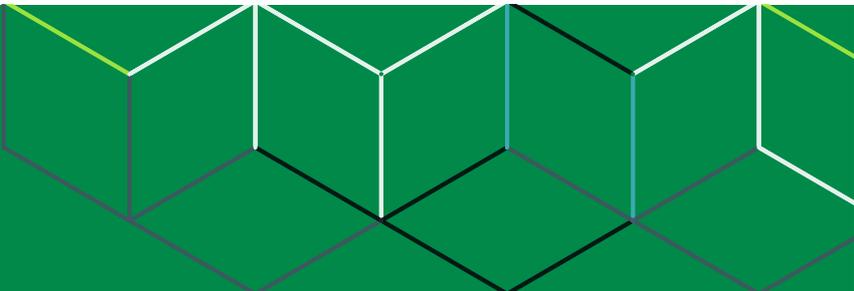
Key Area 6:
Focus on quality and continuous improvement

To maintain relevance and credibility, effective audit offices continually strive to produce high quality outputs as efficiently as possible. Their internal processes are geared towards achieving quality outcomes, which they drive through cultures that encourage innovation and continuous improvement.

Terms of reference

Determine if VAGO has a strong continuous improvement culture supported by effective governance and accountability arrangements that drive the effient and effective implementation of improvement initiatives.

Summary of findings

VAGO has made good progress in completing and implementing the majority of recommendations from the 2016 PAEC performance audit of VAGO. However, three recommendations which VAGO had accepted have not been completed. Two of these recommendations remain relevant and progress against fully implementing them should be prioritised. The third recommendation, to develop a retention strategy, should be implemented if VAGO's turnover rate remains above its internal target.

Between 2017 and 2019, VAGO has not consistently maintained a fully resourced audit quality team. Contributing factors have included restructuring the team and developing a new service catalogue for financial and audit quality services. While key roles have now been filled, at the time of this audit VAGO was in the process of recruiting into the remaining four vacant roles. The period of under resourcing has contributed to a backlog of work which VAGO is in the process of addressing. Given the new structure has only recently been implemented it is too soon to determine whether the changes will lead to sustained improvements to audit quality.

The leadership team has strengthened its focus on accountability for continuous improvement and business improvement project management. However, there are opportunities to improve the continuous improvement process by ensuring lessons learnt from the performance audit program are effectively captured and integrated into the business improvement program.

While VAGO leverages some survey results to inform its continuous improvement projects, there are some improvement opportunities based on this data which could be addressed more promptly and systematically. A positive initiative is that VAGO draws on other sources of information, such as ACAG forums, to help inform business decisions.

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6.1 Addressing recommendations from 2016 PAEC performance audit

> ### *Terms of reference*
>
> *Consider if VAGO has made adequate progress in addressing the recommendations of the 2016 Performance Audit Report, and whether the basis for any delays is reasonable and justified.*

VAGO accepted 26 of the 27 recommendations included in the November 2016 PAEC independent Performance Audit of the Victorian Auditor-General and the Victorian Auditor-General's Office report.

Recommendations accepted by VAGO were included in the Continuous Improvement Register. The register has been monitored and discussed at VAGO's Audit and Risk Committee meetings on a quarterly basis. In one instance the Audit and Risk Committee queried whether VAGO had adequately responded to a recommendation. In March 2019, VAGO reported to PAEC that all agreed recommendations had been completed or were on track to be completed by the end of April 2019. VAGO also reported to us in their self-assessment that all agreed recommendations had been addressed. However, we found that three recommendations have not been completed.

2016 PAEC recommendation 1: Stakeholder engagement strategy

The Auditor-General and VAGO should develop a stakeholder engagement strategy in consultation with the Victorian public service. A key focus of the strategy should be to ensure consistency and transparency of VAGO's communication with stakeholders. Effective communication can resolve a number of concerns raised by the Victorian public service, including those relating to objectivity.

While both a stakeholder engagement strategy and a stakeholder engagement plan were developed, they were not implemented. Recommendations to implement the stakeholder engagement strategy and plan are set out in section 3.1 of this report. Improving stakeholder engagement is important as it helps grow VAGO's influence which in turn supports public agencies to improve their public administration.

2016 PAEC recommendation 21: Leadership principles

The leadership team should formally agree, in the context of 'one VAGO', the key attributes and expected behaviours from a leader in the Office. They need to agree on what they want to be known for, how they connect with one another, how they engage with staff and stakeholders, and how they keep themselves accountable. Like other Victorian public service agencies and authorities, these principles should be documented in a Leadership Charter. It is important that these leadership principles resonate with staff and must be seen as complementary to VAGO's values and behaviours.

A leadership charter has not been developed and there are no documented reasons why this is the case. In the light of some ongoing issues relating to staff perceptions of leadership (see section 8.1), the development of a leadership charter would send a strong signal to staff of senior leadership's ongoing commitment to principles of inclusive leadership. While the recommendation was addressing issues associated with the previous leadership team, having a new leadership team made the need to develop such a charter all the more pertinent. To some extent this was addressed through an internal communication sent to all staff in 2018 which set out an agreed set of Strategic Management Group behaviours. More recently, VAGO has set out expected behaviours of the Strategic Management Group in their 2018/19 Culture Plan and described behaviours of senior leadership, directors and managers in VAGO's recently launched People Matters Action Plan as part of addressing a leadership team focused on culture.[21]

In our opinion, a leadership charter can provide a useful means for ensuring initiatives set out in the People Matters Action Plan are implemented, inducting/on-boarding new staff about expected behaviours at all levels of the organisation and help ensure the ongoing relevance of these expectations. Having a leadership charter increases the leadership team's accountability to the broader organisation by establishing a basis for evaluating to what extent senior leadership are living up to these commitments. It would also demonstrate that the onus for embodying workplace values lies with leadership first and foremost.

2016 PAEC recommendation 25: Retention strategy

Develop a specific retention strategy for the staff cohort where VAGO is experiencing the most significant turnover.

A staff retention strategy has not been developed (see section 9.2). While VAGO's turnover rate[22] has remained relatively high (see section 9.1) for the majority of the audit period, there are some early signs which could indicate that retention is improving. We encourage VAGO to closely monitor retention with a view to developing a retention strategy if turnover rates remain above its internal target of 15% or if a cyclical pattern is identified.

We consider that adequate progress for all other recommendations has been made.

Recommendation 21:

That VAGO develops and implements a leadership charter.

Auditor-General's response:

Recommendation accepted in principle.

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21 VAGO developed the People Matters Action Plan in response to the 2019 People Matters Survey results which indicated that there were some organisational issues associated with working culture that needed to be addressed. The plan sets out initiatives/actions, description, who is responsible and by when. This includes the initiative, *we have a leadership team that is focused on culture.*

22 Turnover rate refers to the rate of voluntary departures of permanent staff.

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6.2 VAGO's audit quality teams

> ### Terms of reference
>
> *Consider if the work of VAGO's audit quality teams is adequately resourced, supported by senior management, and resulting in sustained improvements to audit quality and compliance with standards.*

Between 2017 and 2019, VAGO's audit quality teams have not been consistently adequately resourced. However, to some extent this is understandable with the following occurring:

- in 2017, VAGO established a Technical Audit Services team including three executive roles. In 2018, the team experienced high staff turnover and by November 2018 the entire team had either left VAGO or returned to their substantive positions. At this point, VAGO decided to restructure the audit quality team

- between November 2018 and June 2019, the team was significantly under-resourced. During this time, the Director Financial Reporting Advisory (seconded from financial audit), developed a new service catalogue for financial and audit quality services and undertook an assessment of resourcing needs required to deliver this catalogue

- in June 2019, the Director Audit Quality was recruited. In October 2019, a restructure proposal of eight FTE for the audit quality team was approved. At the time of our audit, four of the positions had been filled and two contractors were filling two of the vacant positions. This left two FTE vacant.

Discussions with the new VAGO audit quality team indicate that senior leadership has been supportive of the establishment of this role and team. This has included senior leadership meeting with the Director Audit Quality on a weekly basis to agree on key priorities and additional supplementary staffing for short-term projects. Furthermore, the Assistant Auditor-General Performance Audit and the Auditor-General have been directly involved in maintaining audit quality during periods of under-resourcing by ensuring compliance with the standards is maintained.

Nonetheless, the period of under resourcing contributed to a backlog of work for the audit quality team. In addition, we identified minor gaps in the Quality Control Framework at an office wide level (see sections 4.2 and 5.2) which may have been addressed more promptly by a fully resourced audit quality team. This includes the review, update and approval of office-wide policies within specific timeframes. For example, the Conflict of Interest policy should be reviewed every two years but it was three years before it was reviewed.

While the senior leadership has supported the work of the audit quality team, given the new structure has only recently been implemented, it is too soon to determine whether changes in the audit quality team will result in sustained improvements to audit quality.

6.3 Strengthening continuous improvement

Terms of reference

Consider if the leadership team has strengthened its focus on accountability for continuous improvement and project management, and whether this is reflected in the delivery of VAGO's audit program, data analytics strategy, improvement projects, as well as VAGO's performance against BP3 measures and staff survey results.

The leadership team has strengthened its focus on accountability for continuous improvement and business improvement project management through the use of two separate mechanisms:

- the Continuous Improvement Register which is used to track key improvements and recommendations from internal and external audits.

- the Project Portfolio Management portal (the portal) which is used to track a variety of business improvement projects. The portal serves as a project management tool that sets out the named responsible person for the project, key milestones, budget and acceptance criteria for the project. All projects on the portal are linked to at least one of VAGO's strategic objectives.

Introduction of the portal has increased senior leadership's ability to monitor progress of each continuous improvement project, including completion of milestones and milestone resets. The Operational Management Group is provided with monthly reports on the completion of projects and in-flight reports. A standing monthly agenda item is the review of these reports, including escalating projects with milestones behind schedule. In addition, VAGO's Audit and Risk Committee receives and reviews progress updates at their quarterly meetings.

Discussions with senior leadership indicated that this is a more structured approach to oversight and monitoring of continuous improvement and project management. The 2016 PAEC performance audit found there was a lack of accountability for continuous improvement projects. Our review of the portal indicated that this had improved with the delegated person for a project held responsible for the delivery of projects on time and within budget.

Discussions with financial and performance auditors indicated importance was placed on continuous improvement. However, there are opportunities to improve the capturing and addressing of lessons learnt, especially in performance audit. Performance audit has two key mechanisms for capturing lessons learnt: post performance audit debriefs and the Performance Audit Governance Committee (which typically meets on a monthly basis with a focus on performance audit methodology and practice).

While in principle these are good strategies for identifying continuous improvement opportunities, we found information from post performance audit debriefs has not been collated and analysed. This is significant as it means that information collected through the debrief process is not used to identify reoccurring and systemic issues.

For financial audit, the Financial Audit Governance Committee is responsible for considering and developing improvements to enhance the quality and efficiency of financial audit practice. This Committee was established in early 2019 and is an improvement on the previous Financial Audit Practice Committee.

VAGO has also invested in the development of its data analytics strategy to improve financial audits. However, this is still in the early stages of implementation and as such it is too soon to assess what contribution this will make to improving outcomes in financial audit for VAGO.

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Recommendation 22:

That VAGO establish an effective process to ensure post-performance audit debriefs are regularly collated and analysed with a view to identifying any reoccurring or thematic issues. This should be led by the audit quality team so that there is a separation of functions between the conduct of audits and identification of thematic issues across these audits.

Auditor-General's response:

Recommendation accepted.

Terms of reference

Consider if VAGO proactively leverages the results of staff surveys, client surveys (that is, of Members of Parliament and audited agencies) and its benchmarking activities with other audit offices to inform its continuous improvement initiatives.

VAGO tracks and monitors staff and client survey results and benchmarks its activities with other audit offices, in particular ACAG benchmarking activities. However, there are a range of issues and limitations regarding the use and interpretation of this data. This includes:

- difficulties constructing baselines and identifying trends given that VAGO has only utilised the People Matters Survey for two years and there are instances where there is only one data point due to changes in survey design

- risks of comparing data sets that may not be strictly comparable.

Despite these challenges and limitations, information obtained from surveys and benchmarking activities such as these provide opportunities to leverage the results to inform continuous improvement initiatives.

VAGO does leverage some of this information to inform the design of continuous improvement projects. For example, VAGO is currently reviewing its approach to parliamentary reports in response to the 2019 Parliamentarian survey results. Other efforts to address issues are discussed in section 8.1. While, overall, VAGO's processes for continuous improvement have been strengthened (see section 7.2), there are some improvement opportunities based on survey and benchmarking data which could be addressed more promptly and systematically. For example, VAGO has not explicitly addressed whether relatively high outsourcing costs evident from benchmarking exercises (see section 2.2) are an issue or not, and how these costs could be reduced if they are an issue.

Discussions with VAGO senior leaders indicated they draw on other sources of information, such as ACAG forums, to find out how other audit offices address similar challenges. This has included such activities as the Head of Data Science networking with other data specialists working within performance audit to leverage on their experience. This is both to reduce the likelihood of replicating mistakes and to consider how to increase impact through the use of data science. These initiatives are supported.

Under this TOR, we also reviewed VAGO's consistency with current practice in other areas. VAGO's risk management arrangements and strategic planning in relation to cyber risk, privacy and anti-slavery is contemporary and forward looking. This includes strengthening its cyber security framework and controls following feedback from some agencies that data requests had been made without considering the privacy obligations of the agency. In addition, VAGO's IT security framework was updated in 2018/19 to incorporate the Victorian Protective Data Security Framework. An internal audit reviewed the updated framework and found that acceptable controls are in place. VAGO complies with the relevant state guidelines in the Victorian Government's Social Procurement Framework which was amended in 2019 to include relevant requirements under the Modern Slavery Act 2018.

