Lessons from audits:
Key themes from our 2009-10 audit program

Des Pearson, Auditor-General
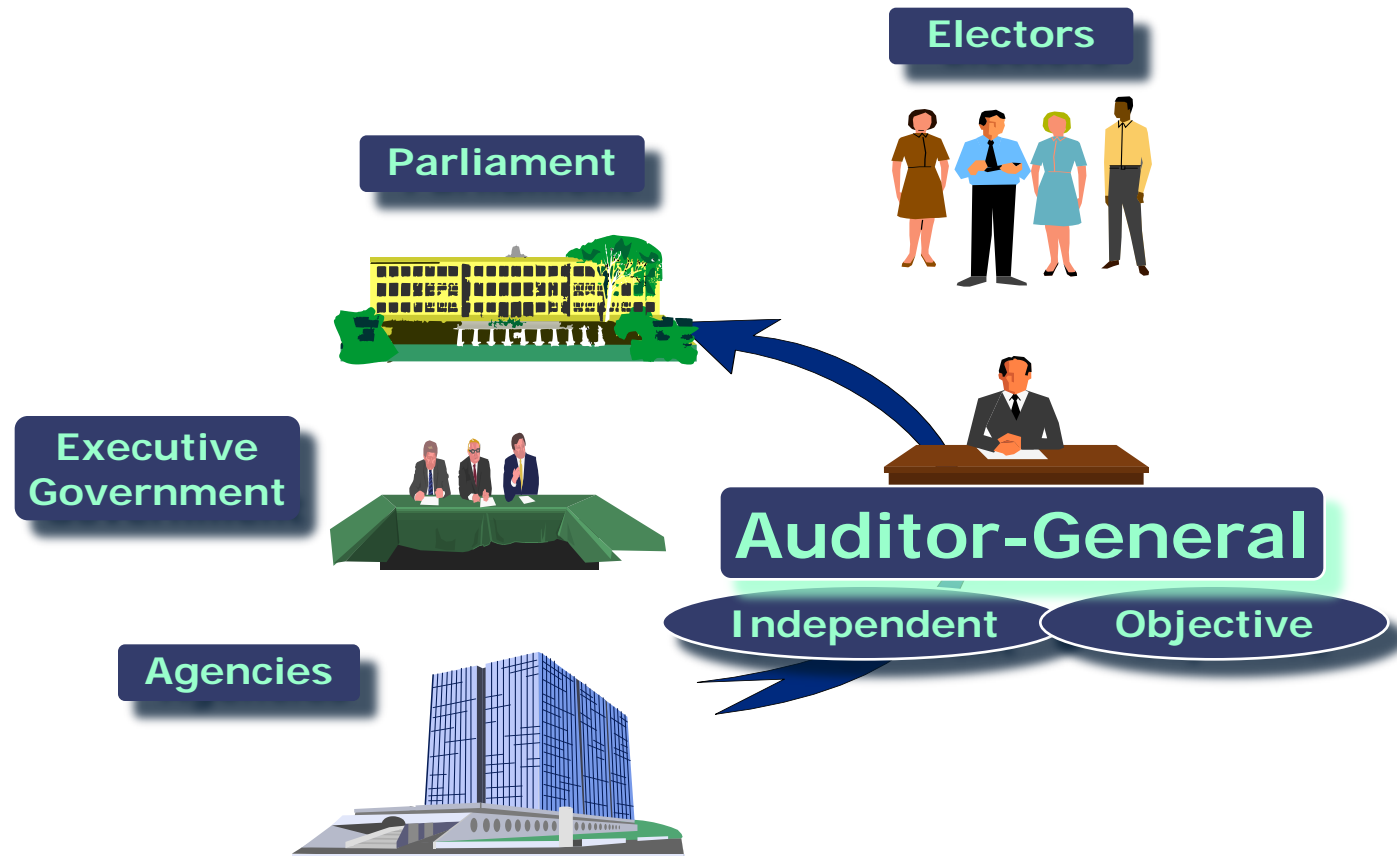2 September 2010, Chartered Secretaries Australia

Personal context

- Auditor-General across 2 jurisdictions, ~ 20 years
- Personal inclination - 'value add' of audits. Reports as the ultimate product of our work.
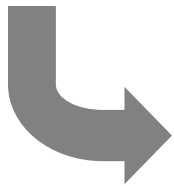
Key audit themes - background

- The idea of 'key audit themes' has been triggered by CSA through invitations in 2008 and 2009
- It's been popular! In 2009: presented to Cabinet, discussed with every Secretary, used by Minister for Finance in his report, considered by VMIA (WovG risk)
- Pleased to once again launch in partnership with CSA

Electors

Parliament

Executive Government

Agencies

Auditor-General

Independent   Objective

Auditing in the Public Interest

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Increased stakeholder expectations in transparency, governance and reporting

Increased role for audit in public sector

Expand audit beyond review of financial statements → now includes **efficiency, effectiveness**, probity & compliance

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Our Purpose

- *Providing **assurance** to Parliament on the accountability and performance of the Victorian public sector*

Underlying this, we aim to

- *Promote **improvement** in the public sector*

→ Presentations like this promote improvement and share lessons from audits

Today I will…

- Highlight 8 key themes emerging from our 600+ financial audits and 27 performance audits across 2009-10

- Within each theme, point to particular persistent and recurring issues and risks found through our audit program.

- Give examples - discuss VAGO reports that demonstrate these recurring issues.

- Allow time for questions and comments.

Key audit themes 2009-10

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1. Arm's length accountability
2. Oversight deficit – roles for departments
3. Decision-making and planning
4. Outcomes and effectiveness
5. Performance information
6. Information technology
7. Information security
8. Conflicts of interest

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Arm's length service delivery poses challenges for traditional accountability as delivery becomes 'further down the line'.