Key Area 7:
Strong practice management

Effective audit offices employ appropriate tools, systems and processes to support the operational aspects of their offices.

> ### Terms of reference
> *Determine if VAGO has appropriate practice management systems, strategies and processes.*

Summary of findings

VAGO has appropriate practice management systems, strategies and processes. Since 2017, VAGO has enhanced its approach to performance audit annual planning resulting in a comprehensive process which is informed by a sound evidence base. This process results in a good number and mix of performance audits. Indications are that the process is probably becoming more efficient with costs over the past two years decreasing in nominal terms.

VAGO's annual audit planning process is closely linked to the annual business planning cycle. It has processes which effectively and efficiently support the resourcing and scheduling of performance audits that result in robust plans. VAGO's approach to resourcing and scheduling of financial audits is adequate given that there is minimal change from year to year.

VAGO's strategy is up-to-date and well embedded within the organisation. Senior leadership monitor progress against the high-level objectives of the strategic plan annually. However, while VAGO effectively monitors progress against BP3 measures, it does not have a framework to measure outcomes. This means VAGO cannot reliably determine to what extent completed projects and initiatives have contributed to progress against key strategic areas.

VAGO has systems and processes in place that efficiently and effectively support the setting, management and monitoring of audit, divisional and office-wide budgets. Indications are that VAGO has achieved some cost efficiencies resulting from workforce restructures. However, some cost efficiencies from reductions in staff expenses have been offset by increased expenditure on contract audit services to support the delivery of performance and financial audits.

While VAGO has appropriate quality control frameworks for performance and financial audit, there are opportunities to strengthen its implementation more broadly. These are: develop a centralised framework linking VAGO's policies and procedures relating to quality control; map this framework against the requirements of the relevant standards; and provide training to Audit Quality and Financial Reporting Advisory staff in relation to the quality control framework and its requirements.

Directors engage in a range of approaches to address staff morale and engagement. However, these actions are not always effective at addressing some ongoing issues. VAGO's attempts to improve morale and engagement by providing training and professional development opportunities could be improved, including the timeliness of these opportunities and ensuring individual learning and development plans in financial audit staff are completed effectively.

7.1 Planning of performance and financial audits

> ### *Terms of reference*
> *Determine if VAGO has appropriate practice management systems, strategies and processes that efficiently and effectively support planning for the number, mix and delivery of performance and financial audits.*

VAGO's annual audit planning process establishes the mix of audits and dovetails with the annual business planning process to establish the number of audits as well as the resourcing of planned performance and financial audits to be undertaken by VAGO.

VAGO's approach to financial audit planning is adequate given there is minimal change from year to year. Each year VAGO is required to undertake audits of the financial and performance statements of state and local government agencies and express an audit opinion on these statements. In November each year the Auditor-General reports to Parliament on the outcome of VAGO's financial audits. This report analyses key aspects of the financial performance and position of the Victorian Government. The financial audit business unit also conducts an annual review of estimated Financial Statements of the Victorian government and produces results of audit reports for local government, technical and further education institutes and universities.

Since 2017, VAGO's approach to performance audit annual planning has been enhanced. This has resulted in a comprehensive annual planning process which is informed by a sound evidence base. The process for developing the performance audit program involves the following key activities:

- environmental scans and broad stakeholder consultation within each sector to identify potential audit topics and prepare sector overviews for each performance audit sector
- presentation of sector overviews to senior leadership to determine which potential audit topics warrant further exploration
- development of audit topic synopses, including lines of inquiry, rationale for the proposed audit and assigning priority ratings
- Strategic Management Group moderation and preparation of the initial draft plan
- formal consultation with PAEC, departments and other agencies proposed for inclusion in the performance audit program
- finalisation of the program for the next three years and final approved by the Auditor-General.

The Annual Plan has a three-year forward outlook and is a comprehensive document. Development takes 12 months to complete. Indications are the process is probably becoming more efficient with costs over the past two years having decreased in nominal terms from $386,000 in 2017/18 to $323,000 for 2018/19. Overall, we found that VAGO has an effective and efficient annual audit planning process.

VAGO's annual audit planning process is closely linked to the annual business planning cycle (described in detail in section 2.2). The business planning process results in an annual business plan which sets out the office's overall resource plan (People Plan), based on programmed outputs (Output Plan) for the year ahead (this is discussed next).

Terms of reference

Determine if VAGO has appropriate practice management systems, strategies and processes that efficiently and effectively support the resourcing and scheduling of audits.

Our review of annual business planning and practice-specific planning processes indicated that VAGO develops robust plans for resourcing and scheduling of audits.

Our review and analysis of VAGO's staff utilisation rates, audit to non-audit staffing ratios, average audit costs and duration, audit costs relative to public sector transactions and office expense groups indicated that VAGO's business planning process effectively supports the resourcing of audits. Resourcing decisions are based on the expected needs and outputs of each business unit as per the Output Plan, taking into consideration the scope, timelines and staffing requirements of planned audits. The People and Output plans form the backbone of the overarching annual business plan and are closely linked to ensure that staff resourcing is matched to the agreed work-plan.

In performance audit, the Output Plan provides a basis for preparing a practice specific audit schedule. This schedule specifies staff resourcing and team composition, as well as milestone scheduling for each performance audit. During the year, scheduling is based on staff availability and tabling dates at Parliament.

At an everyday practice management level, on a weekly basis, performance audit directors and the Assistant Auditor-General Performance Audit review the schedule and update it if necessary. Discussions with performance audit directors indicate that resourcing planning has improved. This has included adopting a more collegial approach with the Assistant Auditor-General Performance Audit and the directors working together to identify effective and efficient resourcing of audits. For example, stronger managers are scheduled to work on the more complex audits. In addition, there is now visibility over the consultant/contractor budget which enables improved audit budgeting and planning. This has also improved accountability

with the Auditor-General who is able to exercise good oversight over performance audit budgets, including contractor costs. These everyday practice management arrangements support VAGO's effectiveness in completing its performance audits.

In financial audit, resourcing is more predictable as there are only marginal changes to the client base each year. However, the scheduling of the large number of financial audits and co-ordinating the effort of Audit Service Providers is extremely challenging given that VAGO is required to complete the annual audits within three months of the end of the financial year. The financial audit directors negotiate resourcing based on the early timing of material entity audits, the requirement to complete all financial audits and performance statement audits and the completion of the audit of the State's Annual Financial Report. Directors manage resourcing and scheduling of individual sector audit teams and temporary resources as required. Information in the People Plan and Output Plan is reconciled against appropriation and financial audit staff hours.

VAGO's overall audit costs benchmark favourably against the national average of other audit offices, indicating that VAGO's systems and processes efficiently and effectively support its resourcing. In 2018/19, VAGO's total audit costs per thousand dollars of public sector transactions were 0.25 relative to a State and Territory average of 0.35, and in 2018/19, VAGO's total audit costs per thousand dollars of public sector assets were 0.10 relative to a State and Territory average of 0.14. In addition, the:

- percentage of performance audit recommendations accepted which are reported as implemented by audited agencies was 81% in 2017/18 and 78.4% in 2018/19

- average duration taken to produce performance audit parliamentary reports was 10.5 months in 2017/18 and 10.1 months in 2018/19

- average duration taken to produce financial audit parliamentary reports after balance date was 4.8 months in both 2017/18 and 2018/19.

The analysis above is further supported by the evidence presented in section 2.2, outlining VAGO's staff utilisations and productivity rates. These combined metrics indicate that VAGO is allocating and utilising staff resources efficiently and effectively.

7.2 Monitoring and oversight at an organisational level

Terms of reference

Determine if VAGO has appropriate practice management systems, strategies and processes that efficiently and effectively support monitoring and oversight of the progress of audits, continuous improvement initiatives, and VAGO's performance against its strategic plan, BP3 and outcome measures.

VAGO's Strategic Plan (2017–2021) is up to date, embedded within the organisation and used to guide its strategic direction. Development of the strategic plan was via a top-down approach and was underpinned by appropriate analysis. The strategic plan aligns with VAGO's legislative responsibilities and outlines four strategic objectives:

- Increase our relevance
- Grow our influence
- Invest in our people
- Lead by example.

Each year senior leadership monitor progress against the strategic plan's high-level objectives through an exercise called Strategic Plan in Review. The review involves determining which continuous improvement projects have been completed, what work is in progress and further work needed in pursuit of strategic objectives. The process provides senior leadership with oversight over the continuous improvement program, including ensuring critical continuous improvement projects are contributing to achieving VAGO's strategic objectives and identifying areas where further progress is required. VAGO also has effective administrative oversight throughout the year, through the Project Portfolio Management portal (see section 6.3).

VAGO effectively monitors progress against its BP3 measures. Annual targets are outlined in the annual business plan. Tracking against the BP3 measures has improved with the use of Microsoft Power BI dashboards[23] which enable VAGO leadership to visualise and analyse data trends. Dashboard information about some BP3 measures is included in monthly operational reports. The Operational Management Group uses this information to track VAGO's performance against these measures at their monthly meetings. Discussion of the operational management report is a standing agenda item. The Group monitors progress against all BP3 targets on a quarterly basis.

However, VAGO does not have a framework to effectively measure outcomes. While the Strategic Management Group has a line of sight between outputs and outcomes via the business plan and the Strategic Plan in Review mechanism, without an outcomes framework they cannot reliably determine the extent to which completed projects and initiatives (outputs) have contributed to progress against key strategic areas (outcomes). Discussions with senior leadership indicates VAGO is considering developing an outcomes framework. The development of an outcomes framework with associated intervention logic[24] would enable VAGO to systematically measure its outcomes. In addition to this, VAGO should measure unintended consequences. This would enable VAGO to have oversight over both what they want to achieve in each key area as well as any unintended consequences of its activities.

Progress against the annual audit plan is effectively monitored by the Operational Management Group which tracks audit progress at their monthly meetings. The Group uses dashboard information to track audits which are above budget or behind schedule and identify delays in meeting audit milestones. At these meetings, the Operational Management Group discusses what actions should be taken to address areas of concern.

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23 Power BI is a business intelligence data visualisation tool.
24 Intervention logic is essentially a diagram that illustrates the cause and effect mechanisms by which activities are expected to produce certain outcomes (effects).

Recommendation 23:

That VAGO develops an outcomes framework to enhance planning and monitoring progress against achieving strategic plan objectives. The outcomes framework should be built around appropriate intervention logic.

Auditor-General's response:

Recommendation accepted.

Recommendation 24:

That VAGO develop an evaluation approach to enable the systematic measurement of impact against the outcomes framework. This should include assessing the contribution of outputs (in the form of business improvement projects and initiatives) to established outcomes measures. In addition, VAGO should systematically check whether there are unintended consequences and monitor them to enable effective oversight over any outcomes beyond organisational objectives.

Auditor-General's response:

Recommendation accepted in part.

Terms of reference

Determine if VAGO has appropriate practice management systems, strategies and processes that efficiently and effectively support the setting, management and monitoring of audit, divisional and office-wide budgets.

VAGO effectively manages and monitors costs against budgets at the office and business unit (financial and performance audit) level. VAGO uses the Output and People plans (see section 7.1) to inform the annual financial plan and annual office budget. On a monthly basis, the Operational Management Group monitors office-wide and business unit budgets. Moreover, the Group completes a mid-year budget review in which business unit performance against budget is assessed.

VAGO's efficiency measures, improved budgeting processes and close monitoring of budgets has resulted in strong financial performance over the last years. VAGO achieved a budget surplus of $2 million in 2017/18 and $1.5 million in 2018/19. VAGO ran a deficit of over $3 million in 2016/17 with an increase in employee expenditure the major contributor.

Discussions with VAGO's senior leadership indicates they have targeted cost efficiencies, particularly workforce restructuring, in order to improve VAGO's financial position. VAGO has established a target ratio of audit staff to non-audit staff of 80:20. Progress in reaching this target has predominately been made through restructuring the Corporate Services business unit. In 2019/20 the ratio between audit and non-audit staff was 76:24, compared to 72:28 in 2016/17.

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Figure 2: VAGO expense groups as a percentage of total expenses

VAGO expense groups as a percentage of total expenses

Legend:
- Depreciation
- Contract audit services
- Other expenses
- Employee expenses
- Rental expenses (accommodation)

Source: VAGO Annual Reports.

Efficiencies have resulted in expenditure on employees as a proportion of total expenditure decreasing slightly. For example, as shown in Figure 2 above, the total expenditure on employee expenses fell from 59% in 2014/15 to 55% by 2018/19. At the same time, the second largest expense group, contract audit services, increased slightly from 27% in 2014/15 to 30% in 2018/19.[25] This suggests that some workforce efficiencies have been offset by increased expenditure associated with consultants and Audit Service Providers.

7.3 Implementation of VAGO's quality control framework

Terms of reference

Determine if VAGO has appropriate practice management systems, strategies and processes that efficiently and effectively support implementation of VAGO's quality control framework, including timely review and supervision of audits.

VAGO has appropriate quality control frameworks which ensure timely review and supervision of individual audits (see sections 4.2 and 5.2). We found three areas in which VAGO needs to strengthen the implementation aspect of its quality control framework:

- while VAGO's policies and procedures address the quality control elements required by the Australian Auditing Standards, the framework is not presented in a centralised manner. Embedding or linking all of VAGO's policies and procedures relating to quality control into a centralised framework would strengthen its implementation by providing staff with ease of access

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[25] In 2014/15, VAGO spent $23,238,000 on employee expenses and $10,446,000 on contract audit services (total office expenditure of $39,161,000). In 2018/19, VAGO spent $23,838,000 on employee expenses and $12,825,000 on contract audit services (total office expenditure of $43,216,000). While in absolute terms both categories saw increased expenditure between 2014/15 and 2018/19, approximately 60% of the increase over this period was spent on contract audit services.

- VAGO does not have an up-to-date map of its quality control framework against the requirements of the relevant standards. Centralised mapping was undertaken in 2016 and is in the process of being updated. Given the role of an accurate map in providing assurance to VAGO that all policies and procedures are up to date and relevant, and that all requirements of the auditing standards are understood and incorporated, we encourage VAGO to update the map regularly so that it remains current. This includes documenting how VAGO meets the requirements of the ASQC 1 framework through its policies and processes. This would provide greater assurance that both implementation of the framework, and the framework itself, is comprehensive.

- We found no formal training framework has been developed for VAGO's Audit Quality and Financial Reporting Advisory team. Developing a training framework, based on a needs assessment of the team, would provide assurance that the staff tasked with maintaining and monitoring implementation of the framework are qualified to do so.

Recommendation 25:

That VAGO undertakes a training needs assessment for members of the Audit Quality and Financial Reporting Advisory team. Based on this analysis VAGO should develop training programs to ensure members are appropriately qualified to maintain and monitor the quality control framework.

Auditor-General's response:

Recommendation accepted.

7.4 Timely actions to address staff morale and engagement

Terms of reference

Determine if VAGO has appropriate practice management systems, strategies and processes that efficiently and effectively support timely actions for addressing staff morale and engagement, including training and development needs.

Discussions with directors indicated that they see themselves as primarily responsible for the staff morale and engagement of their team. To promote and improve staff morale they engage in a range of tactics, including creating safe spaces for staff to raise issues, establishing team champions and providing encouragement to staff who are reticent to raise issues. There was general agreement that good communication was a key element to effectively address staff morale and engagement. This can be especially challenging in financial audit where staff may be primarily based in other agencies' offices. Some financial directors considered the introduction of MS Teams had helped improve communication with younger team members.

However, focus groups with more junior staff and staff survey results (see sections 8.1 and 9.1) indicate these actions are not always effective and that there is variance in the support directors provide. This included the observation that, while some audit managers and directors created growth opportunities, others did not. VAGO has a project underway to develop a capabilities framework which should in part address this issue. As such, we encourage VAGO to complete this project and fully implement the outcomes.

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Performance reviews and individual learning and development plans

VAGO has suitable mechanisms for reviewing performance and identifying training and development needs for individual staff. Annual professional development reviews are linked to the strategic objectives and are conducted for all staff by their line managers. In addition, each staff member is required to complete a Learning and Development plan. Through this process learning needs for the coming year are identified. The review process provides VAGO with a sound basis for identifying staff performing below or above expectations and responding effectively. Discussions with directors indicate addressing and managing poor performance has improved.

However, we found the application of these mechanisms is not always effective. Our examination of ten financial audit staff members' professional development plans for 2019/20 showed of eight professional development plans, only three staff members had identified training goals linked with their role and classification level. This indicates either financial audit staff have not understood VAGO's expectations to set appropriate learning and development goals in relation to their classification level or their respective line managers have not provided the relevant oversight and guidance.

Discussions with performance audit staff, particularly more junior staff, indicated that development opportunities were limited particularly for broader development. These staff expressed a desire to have opportunities to broaden their understanding of the public sector. However, discussions with VAGO senior leadership indicates that staff at analyst and senior analyst level are provided with a range of broader opportunities. These include participating in organisational groups such as the Performance Audit Practice Governance Committee, opportunities to take ownership of components of an audit, advanced performance audit training and some specific learning opportunities depending on their professional development plans. In addition, some junior staff are given secondment opportunities. We found a disconnect of expectations between management and staff in the area of professional development. We encourage VAGO to ensure all junior staff are made aware of the opportunities available and are encouraged to utilise them.

Office-wide training

In addition to individual training, VAGO provides training at an office-wide level. This training falls into three categories:

- new employee 100-day checklist. This provides structured learning for all new employees, including administrative matters, Human Resources, understanding VAGO's role and responsibilities and key policies and procedures relevant to the staff member's role

- compulsory e-learning modules that all staff are required to complete annually. There are currently four policy e-learning modules

- specific training to support the introduction of new business tools and systems and VAGO's strategic direction. This typically occurs at an office-wide level but may also occur at a business unit level.

While providing office-wide training can be a useful means of upskilling staff, particularly in relation to areas of strategic importance, it is important that VAGO ensures this investment leads to staff being well placed to apply these skills. In interviews and focus groups some staff questioned the relevance of some of this training as they lacked opportunities to apply key learnings to their work. Consideration should be given to the appropriateness of entire office training or whether it should be offered to smaller groups when the training would be more timely in terms of its applicability.

Recommendation 26:

That VAGO develops a proactive professional development program for junior and mid-level staff which may include opportunities for broader development targeted at developing high performing staff for future leadership roles.

Auditor-General's response:

Recommendation accepted.

Key Area 8:
Participative leadership and inclusive culture

An Auditor-General, due to the independent nature of the position as articulated in relevant audit acts, has significant influence to set and enforce the direction and culture of an audit office. An effective Auditor-General drives a culture that makes stakeholders, clients and staff feel included and respected.

Terms of reference

Examine the leadership team's impact on the organisation, and its progress in improving organisational culture and cohesion.

Summary of findings

Overall perceptions from VAGO staff are that the leadership team has made a positive impact on aspects of the organisation and that it is progressing towards having a more cohesive culture. However, this view was not unanimous and highlighted that there is room for improvement.

VAGO senior leadership has engaged in a range of positive and appropriate actions in response to issues raised by staff. At times, VAGO senior leaders have sought more in-depth feedback from staff. This has been in response to the continued existence of some persistent issues, and has included engaging in staff consultation to understand the root cause of issues. The information gathered has contributed to the development of the recently launched People Matters Action Plan. These responses indicate a willingness by VAGO senior leadership to respond and to address staff matters that are raised.

VAGO has an up-to-date vision, strategy, workplace values and culture plan which promote and support building an inclusive culture. VAGO's working culture resonates with most employees, particularly in relation to VAGO's values. These were developed through a staff participative approach and are widely recognised and understood by staff. While there were some staff concerns that VAGO's focus on workplace values placed the onus of responsibility for resolving persistent workplace issues on staff rather than senior leadership, a number of staff spoke to the importance of VAGO's values as a cornerstone of the working culture.

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8.1 Improving working culture

> ### *Terms of reference*
> *Consider if staff surveys, retention and turnover metrics demonstrate that the leadership group has made a positive impact on improving perceptions of the leadership group and organisational culture; identify the nature, extent and drivers of residual issues and any opportunities for improvement.*

Given a lack of continuity in the staff survey data, it is not possible to determine based on this information whether the leadership group have made a positive impact (see section 6.3). That said, People Matters Survey results for 2018 and 2019 indicate that perceptions of senior leadership are in line with the average for the comparator group and the wider public sector. For example, in 2019, 70% of VAGO respondents agreed with positive leadership statements; this is compared to 68% for the comparator group and 67% for all organisations that participated in the survey.

Discussions with VAGO staff, particularly at a director level, indicate that perceptions of the senior leadership have improved. Positive perceptions include that senior leadership is more collegial and approachable than the former leadership team in 2016/17 which is resulting in staff becoming more comfortable to raise issues, highlight weaknesses and question senior leaders.

These discussions also highlighted that there is room for improvement, especially in performance and financial audit. Negative perceptions include not feeling listened to, senior leadership placing an overemphasis on data and not gauging people's responses well. While a number of staff recognised that senior leaders were making attempts to improve their engagement with staff, these negative perceptions contributed to a level of scepticism about consultation with some senior leaders.

In our opinion, there remain some residual issues that contribute to these negative perceptions. In particular, ineffective internal communication, workload and stress need to be effectively addressed (see below for work already underway to address some of these issues).

Discussions with VAGO staff and feedback from Worklogic[26] focus groups indicate VAGO needs to strengthen its internal communication to ensure that it is effective. In particular, two areas which need to be improved are:

- communication at a director level. This includes ensuring directors have the necessary information and knowledge to effectively communicate key messages with their respective teams

- ensuring there is adequate consultation and communication of changes to business processes and tools.

While VAGO has a range of communication tools and approaches to sharing information, its senior leadership needs to ensure that the use of these tools is effective. This includes considering both what are the best tools to use and structuring information to ensure key messages are effectively communicated.

In addition, discussions with VAGO staff, People Matters Survey results and feedback from Worklogic focus groups indicate workload and stress continue to be an issue. Factors contributing to this include:

- tensions around managing workload, especially in performance audit. This includes issues around audit planning processes such as audit scope, changes to tabling dates for audit reports and resourcing and budget constraints

- inadequate planning for the implementation of some changes to business systems and processes. Sometimes this has occurred part way through an audit which has contributed to additional stress and workloads

- structural shortcomings within VAGO due to restructure of Corporate Services in 2016, duplication and lack of some roles or tools. This includes the impact on workloads of decentralised tasks which are now completed by audit staff, lack of centralised precedents, a lack of effective project management tools and loss of administrative support.

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26 Worklogic is an independent consultancy that specialise in working with employers to prevent and minimise the impact of illegal and inappropriate conduct in the workplace and to build a positive culture. VAGO engaged Worklogic to facilitate 10 focus groups as part of senior leaders' response to the 2019 People Matters Survey results.

Discussions with senior leaders indicate some actions have been taken to address these issues. For example, in performance audit there have been conversations about the need for audit teams to adopt a more tactical approach to developing the audit scope. In addition, discussions with performance audit directors indicate they now have greater flexibility in how they build audit teams beyond the traditional approach of one manager and one analyst.

> ### Terms of reference
>
> *Consider if the leadership team has taken appropriate and timely action in response to issues raised by staff to improve VAGO leadership and organisational culture.*

VAGO senior leadership has engaged in a range of positive and appropriate actions to address issues raised by staff. However, there are opportunities for some actions to be more timely (see section 6.3). These actions have included:

- developing workplace values through a staff inclusive approach (see section 8.2). This has supported the development of a more collaborative working culture in which people work together and support each other more

- creating an opportunity for issues to be raised by inviting two directors to attend one day of the senior leadership retreat. Indications are that this has led to changes, such as the inclusion of directors at Strategic Management Group meetings to improve their understanding of the rationale for changes. While this has not entirely addressed the issue, it initiated a broader conversation concerning strategic leadership. We understand directors will be involved in the strategic refresh VAGO is undertaking. We encourage VAGO senior leaders to confirm this involvement as it should improve directors' ability to communicate to staff VAGO's strategy and the rationale behind some matters

- in response to the 2017/2018 People Matters Survey results, developing a culture plan which addressed some of the issues identified (see section 8.2)

- as the 2018/2019 People Matters Survey results indicated a range of negative behaviours continued to exist, VAGO senior leadership has invested in developing an understanding of the root causes and working with staff to identify how to effectively address these issues. This process has involved engaging Worklogic to facilitate anonymous focus groups with staff to help understand the prevalence and root cause of issues. These focus groups created an opportunity for staff to provide anonymous feedback on a range of issues including change management, appropriate behaviour, workloads and stress, and reward and recognition.[27] VAGO's Staff Consultation Committee were tasked with validating the workshop results with staff and consulting on potential options to address these issues. This has contributed to the development and launch of a People Matters Action Plan. We encourage VAGO to make the Plan fully operational and as set out in the Plan to use People Matters Survey results to monitor whether the Plan is effectively addressing key concerns.

These responses indicate a willingness by VAGO senior leadership to respond and to address staff matters that are raised. There are also indications of VAGO governance and senior leadership engaging and monitoring workplace culture on a regular basis. This has included VAGO's Audit and Risk Committee having workplace culture as a standing agenda item since 2016 and frequent discussions about workplace culture at Strategic Management Group meetings. These are positive initiatives as they create an environment which reduces the likelihood of complacency concerning workplace culture. However, a planned internal audit examining workplace culture and change management, which was not conducted, is a missed opportunity. While senior leaders have worked with staff to determine what the workplace culture should be (see section 8.2), we encourage VAGO to put in place metrics to measure culture.

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27 A total of 49 staff participated in the Worklogic focus groups (although some people may have attended more than one group) A further 10 staff provided feedback online.

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VAGO has two key policies which help ensure a healthy workplace:

- Work Health and Safety policy. This policy outlines such areas as induction, ergonomics and monitoring. Monitoring of the policy is conducted by the Health and Safety Committee which meets quarterly. Meeting notes are provided to the Operational Management Group. However, data such as reported incidences is not captured in a dashboard and not all Health and Safety Committee members have completed initial Work Health and Safety training.

- Whistle-blower policy. While VAGO has adequate whistle-blower provisions, they are spread across several policies. This includes a Complaints about VAGO to Integrity Bodies policy, Fraud and Corruption Control policy and Allegations of Misconduct policy. We encourage VAGO to consolidate this documentation into a single policy as this would make it easier for staff to understand protections and obligations.

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Recommendation 27:

That VAGO consolidates its numerous relevant policies into one overarching whistle-blower policy.

Auditor-General's response:

Recommendation accepted.

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Recommendation 28:

That VAGO ensures all members of the Health and Safety Committee and the Persons Carrying on a Business Undertaking are provided with and attend appropriate training.

Auditor-General's response:

Recommendation accepted.

8.2 Building an inclusive culture

Terms of reference

Consider if VAGO has a clear vision, strategy, values and a plan for building a strong inclusive culture that demonstrably resonates with its employees.

VAGO has a clear strategy and vision for building a strong inclusive culture through its strategic pillar, *Invest in Our People*. The objective of this pillar is to *Enable high performance by our people through a supportive culture, professional development and collaboration.*[28] The strategic direction includes demonstrating leadership and accountability in how staff work as well as living VAGO's values and culture.

Discussions with VAGO staff indicate that workplace values are well understood, lived and resonate with staff (as discussed in section 1.1). Workplace values were developed in early 2018 using a staff participative, ground-up approach based on consensus. VAGO's workplace values are regularly communicated, promoted and reinforced. However, some staff raised concerns that VAGO's focus on workplace values placed the onus of responsibility for resolving persistent workplace issues on staff rather than senior leaders. Developing and implementing a leadership charter (as recommended in section 6.1) could help address this issue as it would send a clear signal of senior leadership's commitment to embody workplace values and of inclusive leadership.

Discussions with senior Human Resources staff indicated that development of the 2018/19 culture plan drew on the 2018 People Matters Survey results to identify areas for improvement. The culture plan outlined a number of initiatives and actions to be progressed during the year. This included the development and launch of a Diversity and Inclusion plan, development and delivery of Appropriate Behaviour training and commencement of a quarterly employee survey. Many of these initiatives have been completed and fully implemented. VAGO is in the process of finalising a culture plan for 2019/20.

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28 VAGO (2017). Strategic Plan 2017-2021. Accessed from https://www.audit.vic.gov.au/vago-strategic-plan-2017-2021.

Key Area 9:
Engaged staff and
a focus on wellbeing

An effective audit office needs high performing employees that are able to deliver quality outcomes often under pressure, under potentially difficult circumstances and with time constraints. An effective audit office focuses its staff engagement strategies around maintaining healthy and positive workplaces that support employees to be high performing, self-motivated and resilient.

Terms of reference

Examine the leadership team's progress in improving staff engagement, morale and wellbeing.

Summary of findings

The extent of the leadership team's progress in improving staff engagement, morale and wellbeing is not possible to determine due to a lack of consistent survey data and incomplete exit survey data between 2016 and 2020. As discussed in section 8.1, People Matters Survey results for 2018 and 2019 indicate that VAGO's performance is similar to other comparator organisations across key indicators. That said, these results also indicate that there are some negative behaviours that need to be addressed. Senior leadership's response to the 2019 People Matters Survey results suggest these issues are being taken seriously.

Although there are some early signs of improvement, since 2017 VAGO's turnover rate has remained relatively high. Factors which may have contributed to the high turnover rate include staffing and structural changes and improvements in addressing under-performance in staff. While incomplete, exit survey data indicates most staff are not leaving due to dissatisfaction with VAGO.

VAGO's mechanisms for gathering feedback and consulting with staff are appropriate and largely effective. While indications are that staff recognition has improved, there are opportunities to strengthen this further by ensuring there is an equality of recognition across business units. VAGO does not have a strategy or approach for retaining staff or a formal succession plan. This includes no structured approach to identify and develop talent.

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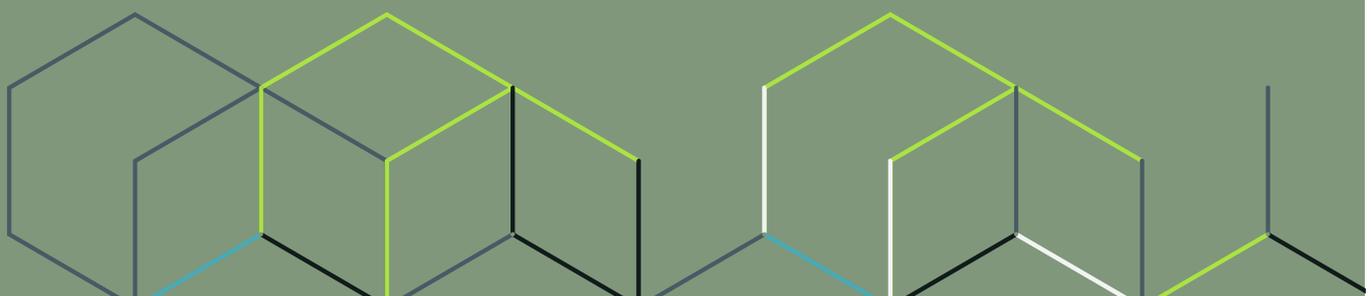
9.1 Making a positive impact on staff morale, engagement and wellbeing

Terms of reference

Consider if staff surveys, retention and turnover metrics demonstrate that the leadership group has made a positive impact on improving staff morale, engagement and wellbeing.

As stated in section 8.1, due to a lack of consistently run staff surveys it is not possible to determine to what extent the leadership group has made a positive impact on improving staff morale, engagement and wellbeing. People Matter Survey results for 2018 and 2019 indicate that VAGO's performance is very similar to those of comparable organisations. For example, VAGO's People Matter Survey 2019 results for employee satisfaction was 60% compared to 65% for the comparator group and for job related stress it was 25% compared to 22%.

While discussions with VAGO staff indicate some aspects of workplace culture has improved (see section 8.1), discussions with staff, the People Matters Survey results and feedback from Worklogic focus groups indicate there is room for further improvement as some organisational issues continue to exist. For example, findings from Worklogic focus groups raised concerns about some colleagues engaging in *low-level behaviours of a sexual nature.* Staff survey results indicated in 2018/19 that 10% of respondents had personally experienced sexual harassment at work in the last 12 months and 6% in 2017/18. Average results for comparator groups was 6% in 2018/19 and 8% in 2017/18.

During the course of this audit, VAGO has taken steps to address this issue. This has included establishing a project to implement the outcomes of its own performance audit assessing sexual harassment in the Victorian public service. The purpose of the project is to ensure VAGO effectively responds to and reports on sexual harassment and follows best practice to prevent it occurring. In addition to this, as part of its People Matters Action Plan, VAGO has included an initiative *we have a culture where people feel safe.* This includes promoting positive behaviours, increasing awareness and providing training. Ongoing monitoring of the implementation and effectiveness of the actions in the Plan should be undertaken.

Although there are some early signs of improvement in retention, since 2017, VAGO's staff turnover rate has remained higher than its internal target of 15%. For example, in 2018/19 VAGO's annualised turnover rate was 22.8% and in 2017/18 22.07%. While there are some challenges in comparing turnover rates between audit offices, VAGO's rate is significantly higher than some relevant ACAG audit offices. For example, New South Wales audit office turnover rate was 12% in 2017/18 and 2018/19.

There are two factors which may have contributed to the high staff turnover rate:

- VAGO has undergone staffing and structural changes which has resulted in involuntary departures but also likely resulted in voluntary departures. For example, VAGO has restructured Corporate Services and the Office of the Auditor–General business units as part of VAGO's efforts to modernise its business systems and processes. Some voluntary departures have been in line with this change and in some cases the role was made obsolete after their departure

- improvements in addressing staff under–performance which in some instances has led to people leaving.

While VAGO's exit survey data is incomplete,[29] data collected over the 2018/19 year indicates most staff did not leave due to dissatisfaction with VAGO. For example, reasons cited for leaving included end of fixed term contract (who departed early) or redeployment 18% and better career opportunities 19%. This compares favourably with other reasons for departing provided such as dissatisfaction with relationship with other employees 2% and dissatisfaction with relationship with manager 4%.

Recommendation 29:

That VAGO fully implements its project Implementing Outcomes of Performance Audit Sexual Harassment which has emerged from the performance audit it conducted called *Sexual Harassment in the Victorian Public Service*; and its People Matters Action Plan. This includes closely monitoring whether these initiatives have effectively addressed issues relating to sexual harassment.

Auditor-General's response:

Recommendation accepted.

9.2 Improving feedback, succession planning, staff recognition and retention

Terms of reference

Consider if the leadership team has made adequate progress in improving staff feedback and consultation, succession planning, as well as staff recognition and retention; identify the nature, extent and drivers of residual issues and any opportunities for improvement.

Feedback mechanisms

VAGO has a range of staff feedback mechanisms which are appropriate and largely effective. In addition to independent staff surveys, already referred to, there are a number of other mechanisms available to VAGO staff. These include a suggestion box, an online anonymous portal and the Staff Consultation Committee. This Committee meets monthly and is a key mechanism for consulting staff on issues relating to workplace culture and the business. It is intended to contribute to the implementation of the strategic direction and workplace values, and to facilitate effective communication throughout the organisation. Among senior leadership there is a perception that the Staff Consultation Committee is influential. Both the Auditor-General and the Deputy Auditor-General attend most meetings. Minutes from the meetings are provided to the Operational Management Group for noting.

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29 Before 2018/19, survey data was not aggregated. Exit surveys were conducted and maintained as paper copies with analysis only conducted when individual respondents provided negative survey results.

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Succession planning

VAGO's senior leadership considers succession planning to be medium risk to the organisation. However, we noted:

- VAGO does not have formalised succession planning for senior and mid-level roles, and as a result no documentation on succession plans has been reviewed

- some financial and performance audit directors have informal approaches to succession directed at developing junior staff but these occur on an ad hoc basis. There is an opportunity to develop a more structured approach to identify and develop talent.

Staff recognition

While indications are that staff recognition has improved, there are opportunities for VAGO to further strengthen this to ensure that there is equality of recognition across and within business units. In 2017, VAGO finalised its employee recognition procedure which outlines a range of recognition options for employees, including informal recognition such as public acknowledgement and formal recognition. However, findings from Worklogic focus groups indicated that there are some perception issues with the current approach including:

- some business units are better at publicly rewarding individual staff than others

- a tendency to largely recognise staff that are based in the Office with staff typically based offsite receiving little recognition.

In addition, there is a perception that VAGO could engage in some simple actions that would help demonstrate to staff that they are valued. For example, celebrating successes more such as when key project/audit milestones are reached. We encourage VAGO to fully implement initiatives set out in its recently launched People Matters Action Plan that are designed to improve reward and recognition.

Staff retention

Findings from the Worklogic focus groups indicated that some perception issues existed which could negatively affect staff retention. These included a perception that external candidates are favoured over internal candidates for senior roles. During the course of this audit, VAGO has invested in a People Matters Action Plan which should help address these concerns. In addition, there are some early indications that staff turnover may be declining. As discussed in section 6.1, we encourage VAGO to monitor closely staff turnover and consider developing a staff retention strategy if turnover rates remain above its internal target of 15%.

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Recommendation 30:

That VAGO puts in place a systematic process to effectively identify high performing staff and a clear pathway to develop these staff so that they are capable of taking on more senior roles.

*Auditor-General's response:*

Recommendation accepted.

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Recommendation 31:

That VAGO develops and implements formalised succession planning.

Auditor-General's response:

Recommendation not accepted.

Appendix A:
Auditor-General comments

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We consulted with the Auditor-General and VAGO, and considered their views when reaching our audit conclusions. As required by the Act, we provided the Victorian Auditor-General and VAGO with a draft copy of this report and asked for their comments.

No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
1	That VAGO's performance audit business unit model the processes established in financial audit to support maintaining independence including: • ensuring the process of completing and documenting a declaration of interest by all team members during the audit initiation phase is consistently applied and appropriately filed • introducing a review of declarations of independence at least once during performance audits • developing a policy around rotation of directors.	That not all staff always documented this process is of some concern, given the procedural step requires this. However, it does not appear to be a systemic issue, nor is there any evidence of any undisclosed conflicts of interest. It will need the Engagement Leader, through their quality control checks of the audit file, to make sure this happens in all future cases. Our post audit quality assurance reviews will afford the opportunity for us to determine whether this is occurring. As to a rotation policy, this is less an issue in the performance audit context. First, because for most of our 575 plus audited entities, the performance audit director does not have an ongoing relationship with key agency personnel predicated on a "recurring" audit engagement. The familiarity threat that could impair their independence is therefore very low. Secondly, and more practically, turnover at that level, combined with machinery of government changes, has meant that no director has been, or is likely to be, assigned to one sector for more than seven years.	Yes	We had already updated the wording in our procedures library to clarify expectations that consideration of independence requirements occurs for all individuals in the engagement team and this is to be documented. We have also added a step to our Engagement Quality Control Review checklist at the reporting stage of each audit for the Engagement Quality Control Reviewer to inquire and confirm that team independence has been maintained throughout the audit. These changes are in effect for all audits that commence from 1 July 2020. As a result, no further action is proposed in relation to the first two bullet points in the recommendation. We will extend the seven-year rotation policy used in financial audit to performance audit directors as part of our major review and refresh of the Performance Audit policies, procedures and methods.	Office of the Auditor-General, Audit Quality	September 2020
2	That VAGO develops a data science strategy that clearly outlines VAGO's approach to integrating data science within performance audit practice.	It remains unclear from the report which key external stakeholders perceive this risk, and how they think data science could be used to overstep our mandate. As we advised the team throughout their review we have used 'data science' in our performance audits for many years by gathering data through surveys and by obtaining access to and analysing the financial and administrative datasets held by agencies. However, I agree that a strategy, analogous to that which we developed for applying data analytics in financial audit, will be useful internally to optimise its application in a performance audit setting, and for stakeholder engagement.	Yes	To support our next four-year Strategic Plan 2021–2025 we will develop a data science strategy and also promulgate it externally by: • first engaging directly with key stakeholders to better understand their concerns › integrating into our planned major refresh of our performance audit policies, procedures and methods the use of data science in annual planning, audit topic selection and the phases of a performance audit › articulating these approaches through our external engagement and communications.	Office of the Auditor-General, Data Analytics and Systems Assurance	June 2021

No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
3	That VAGO develops a systematic approach to measuring the impact of performance audits taking into account allocated/invested resources.	This recommendation is encompassed by our responses to recommendations 23 and 24.	Yes	See response to recommendation 23 and 24.	Performance Audit	June 2021
4	That VAGO updates and implements its stakeholder engagement strategy and implementation plan to ensure that it meets VAGO's unique needs as an audit organisation, including providing: • guidance on VAGO's limits to stakeholder engagement • minimum expectations of Engagement Leaders outside of audits, including expected frequency of contact with portfolio departments and agencies, and examples of what good stakeholder engagement looks like • clearly defined standards of professional behaviour and engagement between VAGO and the public sector.	While the various supporting plans are being developed, updated, refined or in the process of implementation, I note that VAGO has been actively engaging with its stakeholders and adapting its approaches based on feedback for many years. I note also that our own regular parliamentary and agency satisfaction surveys of financial and performance audits demonstrate generally sustained high levels of satisfaction with our services.	Yes	We will review and revise our stakeholder engagement and communications strategies and implementation plans for Parliament and our audited agencies to include the recommended enhancements where applicable.	Office of the Auditor-General, Communications and Engagement	June 2021

No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
5	That VAGO includes in its audit initiation briefings information about: • types of audits and scope including the significance of what has and has not been specifically scoped out • roles, responsibilities and expectations of conduct of VAGO, agency staff and where relevant subject matter experts.	I note that it is not practical to provide all this information at the audit initiation briefing, as often the details are determined during the planning phase. There is also a risk that in trying to pre-empt such matters on initiation, we will be subject to later criticism when they naturally change in response to stakeholder feedback. This is why we think our current approach is better, where we provide all this information in the subsequent audit plan and engagement plan.	Yes	We will review and update our: • audit plan template to clarify the type and scope of the audit, and to provide guidance to staff on when and what details to include of any experts expected to be used as part of the audit methods • audit engagement plan template to provide additional information about expectations regarding conduct of VAGO audit team members • performance audit fact sheet and attach this to our initiation letters for agencies who have not been subject to a recent audit, as well as publish it on our website.	Office of the Auditor-General, Audit Quality	December 2020
6	That VAGO develop a subject matter expert policy, or include in the Performance Audit Methodology manual, a process for the engagement of subject matter experts which includes: • providing audited agencies an opportunity to raise any issues in relation to conflicts of interest with proposed subject matter experts at audit commencement • establishing a transparent process for VAGO and agency subject matter experts to engage on technical findings.	I observe that VAGO was criticised by agencies in the 2016 PAEC audit for not using subject matter experts. That is why we have systematically assessed the need for such experts and engaged them where required at the commencement of each audit. You note the increase in our spend on experts in section 2.2. The need for us to use subject matter experts is clearly articulated in the auditing and assurance standards, obviating the need for a separate policy. I am aware over three and a half years of only one audit— Market Led Proposals— where the issue of conflict was raised with me by the Secretary, Department of Treasury and Finance. In that case we were satisfied there was no conflict and that there was ample opportunity for the department to raise issues of conflict of interest at the start of the audit. In that case also our experts engaged directly with the department, and we then engaged a second expert to quality review the work of our first expert.	Yes	We will update our performance audit manual to reflect our current practices to: • consult auditees to check for conflict of interest matters when engaging subject matter experts to undertake work that will be central to audit findings • ensure auditees have the opportunity if they wish, to meet with subject matter experts undertaking core work to support audit findings and understand their methods and analysis.	Office of the Auditor-General, Audit Quality	September 2020

No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
7	That VAGO provides good practice guidance including examples of exemplar audit files and templates in relation to treatment and filing of documents, including working papers, to ensure each audit file can be easily navigated and the links between the application of the audit criteria, the analysis of evidence collected and audit findings and recommendations are evident.	I note our current training module *Working papers and findings*, scheduled twice a year for new starters, explicitly covers how to develop and structure working papers. This training includes good practice examples. We can enhance this with additional instruction to staff on the use of subheadings to allow easier navigation through working papers, and the requirement to structure any working papers completed in Teams initially, to be structured consistently. I note also that the current working paper template in AmP for addressing each audit criteria already has headings: References, Agency documents, Conclusion, Evidence/Analysis. We restrict access by staff to completed audit files for security reasons.	Yes	As part of our major refresh of our performance audit methodology we will develop an 'exemplar' audit file combining all good practices from existing training and guidance. This will be done when we have implemented a new toolset to avoid unnecessary duplication of effort.	Office of the Auditor-General, Audit Quality	December 2022
8	That VAGO updates its record keeping policy and procedures to provide clear guidance on the use of Teams in relation to the conduct of an audit. In particular, the storage of evidence and drafting/ storage of working papers, approvals and whether there is expected to be a single repository for an audit file. The record keeping policy and procedures should be linked to VAGO's performance audit and financial audit methodologies.	Your report notes that senior management is comfortable with the use of two platforms to document audits. As we advised the review team, we mandate the use of AmP to document all key audit steps. One limitation of our AmP system, and all other audit existing workpaper systems of which we are aware, is its inability for audit teams to collaborate and work simultaneously on the same work paper. This inevitably requires audit teams to sometimes use other platforms for files that are a work in progress. As we complete our performance audit methodology refresh over the next twelve months, we will also be investigating the availability of any new cloud-based audit toolsets that may overcome these limitations.	Yes	As an interim measure we will update the performance audit manual to reflect expectations for use of Teams and AmP in regard to audit files. Once we have selected and implemented a new audit toolset, we will revisit this issue.	Office of the Auditor-General, Audit Quality	December 2020 December 2022

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No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
9	That VAGO develops an e-learning program to supplement the existing training so that new staff can access modules in a timely fashion.	We had already approved and initiated a Human Resources project *Develop Induction E-Learning Modules* in January 2020. These modules cover understanding of our fraud, corruption and conflict of interest obligations, and our independence obligations.	Yes	As an interim measure, we will also record our next wave of our current performance audit training modules, for use by new starters and existing employees. Over the next two years we will also explore, and seek to develop, preferably with other ACAG offices, on-line training for performance auditors aligned to the performance audit competency framework.	Human Resources and Performance Audit Office of the Auditor-General, Audit Quality	December 2020 December 2022
10	That VAGO reviews the performance audit methodology to make explicit the oversight function of Engagement Leaders as a crucial component in the quality control framework. This includes enhancing the evidence trail to include attestation of evidence/ working paper quality during the conduct phase of audits.	I note that the expectation for Engagement Leaders to oversight audit work is already explicit in auditing and assurance standards, their position descriptions, their performance development plans, and the workflow steps in AmP for all audit milestones. I note also that the relevant auditing standards state: *The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.*	Yes	We will review and as necessary clarify the expectations of Engagement Leaders to better and more consistently evidence their review of working papers that relate to the evidence collection and analysis phases of audits.	Office of the Auditor-General, Audit Quality	December 2020
11	That VAGO formalises its expectations of performance audit staff managing contractors/ consultants and applies this practice consistently.	Our expectation for oversight of work undertaken by contractors as part of performance audits is consistent with our expectations for the oversight of work undertaken by VAGO auditors. All contract and procurement documentation for contractors engaged by VAGO already reflects this.	In part	We will add information about expectations for contractor management and oversight into the *Project Management* performance audit training module.	Office of the Auditor-General, Audit Quality	December 2020
12	That VAGO ensures all changes to the financial audit methodology are sufficiently documented and readily identifiable.	As we advised the review team the changes made to the methodology are readily identifiable because we automatically maintain version histories, from which it is a simple process to compare versions if needed to see what changes have been made in response to suggestions.	In principle	We will in future also retain marked up PDF copies of versions with tracked changes, to make it easier for an external reviewer to also identify them.	Office of the Auditor-General, Audit Quality	N.A.

No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
13	That VAGO conducts the future piloting of replacement software tools in a more structured manner led by an expert team to ensure adoption of a consistent approach and all issues are identified and resolved prior to full rollout. Staff feedback should be obtained and addressed after this.	The report notes that for the methodology pilot directors *"had discretion on whether to adopt EPIC for one or all of their audits."* To be clear, all directors were required to pilot its use on at least one audit, but they were left to judge whether they would extend the pilot to other audits. This was based on the capacity of their teams. The pilot and associated training was coordinated, with the first tranche focused on planning, and delivered at the time of the year that all teams undertake planning. This allowed them to work on live files and share their experiences with other teams before, during and after training. The second tranche focused on the conduct phase and again we timed the training for when teams were in this phase of their audits. In addition, training and guidance material, and the methodology itself was updated and refined based on feedback from audit teams during the pilot. It remains unclear why this was considered not to be sufficiently systematic. We have already commenced a pilot for replacement software to support our financial audits and will apply the same approach to that described above. The Audit Quality team is leading this pilot.	In principle	As part of our current, and any future pilots, we will continue to: • maintain a register of staff feedback which documents matters identified by staff along with the resolution of issues. • have a technology champion in each sector • schedule any deployment of a replacement toolset at the commencement of an audit cycle • provide training and ongoing support in logical tranches.	Office of the Auditor-General, Audit Quality	Financial Audit pilot June 2021 Performance Audit pilot December 2022
14	That VAGO adapts ACAG's *National Competency Framework for Financial Auditors* to ensure it covers all staff classifications consistent with the financial audit methodology and signing officer delegation arrangements.	We initiated a Human Resources Project: *Capability Development Framework* in January 2020.	Yes	We will: • research the conceptual underpinnings of the ACAG competency frameworks and their currency • analyse each audit role to identify our current capability and competence requirements and compare this to the ACAG framework for any gaps • map existing internal or externally sourced training to each role and identify any gaps in the currently provided training and development opportunities • identify solutions to fill them.	Human Resources	June 2021

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No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
15	That VAGO establishes a training strategy aimed at consistent delivery of targeted training to financial audit staff at their different levels.	With the prospect of the integration of EPIC into a new toolset, for the remainder of 2020 we will continue our approach to training all financial audit staff as outlined in comments under recommendation 13 above. After this, it will be appropriate to return to a structured curriculum that is customised to the specific needs of each audit grade.	Yes	We will use the outputs from the above Capability Development Framework project to develop a training curriculum which we will progressively deploy over the next three years, starting with the graduate intake in February 2021.	Human Resources	Graduates March 2021 Fully March 2023
16	That VAGO maintains an up-to-date list of all training provided by staff classification which is regularly reviewed to ensure that staff receive training relevant to their level/classification.	The limitations of our current training booking system preclude easy tracking of staff grade. We have scoped a Human Resources Project: *ERP: Stage 3* which will address this.	Yes	We will implement a Learning Management System to replace our current training booking system. This system will record all training provided and allow analysis by grade.	Human Resources	December 2021
17	That VAGO considers obtaining confirmation from Audit Service Providers that their staff on VAGO audits are systematically trained in the use of a contemporary financial audit methodology.	This is already established as a principle during the procurement and empanelling of our audit service providers. I see merit in having empanelled providers positively state that they have adhered to this principle. We have an Audit Service Providers Panel Refresh project nearing completion. It would be appropriate to specify this in our new contractual arrangements with the new panel of providers.	Yes	We will update our contractual key deliverables by requiring firms annually to attest to a suite of Audit Quality requirements as reflected in ASQC 1 including confirmation regarding training delivered to audit staff that undertake audits on behalf of VAGO.	Financial Audit	December 2020
18	That VAGO adapts the ACAG *Governance and Audit Framework for Self-Assessment and External Review (2014)* to its context. This may be done by reference to the Australian National Audit Office and New South Wales Audit Office that have both developed their own comprehensive quality control frameworks.	We have already initiated a Project: *Systems of Quality Control* the specified deliverables from which will largely address this recommendation in terms of consolidating the documentation of our system of quality control. I note that the ACAG framework has not been reviewed since 2016. I note also that for this PAEC review we developed a self-assessment 'performance portfolio' structured to align with its terms of reference and key areas in this report. As these key areas have been used by the PAEC for the past two reviews, it may be better to maintain our existing portfolio and adapt the ACAG framework into it.	Yes	We will: • finalise our ASQC 1 project • ascertain the currency of the ACAG framework and understand whether there is any intent or need to update it • analyse the framework against our performance portfolio to identify and address gaps • maintain our self-assessment using the updated performance portfolio biennially until the next PAEC audit.	Office of the Auditor-General, Audit Quality	December 2020 June 2022 June 2024

No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
19	That VAGO ensures consistency in the understanding and application of its Engagement Quality Control Reviewer policy by identifying inconsistent practices during active file reviews and Post Audit and Assurance Quality Reviews and implementing corrective action.	The new policy will have been in full effect for the 2019/20 financial year. It will be timely to examine its application as part of our cold review processes for both 30 June 2020 audits and again for 30 June 2021 audits.	Yes	We will target compliance with our Engagement Quality Control Reviewer policies in our post audit quality assurance review programs for the next two audit cycles to determine whether the updated policy has increased understanding and application.	Office of the Auditor-General, Audit Quality	June 2021 June 2022
20	That VAGO develop procedures ensuring compliance by both in-house staff and Audit Service Providers with ASQC 1 as this relates to completion/closure of audit files within 60 days of issue of the auditor's report.	For clarity, it is not a legal requirement to close audit files within 60 days. The requirement is to establish a timeframe for closure where one is not specified in law. ASQC 1 guidance states that *"such a time limit would ordinarily not be more than 60 days."* Per the standards closed files subsequently can be opened in certain circumstances. Our working paper systems have strong audit trails that allow a reviewer to determine if, when and by whom a working paper was changed after the audit was completed. That some inhouse files were not closed within the 60-day period per our own policy is a matter of some administrative concern, but this was not because there are no procedures, or that these are not clear. Both our financial and performance audit procedure libraries and toolsets have an explicit separate procedure for this, with an associated milestone that is tracked in each business unit.	In part	We will amend our key deliverables for our Audit Service Providers to require them to confirm they have closed their databases within our policy period of 60 days. That this has happened we can check as part of our post audit quality reviews of our Audit Service Provider files.	Financial Audit Office of the Auditor-General, Audit Quality	December 2020 June 2021

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No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
21	That VAGO develops and implements a leadership charter.	The original recommendation, repeated here, was directed to the then senior management group, none of whom now work at VAGO. The report notes that the new Strategic Management Group has variously expressed, through a range of mechanisms over time, the principles by which this Strategic Management Group will lead and be held accountable to each other and by our staff. Our view is that we have moved VAGO beyond this being a Strategic Management Group issue. Our expectations of all our leaders are consistent with expectations for all staff – leadership occurs at all levels and VAGO leaders are part of VAGO – not a separate entity. In that regard, the VAGO values, with the behaviours expressly documented in association with those values is in effect our leadership charter. Adhering to and demonstrating our values is a requirement in Strategic Management Group performance and development plans.	In principle	We will: • engage with departments, ACAG members and other integrity bodies to better understand whether their leadership charters, if they exist—many developed before or around 2016—remain current and useful • engage with our staff through our Staff Consultation Committee to understand their perspective on this issue, including whether they see it as necessary and how such a charter, if developed, would help to 'ensure initiatives... are implemented' • judge whether a Strategic Management Group charter is the best approach • advise the PAEC on our final decision in this regard.	Office of the Auditor-General, Strategy and Business Innovation	December 2020
22	That VAGO establish an effective process to ensure post-performance audit debriefs are regularly collated and analysed with a view to identifying any reoccurring or thematic issues. This should be led by the audit quality team so that there is a separation of functions between the conduct of audits and identification of thematic issues across these audits.	I note that our current practice is that any improvements identified in audit debriefs are added to our continuous improvement register and have been acted on through the Performance Audit Practice Governance Committee. The separation of this activity from the Performance Audit division is consistent with our broader approach to separate methodology development from its application by performance audit. However, the Performance Audit Practice Governance Committee will also continue to monitor remediation of any residual issues, so that we understand the practical effects of any changes.	Yes	The Audit Quality team has taken responsibility for, and will lead collation and analysis of, all audit debriefs for performance audit reports from 1 July 2020. It will also retrospectively analyse debriefs for all audits tabled between 2018 and 2020 and undertake an assessment to identify any unresolved systemic issues by December 2020.	Office of the Auditor-General, Audit Quality	December 2020

| No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
23	That VAGO develops an outcomes framework to enhance planning and monitoring progress against achieving strategic plan objectives. The outcomes framework should be built around appropriate intervention logic.	I fully support the need for a fit for purpose outcomes framework aligned to our strategic plan, noting that Victoria has only relatively recently articulated what this may look like. It will be most appropriate to do this as we develop our next four-year strategic plan: 2021–2025.	Yes	We will: • research and understand outcomes and impact frameworks used by other audit offices, especially where they are relatively well advanced in this regard (e.g. New Zealand and the United Kingdom) • compare these approaches to the Victorian government outcomes and outputs frameworks • develop intermediate and final outcome measures and where possible, targets • establish where possible, baseline data for these measures • publish our outcomes and impacts framework as part of VAGO's next Strategic Plan • report on key outcomes in our audited performance statement in subsequent VAGO Annual Reports.	Office of the Auditor-General, Strategy and Business Innovation	June 2021
24	That VAGO develop an evaluation approach to enable the systematic measurement of impact against the outcomes framework. This should include assessing the contribution of outputs (in the form of business improvement projects and initiatives) to established outcomes measures. In addition, VAGO should systematically check whether there are unintended consequences and monitor them to enable effective oversight over any outcomes beyond organisational objectives.	It is likely to be impractical, or very costly for us to systematically check for and monitor unintended consequences beyond our annual surveys of agencies regarding their implementation of our audit recommendations and our follow up audits. Apart from this reservation, refer to our response to recommendation 23.	In part	As set out in recommendation 23 above.		
23					Office of the Auditor-General, Strategy and Business Innovation	June 2021

No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
25	That VAGO undertakes a training needs assessment for members of the Audit Quality and Financial Reporting Advisory team. Based on this analysis VAGO should develop training programs to ensure members are appropriately qualified to maintain and monitor the quality control framework.	The technical audit teams are small and change over time. Their training needs will invariably differ depending on their qualifications and experience. We will address immediate individual needs through our routine annual performance development process, presently underway.	Yes	We will: • establish the specific skills and competencies required for the technical team and capture these in the auditor competency framework • undertake a gap assessment for current and any new members on appointment • tailor a training program and include this in development plans of each team member.	Human Resources Office of the Auditor-General, Audit Quality Office of the Auditor-General, Financial Reporting Advisory	December 2021
26	That VAGO develops a proactive professional development program for junior and mid-level staff which may include opportunities for broader development targeted at developing high performing staff for future leadership roles.		Yes	Refer to our responses to recommendations 14 for audit staff and recommendation 30 for all staff.	Human Resources	December 2020
27	That VAGO consolidates its numerous relevant policies into one overarching whistle-blower policy.	The term 'whistleblower' has narrow connotations of protected interest disclosures which we cannot receive and must be made to IBAC. We therefore interpret this recommendation to cover all 'complaints', including PIDs. I note that the VPSC Management of Misconduct Policy' applies to VAGO and cannot be combined into our own policies.	Yes	We will consolidate the following into one overarching 'complaints' policy: • complaints about the conducts of audits • complaints about matters other than audits • complaints about VAGO to integrity bodies – IBAC and VI • relevant sections of our Fraud and Corruption Reporting procedure • relevant sections of our Management of Misconduct procedure. We will then publish this policy on our website, align the complaints page on the website to any new processes, and communicate complaints channels to staff, contractors, clients, contracted service providers.	Office of the Auditor-General, Strategy and Business Innovation	December 2020

No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
28	That VAGO ensures all members of the Health and Safety Committee and the Persons Carrying on a Business Undertaking are provided with and attend appropriate training.	There is always some delay between onboarding new members to the WHS committee and them receiving training, which must be completed within six months. I note that our training provider was working on an online solution and one member was waiting for this to be developed to complete their training. That member has now completed four of the five days, two online, and has been granted an extension by Workcover to complete the fifth day.	Yes	New members will be required to complete their training as soon as practicable, noting that presently almost all VAGO staff are working from home due to the coronavirus emergency.	Human Resources	December 2020
29	That VAGO fully implements its project Implementing Outcomes of Performance Audit Sexual Harassment which has emerged from the performance audit it conducted called *Sexual Harassment in the Victorian Public Service*; and its People Matters Action Plan. This includes closely monitoring whether these initiatives have effectively addressed issues relating to sexual harassment.	We initiated a Human Resources Project: Implementing Outcomes of Performance Audit Sexual Harassment Audit in March 2020. This is one of our 'glasshouse' projects in which we compare ourselves, where relevant, to our own performance audit reports. Of the 12 main recommendations from that audit, we already met four. Those being: • providing mandatory training for all staff on sexual harassment at induction and then every two years • providing specific training to all managers on responding to complaints of inappropriate behaviour, including sexual harassment complaints • ensuring adequate recording keeping practices • ensuring adequate storage of complaint documentation by recording and categorising the number of sexual harassment complaints in a confidential and searchable format. We have also more recently updated our online training module on appropriate behaviour to include 'active bystander' guidance. All staff must complete this training annually.	Yes	Of the remaining eight recommendations, we will: • ensure that our senior leadership communicate bi-annually a commitment to eliminate sexual harassment, commencing in August 2020 • roll out a targeted campaign to encourage complaints of inappropriate behaviour in October 2020 • introduce a standalone sexual harassment policy in December 2020 that incorporates better practice elements below • based on VPSC's guidance, including guidance on reporting matters to Victoria Police • including a checkpoint during the complaints process to determine if the complaint should be referred to Victoria Police • based on Victorian Equal Opportunity and Human Rights Commission's guidance, including guidance on anonymous complaints, what to do if a victim does not want to proceed, what to do if a subject resigns before the conclusion of the investigation • including guidance on investigating matters with no independent witnesses • based on VPSC's guidance, including guidance on the information that can be shared with complainants and others when the investigation concludes.	Human Resources	December 2020

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No	Recommendation	Auditor-General's comment	Accept	Proposed action(s)	Owner(s)	Completion date
30	That VAGO puts in place a systematic process to effectively identify high performing staff and a clear pathway to develop these staff so that they are capable of taking on more senior roles.	We already had approved and planned a Human Resources Project: High Performance/High Potential for 2020/21 that contemplates this recommendation. We expect to roll this out from 2021/22.	Yes	We will: • define the potential rating scale and decide whether the potential rating field /descriptors will be transparent to all employees • define and agree the potential rating field requirements • scope, build and test the new performance process (including the potential rating) • build a performance potential chart, as part of the performance assessment calibration step • communicate to and train staff to facilitate the launch of the new PDP process/ potential rating scores • design and implement the structured development plan, for employees identified as high potential • update the Procedure Performance Cycle process with all changes.	Human Resources	June 2021
31	That VAGO develops and implements formalised succession planning.	The report acknowledges early indications that turnover is declining. I am pleased to report that our voluntary turnover rate for the year ended June 2020 was 13%. When disaggregated by business unit the range of turnover was between 8.3% and 15.4%, showing that there has been a fairly uniform decline in turnover across the office. The design of our organisational structure and the development and progression pathways for our staff naturally create a large pool of staff at lower levels from which to promote into higher level positions, of which there are fewer. Given this, our low turnover, and our high performance/ high potential project we see little value in also developing a separate plan.	No	Refer recommendation 30		N.A.

Appendix B:
Glossary and acronyms

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Glossary

APES110	Code of Ethics for Professional Accountants (including Independence Standards), a Standard prepared by the Accounting Professional and Ethical Standards Board
APES 320	Quality Control for Firms, a Standard prepared by the Accounting Professional and Ethical Standards Board
ASA 102	Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements, a Standard prepared by the Auditing and Assurance Standards Board
ASAE 3000	Assurance Engagements Other than Audits or Review of Historical Financial Information, a Standard prepared by the Auditing and Assurance Standards Board
ASAE 3500	Performance Engagements, a Standard prepared by the Auditing and Assurance Standards Board
ASQC 1	Quality control for firms that perform audits and reviews of financial reports, other financial information and other assurance engagements, a Standard prepared by the Auditing and Assurance Standards Board
Assurance engagement	An assurance engagement is an independent examination of the integrity of a subject matter (such as a financial report or performance audit) and a conclusion intended to increase the confidence that users can place on the subject matter. For example, providing an independent examination and opinion that a financial report complies, in all material respects, with the relevant legislation and standards, and gives a true and fair view of an organisation's financial operations
Budget Paper No 3 (BP3) measures	These are performance measures set by the Department of Treasury and Finance[30]
Engagement Leader	This role provides the first approval for key milestone steps in audits as part of VAGO's quality assurance process. It is generally performed by the relevant sector audit director
Engagement Quality Control Reviewer	This role provides independent quality assurance checks for audits. It is performed by an audit director who is not the Engagement Leader
Non-attest	Audit services or staff that are engaged in activities that are not specifically related to an attest engagement which involves providing an opinion. For example, an audit of financial statements is an attest engagement. Whereas, non-attest engagements include performance audits and financial audit reviews which do not involve providing an opinion

Acronyms and initialisms

ACAG	Australasian Council of Auditors General
AmP	Audit Method Performance system[31]
AUASB	Auditing and Assurance Standards Board
BP3 measures	Budget Paper No 3 measures
EPIC	Establish Plan Implement and Conclude
FTE	Full-time Equivalents
IPSAM	Integrated Public Sector Audit Methodology
PAEC	Public Accounts and Estimates Committee
SAIs	Supreme Audit Institutions
VAGO	Victorian Auditor-General's Office

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30 Information about Budget Paper No. 3 can be found at https://www.dtf.vic.gov.au/2019-20-state-budget/2019-20-service-delivery

31 This system was developed by VAGO to support the implementation of its performance audit methodology.

Appendix C:
Evaluation framework

The performance audit was undertaken in line with PAEC's terms of reference. The Audit Plan was agreed to by PAEC and VAGO at the start of this performance audit. The table below sets out each key area, lines of inquiry and workstream.

Terms of reference	Assessment criteria	Workstream
Key Area 1: Independence and objectivity		
Determine whether VAGO has an effective and efficient framework for assuring the independence and objectivity of the Auditor–General and his staff. Consider whether:		
VAGO has codified policies, standards or guidance that clarify the concept of 'independence' as it applies to the Auditor–General, VAGO staff and the full range of activities they engage in that interface with the public sector and audited agencies	• VAGO has policies, standards and guidance that clearly define what is meant by 'independence' as it applies to the Auditor–General, VAGO staff and contractors. These meet legislative requirements and are benchmarked against external sources, including the Australian Auditing Standards • VAGO promotes a working culture through its strategy, values and other mechanisms that ensures integrity and independence of the Office is embedded and maintained in their approach to audits, reports, and dealing with contentious findings • VAGO has policies and guidance that establish expectations of rotation of Financial Audit Directors (in-house and outsourced) • On audit files there are explicit statements by all team members in relation to conflicts of interest. This includes whether or not they have a potential conflict of interest and where there is a potential conflict of interest how it will be managed	Outcomes Financial audit Performance audit
VAGO has defined: • the nature and domain of acceptable activities with audited agencies and those which should be avoided under all circumstances in order to preserve VAGO's actual and/or perceived independence and the reasons why • the risks to VAGO's actual and/or perceived independence arising from all functions and activities that interface with the public sector and audited agencies, and the actions and mitigation strategies to be followed by all staff	• VAGO has strategies, policies, guidance, and induction arrangements that ensure the full range of activities and ways VAGO seeks to influence and add value are in keeping with its objectives, mandate and core functions (including limitations) with regard to its role • VAGO staff, contractors and public sector agencies' stakeholders demonstrate a reasonable and shared understanding of the nature and domain of acceptable activities with audited agencies to preserve VAGO's actual or perceived independence, including its importance. This understanding aligns with Parliament's expectations • VAGO has an effective stakeholder engagement strategy with regards to ensuring its independence and limitations of collaborative activities are communicated well • VAGO has processes in place to effectively manage risks to its independence. This includes identifying risks, the likelihood of their occurrence, impact and mitigation strategies. These are regularly monitored and updated	Outcomes Financial audit Performance audit

Terms of reference	Assessment criteria	Workstream
VAGO has effective arrangements for systematically monitoring and assuring the adherence of all staff and contractors to any defined minimum standards, strategies and/or processes designed to assure VAGO's independence	• VAGO has effective mechanisms in place to regularly monitor the impact of its strategic plan and values on its organisational culture to ensure risks to its independence are identified and addressed by senior leadership • VAGO has effective arrangements, including policies and procedures, that establish systematic monitoring to assure VAGO's independence and adherence by all staff and contractors • VAGO staff and contractors demonstrate an understanding of monitoring standard expectations • VAGO has effective arrangements in place for regular (at least annually) staff declaration of independence • ASPs maintain regular declarations of independence • VAGO has effective processes for addressing non-compliance	Outcomes Financial audit Performance audit

Key Area 2: Contribution to an effective and efficient public service

Determine if VAGO is effectively leveraging appropriate opportunities to support and improve the effectiveness and efficiency of the public sector. Consider if:

Terms of reference	Assessment criteria	Workstream

VAGO has a transparent strategy that clarifies, both for staff and agencies, the nature, variety, and limits of collaborative initiatives it will employ to support the public sector to operate more effectively and efficiently	• VAGO has strategies, policies, guidance and induction arrangements that:
	  › clearly establish the nature, variety and limits of activities used to support improvements in the public sector and how these should be balanced with VAGO's mandate
	  › align with legislative limitations and requirements
	• VAGO staff, contractors and public sector agencies demonstrate a shared understanding of the types of collaborative activities that are appropriate and within VAGO's mandate
		Outcomes
		
		Financial Audit
		
		Performance Audit

VAGO's focus on collaborative initiatives is appropriate having regard to its mandate, objectives, and core functions	• VAGO staff engaged in activities used to support improvements in public sector agencies demonstrate adherence to VAGO's mandate, objectives and core functions
	• VAGO's activities used to support improvements in public sector agencies align with Parliament's expectations of VAGO to support and improve the effectiveness and efficiency of the public sector
	• VAGO's 'value add' is demonstrated in assisting audited agencies in the:
	  › interpretation of increasingly complex accounting standards (revenue and leases for example) and
	  › feedback on the audit of key performance indicators (a relatively new field of auditing)
		Outcomes
		
		Financial Audit
		
		Performance Audit

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Terms of reference	Assessment criteria	Workstream

VAGO is effectively mitigating the risks to its independence and self-review from current and/or planned collaborative initiatives by its financial and performance audit teams with agencies	• VAGO has effective risk management strategies and application at the different hierarchical levels, including:
	  › effective mechanisms in place to ensure risks are identified in a timely manner
	  › identifying any inherent risks of current and/or planned activities used to support improvements in public sector agencies to VAGO's independence
	  › effective mitigation strategies
	  › regular monitoring and updating of status of risks
		Outcomes
		
		Financial Audit
		
		Performance Audit

VAGO has a sound evidence-based approach to determining its performance audit effort in terms of, but not limited to, the mix between 'in-flight' vs completed programs/projects, and broad vs limited scope audits and whether this demonstrates that audits are optimally focused on supporting the effectiveness and efficiency of the public sector	• VAGO has documented processes to ensure performance audit planning makes optimal use of its resources in the mix and number of audits undertaken • Internal liaison is encouraged and proactively managed (e.g. using financial audit intelligence) • VAGO engages and has discussions with relevant external stakeholders, including audit offices in other jurisdictions, independent advisors, think tanks, etc • Performance audits included in the Annual Plan are in accordance with VAGO's legislative mandate and in line with its Strategic Plan • VAGO has processes in place to monitor and report progress and to address any reasons for deviation from the plans. Limitations, if any, on which entities can be audited are clearly identified, including reason or source	Outcomes
VAGO's performance audit effort and mix is appropriately risk-based, targeted, and demonstrably reflects an effective and efficient use of its resources	• VAGO has logical criteria for selection including materiality, risk, extent of coverage, value-add, public interest and data available from other jurisdictions • VAGO completes and uses an environmental scan of risks identified by stakeholders – other regulatory agencies, audited agencies, members of the public, Parliamentarians • VAGO has a risk profile of the Victorian public sector – overall and by sector to target performance audit effort • VAGO has documented processes for selecting topics, including ensuring effective and efficient use of its resources	Outcomes

Terms of reference	Assessment criteria	Workstream
Changes to the number and mix of performance audits delivered by VAGO since 2016 reflect improvements to VAGO's efficiency, productivity and extent of scrutiny of public sector activities	• VAGO has processes in place to monitor what impact changes in the number and mix of audits since 2016 has had. This includes: › whether the number of audits has increased or decreased › whether there have been changes in the cost of audits and if this is the case, identified the underpinning reasons › what impact this has had on their scrutiny of the public sector and whether this is reasonable › whether this has led to increased efficiency, productivity, and the extent of their scrutiny of the public sector	Outcomes

Key Area 3: Professional and respectful relationships

Determine if VAGO engages professionally and respectfully with stakeholders, and if it is striking the right balance between consultation and preserving its independence and objectivity. Consider:

If VAGO has an effective stakeholder engagement strategy, developed in conjunction with stakeholders, that demonstrates a mutual commitment to clearly defined standards of professional behaviour and engagement between VAGO and the public sector	• VAGO's stakeholder engagement strategy: › establishes agreed expectations of professional behaviour and engagement › developed in conjunction with stakeholders › effectiveness is monitored by VAGO	Outcomes
If VAGO regularly assesses stakeholders and its own performance against the engagement strategy and if this is discussed with stakeholders and demonstrates that both parties are effectively and efficiently discharging their obligations	• VAGO has: › actively monitored and tracked over time its stakeholder performance against the engagement strategy › processes to regularly assess the impact of its strategy and values on its engagement with public sector agencies whilst maintaining its integrity and independence › processes are in place to share information concerning the effectiveness and efficiency of engagement with stakeholders. These processes are applied well	Outcomes

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Terms of reference	Assessment criteria	Workstream
A representative sample of financial and performance audit engagements and determine if VAGO conducts audits professionally and respectfully. In so doing: • balance any feedback received from agencies against the perspectives of relevant VAGO staff, and validate any findings by reference to evidence on VAGO files • consider if VAGO's correspondence, communication and approach to engagement demonstrates that it is receptive and responsive to agency feedback • determine if VAGO maintains its independence by fairly and critically evaluating the issues, feedback, or concerns raised by stakeholders during audits, and if it has responded appropriately to agencies in response to these issues where they have arisen	• VAGO has transparent and consultative processes in place • Public sector principles of respect, integrity and impartiality are adhered to • Issues, feedback, or concerns raised by stakeholders during audits are impartially, rigorously, and fairly evaluated • VAGO formulates appropriate responses that maintain the independence and objectivity of audits • VAGO engages reasonably and effectively with agencies to explain the basis of its position in relation to any disagreements and proposed actions • VAGO has ensured that any changes it makes to draft reports in response to agency feedback or disagreements are evidence-based, appropriate, and uphold the independence of VAGO	Financial Audit Performance Audit
If VAGO has a transparent and effective framework for managing disagreements with agencies during audits that assures its objectivity and independence is maintained. Consider if VAGO: • transparently records the basis of disagreements with agencies • rigorously and fairly evaluates the merits of agency perspectives • formulates appropriate responses that maintain the independence and objectivity of audits • engages reasonably and effectively with agencies to explain the basis of its position in relation to any disagreements and proposed actions • ensures that any changes it makes to draft reports in response to agency feedback or disagreements are evidence-based, appropriate and uphold the independence of VAGO	• VAGO has transparent records that outline the basis for any disagreements with agencies • Evidence-based decisions are made concerning disagreements that rigorously and fairly evaluate the merits of agency perspectives • VAGO's response is evidence-based and provides a clear trail of decision-making concerning the outcome of decisions, including escalating to management, directors etc as appropriate • VAGO has records of engagement with stakeholders that provide evidence of transparency concerning decision-making, whilst maintaining its independence	Financial Audit Performance Audit

Terms of reference	Assessment criteria	Workstream
VAGO's office culture and the perspective of audit staff on how VAGO and its contractors balance the focus on agency relationships with the need to conduct audits without fear, favour or affection	• Clear evidence of an office culture which balances its focus on agency relationships with conducting audits without fear, favour or affection • Decisions are evidence-based	Financial Audit Performance Audit

Key Area 4: Performance audit methodology, tools, and techniques

Determine if VAGO's performance audit methodology, tools and techniques are sound and effectively applied to audits. Consider if:

VAGO's performance audit methodology, guidance and software are comprehensive, regularly reviewed and updated to ensure compliance with the Audit Act and requisite standards	• VAGO has a methodology and associated guidance that demonstrates compliance with relevant standards, including compliance with the Audit Act (1994) • Where a performance audit is carried out by an Audit Service Provider, evidence of assurance that their audit methodology complies with the specific requirements of the Australian Auditing Standards • VAGO has clearly set out guidance and software to enable staff to understand the performance audit process from initiation to final reporting • VAGO regularly reviews and updates the performance audit methodology to ensure it remains fit for purpose	Performance Audit
Performance audit staff and contractors are systematically trained in the use of the performance audit methodology	• All staff and contractors have been trained in the application of performance audit methodology • VAGO performance audit staff and contractors receive a regular refresh of methodology training • VAGO has a clearly defined strategy for training • VAGO's training attendance register is maintained and monitored to ensure staff satisfy capability requirements • VAGO has a formal induction process into the performance audit methodology	Performance Audit

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Terms of reference	Assessment criteria	Workstream
VAGO has a sound quality control framework for performance audits that is consistently and effectively applied by all staff and contractors across all phases of the performance audit lifecycle, and which assures compliance with the Audit Act and auditing standards	• VAGO's quality control framework is consistent with requirements of the Auditing Standard ASQC 1 • VAGO's quality control procedures have been consistently and effectively applied at crucial stages of the audit to ensure compliance with the performance audit methodology and auditing standards • VAGO has a documented process to ensure overall quality reviews of the quality assurance procedures are undertaken • Lessons learned are identified, addressed appropriately by management, and shared with all staff and contractors	Performance Audit
Performance audits are subject to regular quality assurance reviews that are promptly and effectively acted upon by senior management to improve performance audit practice	• Independent quality assurance reviews of performance audits have been conducted • Evidence recommendations are promptly and effectively addressed by senior leadership	Performance Audit
Examination of a representative sample of performance audits demonstrates: • the audit plan, criteria and evidence adequately support the findings, conclusions and recommendations contained within performance audit reports • that reports are balanced and contain no material or unjustified omissions of adverse findings • recommendations are clear, specific and actionable and address the root causes of issues • VAGO's parliamentary reports are robust and developed through a rigorous process that is devoid of fear, favour and affection	• VAGO has processes in place to ensure the audit plan, criteria and evidence adequately support the findings, conclusions and recommendations contained within performance audit reports • VAGO has processes in place to ensure reports are balanced and contain no material or unjustified omissions of adverse findings • Working papers and evidence gathered support key elements of the final report • Recommendations are clear, specific, and actionable, and address the root causes of issues • VAGO's parliamentary reports are robust and developed through a rigorous process that is devoid of fear, favour and affection	Performance Audit

Terms of reference	Assessment criteria	Workstream
Key Area 5: Financial audit methodology, tools, and techniques		
Determine if VAGO's financial audit methodology, tools and techniques are sound and effectively applied to audits. Consider if:		
VAGO's financial audit methodology, guidance, and software is comprehensive, regularly reviewed and updated to ensure compliance with the Audit Act and requisite standards	• Compliance with the Act • VAGO's financial audit methodology (financial statements) complies with the specific requirements of the Australian Auditing Standards or other requisite standards • Where a financial audit is carried out by an Audit Service Provider, evidence of assurance that their audit methodology complies with the specific requirements of the Australian Auditing Standards • The financial audit methodology (performance statement) complies with the specific requirements of the Act	Financial Audit
Financial audit staff and contractors are systematically trained in the use of the financial audit methodology	• For in-house financial audit staff there is a progression path from graduates to audit seniors/ supervisors, managers, and director. Each level has minimum educational and training requirements • VAGO provides regular methodology training to financial audit staff at all levels • VAGO maintains a technical training framework to ensure systematic training in the audit methodology which is monitored and actioned • VAGO's training attendance register is maintained and monitored to ensure financial audit staff satisfy capability requirements. For Audit Service Providers this requirement is inbuilt into their contracts • Financial audit staff (inhouse and Audit Service Providers) are members of a professional accounting body – CAANZ or CPAA, or other • Financial audit staff (inhouse and ASP) assigned to audits of financial statements and performance statements have appropriate experience and skills	Financial Audit

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Terms of reference	Assessment criteria	Workstream

VAGO has a sound quality control framework for financial audits that is consistently and effectively applied by all staff and contractors across all phases of the financial audit lifecycle, and which assures compliance with applicable legislation and auditing standards	• VAGO's quality control framework is consistent with the requirements of Auditing Standard *ASQC 1: Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagement*
	• Financial audit staff (inhouse and Audit Service Providers) have a clear understanding of the importance of quality control during the financial audit (financial statements and performance statements)
	• Quality assurances issues identified in the past and during the audit period have been effectively addressed and reflected in revised or new arrangements
	• As part of VAGO's quality assurance processes – an Engagement Quality Control Reviewer is in place for crucial stages of the audit.[32]
	  › audit planning: audit strategy is subject to quality assurance prior to issue to audited agency
	  › post-interim audit activity and prior to issue of the interim management letter
	  › prior to the conclusion of the audit
	  › prior to issue of the closing report to the audited agency
	  › technical consultation is obtained for contentious accounting issues. Once identified, issues are thoroughly researched and elevated to the technical panel
	  › modifications to the audit opinion are considered by the audit report modification panel
	  › all technical issues are recorded in the register of significant accounting matters
		Financial Audit

Financial audits completed by in-house staff and contractors are subject to regular quality assurance reviews that are promptly and effectively acted upon by senior management to improve financial audit practice and compliance by in-house staff and contractors with requisite standards	• Independent Post Audit and Assurance Quality reviews of financial audits have been conducted • Evidence recommendations are promptly and effectively addressed by senior leadership	Financial Audit

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32 VAGO (2019). Annual Report 2018–19, p. 44

Terms of reference	Assessment criteria	Workstream
An examination of a representative sample of financial audits completed by in-house staff and contractors demonstrates compliance with all relevant statutory requirements and Australian Auditing Standards for the conduct and reporting of financial audits	• VAGO audit team members are independent and capable to perform an effective and efficient audit • The audit budget demonstrates staff allocation is on the basis of capability • An appropriate engagement letter is issued • The audit is administrated in a manner to achieve efficiency for both the audited agency and VAGO • The Audit Strategy Memoranda demonstrates an understanding of the entity and its risks, the audit approach is designed to address audit risk and is communicated to audited agencies' Audit and Risk Committee (and Those Charged With Governance) • The audit procedures demonstrate an appropriate response to the assessed risks and consistent with the Audit Strategy Memoranda • The audit workpapers clearly demonstrate the audit conclusions and reflect the quality of audit evidence gathered to satisfy the audit objective • The communication with audited agencies' management and their Audit and Risk Committee is consistent with the requirements set out in the auditing standards • Management letters contain recommendations that are clear and actionable • The closing report effectively acquits the key audit matters raised in the Audit Strategy Memoranda, supported by audit evidence in the audit file • The auditors' report is consistent with the closing report • The audit file demonstrates compliance with the audit methodology and the Australian Auditing Standards • The Engagement Quality Control Reviewer role has consistently been performed	Financial Audit

Terms of reference	Assessment criteria	Workstream
Key Area 6: Quality and continuous improvement		
Determine if VAGO has a strong, continuous improvement culture supported by effective governance and accountability arrangements that drive the efficient and effective implementation of improvement initiatives. Consider if:		
VAGO has made adequate progress in addressing the recommendations of the 2016 Performance Audit Report, and whether the basis for any delays is reasonable and justified	• Recommendations have been implemented or given due consideration and appropriate actions have been taken with documented reasoning • VAGO's Audit and Risk Committee has monitored all recommendations made by internal and external auditors • The Internal Auditors have provided VAGO's Audit and Risk Committee with assurance that all high and moderate risk rated recommendations have been effectively implemented	Outcomes Financial Audit Performance Audit
The work of VAGO's audit quality teams is adequately resourced, supported by senior management, and resulting in sustained improvements to audit quality and compliance with standards	• VAGO's audit quality team has been consistently and over time adequately resourced • VAGO's audit quality team has consistently and over time been supported by the leadership team • VAGO has performance measures and monitors them to determine whether improvements are achieving the desired result	Outcomes
The leadership team has strengthened its focus on accountability for continuous improvement and project management, and whether this is reflected in the delivery of VAGO's audit program, data analytics strategy, improvement projects, as well as VAGO's performance against BP3 measures and staff survey results	• VAGO has an established internal program whereby a review of performance is undertaken and areas for improvement identified. Where issues are identified, VAGO has processes in place to address them, including targeted training • VAGO participates in the independent assessments undertaken by ACAG or peers which are used to inform its improvement program • VAGO has consistently measured and monitored the effectiveness of its continuous improvement program and quality assurance over time • VAGO has identified lessons learned that strengthen its continuous improvement program and acted on these appropriately. Lessons learned are reflected in the delivery of its audit program, data analytics etc	Outcomes
VAGO proactively leverages the results of staff surveys, client surveys (that is, of Members of Parliament and audited agencies) and its benchmarking activities with other audit offices to inform its continuous improvement initiatives	• VAGO's continuous improvement program is informed by: › staff survey results › client surveys (Members of Parliament and audited agencies) › benchmarking activities with other audit offices › evidence VAGO's risk management arrangements, risk appetite statements, strategic planning are contemporary and forward looking. Including considering changes in AI, cyber risk, privacy, whistleblowing changes, Workplace Health and Safety, anti-slavery, compliance records and near misses	Outcomes

Terms of reference	Assessment criteria	Workstream
Key Area 7: Strong practice management		
Determine if VAGO has appropriate practice management systems, strategies and processes that efficiently and effectively support:		

Planning for the number, mix and delivery of performance and financial audit	• VAGO has a sound evidence base that supports planning for the number, mix and delivery of performance and financial audits which includes a mix of:
	  › in-flight vs completed programs
	  › broad vs limited scope audits
	  › risk-based selection
	• VAGO has processes in place to ascertain the overall resource plan. For example: the level of resourcing required, specialist skills, materiality, and relevance
		Outcomes

Monitoring and oversight of the progress of audits, continuous improvement initiatives, and VAGO's performance against its strategic plan, BP3 and outcome measures	• VAGO has an up to date Strategic Plan that:
	  › aligns with legislative responsibilities
	  › provides relevant context in defining vision, mission purpose etc
	  › considers organisational SWOT analysis
	  › has been developed in an inclusive manner through engaging relevant stakeholders and staff
	• The Auditor General and Executives have a clear line of sight between BP3, strategic plans, and outcomes
	• Divergence from strategic plans is promptly escalated and actioned
	• VAGO has established accountabilities for monitoring and oversight
	• VAGO exercises effective oversight and measurement of its' performance against its strategic plan, BP3 and outcome measures
		Outcomes

Implementation of VAGO's quality control framework, including timely review and supervision of audits	• VAGO's quality control framework is implemented across audits • Timely review and supervision of audits	Outcomes

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Terms of reference	Assessment criteria	Workstream
Timely actions for addressing staff morale and engagement, including training and development needs	• VAGO monitors key performance indicators to measure wellbeing and morale (e.g. staff engagement, job satisfaction and workplace stress) • VAGO acts in a timely manner to address concerns that are highlighted in relation to staff wellbeing including bullying, sexual harassment, mental health, fatigue etc • VAGO conducts annual performance assessments and development reviews for all staff • VAGO has mechanisms in place to identify staff not performing and responds in a timely manner to training and development needs	Outcomes
The resourcing and scheduling of audits	• VAGO determines the mix of staff required as part of its scheduling of audits to ensure efficient and effective use of resources • VAGO's scheduling of audits take a range of factors into account including timing requirements for audits, risk, and significance	Outcomes

The setting, management and monitoring of audit, divisional and office-wide budgets	• VAGO is effectively managing costs against its budget
	• Budget processes and decisions are timely, well documented and logically justified, based on accurate information
	• There are logical processes in place for developing and approving audit budgets that:
	  › consider all relevant aspects of the audit
	  › are informed by past performance and analysis
	  › are challenged to ensure efficiency.
	    VAGO can justify the budgets for its audits
		Outcomes

Terms of reference	Assessment criteria	Workstream
Key Area 8: Participative leadership and inclusive culture		
Examine the leadership team's impact on the organisation, and its progress in improving organisational culture and cohesion. Consider if:		
Staff surveys, retention and turnover metrics demonstrate that the leadership group has made a positive impact on improving perceptions of the leadership group and organisational culture; identify the nature, extent and drivers of residual issues and any opportunities for improvement	• VAGO has effectively monitored staff survey results • VAGO leadership has actively sought feedback on staff's perception of their leadership and organisational culture • VAGO leadership has responded to issues in a timely and appropriate manner • VAGO has established retention and turnover indicators and measures its performance against these on a regular basis • VAGO acts in a timely manner to implement strategies that address issues highlighted in relation to staff turnover	Outcomes
The leadership team has taken appropriate and timely action in response to issues raised by staff to improve VAGO leadership and organisational culture	• VAGO's Audit and Risk Committee has identified and prioritised implementation of recommendations • VAGO's internal audit has independently assured the Audit and Risk Committee of satisfactory implementation • Staff issues are methodically addressed • Culture is a standing agenda item and discussion point at Auditor-General meetings with the leadership team • VAGO has regular dashboard reporting about Workplace Health and Safety • VAGO has a good whistleblower policy etc that staff are aware of and know how to apply • VAGO undertakes exit interviews which are analysed and information utilised to make improvements • VAGO provides regular training on Workplace Health and Safety for the Persons Carrying on a Business Undertaking and VAGO staff	Outcomes
VAGO has a clear vision, strategy, values, and a plan for building a strong inclusive culture that demonstrably resonates with its employees	• VAGO's strategy, vision and values encourage and support a strong inclusive culture • Evidence that its workplace culture resonates with VAGO's employees • VAGO's values are aligned to the Victorian public sector[33]	Outcomes

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33 VPS Values on Victorian Public Sector Commission website https://vpsc.vic.gov.au/ethics-behaviours-culture/promoting-integrity/vps-values-and-employment-principles.

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Terms of reference	Assessment criteria	Workstream
Key Area 9: Engaged staff and a focus on wellbeing		
Examine the leadership team's progress in improving staff engagement, morale, and wellbeing. Consider if:		
Staff surveys, retention and turnover metrics demonstrate that the leadership group has made a positive impact on improving staff morale, engagement and wellbeing	• VAGO's staff retention and turnover metric trends indicate improvement • VAGO's staff retention and turnover metrics are in line or better than Victorian public service rates • Causes cited for leaving are due to career progression or good opportunities	Outcomes
The leadership team has made adequate progress in improving staff feedback and consultation, succession planning, as well as staff recognition and retention; identify the nature, extent and drivers of residual issues and any opportunities for improvement	• VAGO has appropriate Occupational Health and Safety and Human Resource policies in place to effectively monitor staff wellbeing related to areas such as: staff morale, job satisfaction, and workplace stress, and to take appropriate action where necessary • VAGO has a staff retention strategy • Staff absence is monitored and issues are actioned	Outcomes

Appendix D:
Methodology

Our methodology for conducting the performance audit is detailed below.

Objective	Key activities	Outputs
Phase 1 – Audit inception and planning		

Confirm with PAEC our approach to ensure it addresses the terms of reference and PAEC's objectives for this performance audit	• Met with PAEC and Auditor-General to confirm the terms of reference, our proposed approach and the reporting timetable
	• Conducted initial assessment of the following:
	  › Audit Act (1994) and Audit Regulations (2019)
	  › Internal policies and procedures associated with the Australian Auditing Standards
	  › VAGO's Annual Plans, Strategic Plan 2017–2021 and other relevant documents and strategies, activities, structures and controls that VAGO has in place to meet statutory requirements
	  › Progress against the 2016 PAEC recommendations
	  › VAGO's Portfolio Performance Review against the terms of reference for this audit
	• Used the outcomes of the initial assessment to inform the development of the audit plan. This included development of the sampling plan, interview schedule and performance audit indicators
	• Agreed on audit plan with PAEC following input from PAEC, Auditor-General, and VAGO senior leaders and managers
		Agreed audit plan, including sampling plan and interview schedule

Objective	Key activities	Outputs
Phase 2A – Outcomes workstream		
To examine how effectively and efficiently the Auditor-General and VAGO is achieving its desired outcomes	• Examined VAGO's organisational documents, including strategies, annual plans, annual reports, stakeholder engagement plans, governance arrangements, key external stakeholder survey results • Conducted one-on-one interviews with VAGO leadership team members and senior management • Conducted focus groups with VAGO staff in more junior roles • Interviewed key external stakeholders including Parliamentarians • Reviewed performance indicators and measures • Analysed outcomes workstream evidence	Preliminary findings from the outcomes workstream
Phase 2B – Performance audit workstream		
To examine how effectively and efficiently VAGO performs its performance audits of public sector agencies	• Assessed VAGO's performance audit methodology, policies and procedures, and tools • Examined nine performance audit files. Selection of the performance audits was based on audits completed between January 2017 and October 2019, a mixture of sectors, cost, use of data science, and audits conducted by both VAGO staff and consultants • Conducted one-on-one meetings with VAGO's performance audit directors and data scientists • Conducted small group interviews with VAGO's performance audit managers • Conducted one-on-one meetings with consultants • Interviewed selected audited Victorian public sector agencies • Analysed performance audit workstream evidence	Preliminary findings from the performance audit workstream

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Objective	Key activities	Outputs
Phase 2C – Financial audit workstream		
To examine how effectively and efficiently VAGO carries out its financial audits of public sector agencies	• Assessed VAGO's financial audit methodology, policies and procedures, and tools • Examined 38 financial audit files. Selection was based on a risk-based approach which included 17 high-risk audits and 21 medium- and low-risk audits. Of these, 10 were audits of material entities and 25 were performed by Audit Service Providers • Conducted one-on-one interviews with VAGO's financial audit directors • Conducted small group interviews with VAGO's financial audit managers, assistant managers and senior analysts • Interviewed selected key external stakeholders from the Victorian public service • Met and examined the financial audit process with a selection of Audit Service Providers • Analysed financial audit workstream evidence	Preliminary findings from the financial audit workstream
Phase 3 – Reporting of findings and consultation		
To synthesise the evidence collected from the outcomes, performance audit and financial audit workstreams to enable comparison against good practice and to present our findings and potential improvements to VAGO and PAEC	• Collated and analysed evidence to evaluate results and identify areas of compliance and gaps • Assessed compliance against identified benchmarks to identify areas of success and areas of weakness • Identified opportunities for improvement • Presented initial findings and insights with PAEC and VAGO • Drafted Summary of Findings and Recommendations report. As part of natural justice, consulted on the report with VAGO and PAEC • Drafted and finalised performance audit report with VAGO and PAEC, including consulting on the draft report	• Summary of Findings and Recommendations report • Draft performance audit report • Final audit report to PAEC with opinion and recommendations

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