2009-10 audits found challenges to accountability across:

- Community partnerships - acquittals and reporting (*Community Building Initiative, Partnering with Community Sector*)

- Private partnerships/alliances - current accountability requirements not always adhered to (*Managing the Requirements for Disclosing Private Sector Contracts; Rollout of the AMI project*)

- Small 'r' regulation (Depts) needs greater rigour and stronger focus on compliance (*Hazardous Waste, Social Housing*)

Part of *A Fairer Victoria*, which identifies adopting innovative ways of delivering services and developing capacity through **community partnerships.**

DPCD adopted a flexible approach to managing the Initiative…but:

- Needed to **balance flexibility** with sufficient **transparency and accountability** (especially around funding and intervention)

- Didn't **appropriately intervene** to resolve conflicts when projects were at risk

Aims to install 2.4 million smart meters in homes and businesses in a **private sector partnership** between the industry and DPI

Checks and balances that would ordinarily apply to a major State investment **were not used.**

Much **stronger departmental oversight** is warranted – DPI solely an 'observer' on industry steering committee.

- An '**oversight gap**' has emerged **between the public and private AMI** project partners

- Further risk - **audit mandate is limited** with private sector partners, making the ongoing role of Dept even more crucial.

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Audit found that the EPA is not effectively **regulating** (via *Environment Protection Act 1970)* private sector management of hazardous waste

Compliance monitoring is inadequate - inspections decreased significantly and were de-centralised without clear rationale

Enforcement practices are concerning:

- Poor data meant it wasn't possible to assess timeliness, consistency and appropriateness of enforcement action.

- Review panel not fulfilling role.

- Enforcement policy lacked sufficient detail (penalties, triggers for response).

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Devolved accountability and 'subsidiarity' → delegation to lowest/ least centralised authority.

- Can lead to gaps and challenges in **oversight** arrangements. Who is monitoring? Whose responsibility is compliance? What is the role for Departments and central agencies?

Audits found:

- Departments should **strengthen oversight and guidance** for portfolio entities (*Managing Teacher Performance, Tendering and Contracting in Local Government*).

- **Central agencies** should take stronger oversight role for whole-of-government policies (*Maintaining Integrity and Confidentiality of Personal Information; Managing the Requirements for Disclosing Private Sector Contracts; Auditor-General's Report on the Annual Financial Report*).

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Audit found inconsistencies and gaps in how schools assess teachers.

DEECD does not routinely assess how well schools evaluate teachers or whether they are in line with Departmental requirements.

We recommended a stronger role for DEECD in monitoring its **portfolio entities** (schools) including:

- Mandating a set of core performance indicators and an assessment scale.
- Getting regular and reliable assurance that schools are managing performance in line with its requirements.

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Agencies have not always complied with requirement to publish contracts >$10M.

- 43 contracts over $10 million not disclosed, at a total value of ~ $3 billion.

There is confusion about requirements – what is required, who it applies to.

Stronger **central agency** guidance (VGPB) is required – current tools are weak, and there is insufficient oversight.

3. Decision-making and planning

Good management and effective projects need high quality analysis and information, to underpin decision-making and planning.

Audits found:

- Business cases were not always used when, how, or as well as they could/should be (*Management of Major Rail Projects, Rollout of the AMI project*).

- Sometimes documentation did not show an adequate basis for significant decisions over public resources (*Irrigation Efficiency Programs, Management of the Community Support Fund*).

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- Weak analysis at decision-making stage compromised the efficiency and effectiveness of the program.

- Decisions to invest ~$2 billion in irrigation efficiency projects (2004 - 2007) were **poorly informed**.

  - Advice was based on unverified assumptions and unproven technology.

  - **Business cases** were not sufficiently rigorous for the risk and cost of the proposed projects.

- So → it's now uncertain whether the assets will achieve targeted water savings or whether they were the best way to achieve government policy objectives of saving/securing water.

4. Outcomes and effectiveness

Programs funded and authorised by Parliament to achieve **outcomes** for the public.

- So…public sector has an obligation to 'report back' to Parliament and public on whether outcomes are achieved.
- But…this information is often missing from the public realm.

Audits found:

- Failure to include **program outcomes in performance reporting** (*Making Public Transport More Accessible, Performance Reporting in Departments*).
- Lack of clear measurable outcomes in **planning stage** hampers ability to clearly determine whether benefits were achieved (*Irrigation Efficiency Programs, Management of Major Rail Projects*).

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Audit found that Department of Transport complied with disability standards for most parts of the public transport system.

However, it has not adequately measured how its actions have affected people with a disability…

Raises the question: What are the outcomes? Are DoT's initiatives effective?

This information should be publically shared, once available.

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*"Overall, there is **a lack of effective outcomes performance reporting** across the departments, and the standard of reporting varies considerably.*

*Only **a few departments** were able to demonstrate the extent to which objectives had been met.*

While other jurisdictions have made considerable advances in outcomes performance reporting over the last decade, Victoria has made little demonstrable on the ground progress." (p.vii)

With PFAB on the horizon, we are hopeful of improvement, but it will take strong leadership to really drive change

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Performance information is crucial in demonstrating public value – a 'proxy for profit'.

Previous years' audits highlighted weaknesses in design and use of performance information.

2009-10 audits found these issues have persisted:

- **Lack of relevant and appropriate indicators** - Around 30% of the 322 performance indicators examined were both relevant and appropriate (*Performance Reporting by Depts*).

- Performance measures – should ideally be **mandated** and **audited** (*Tertiary Education and Other Entities: Results of the 2009 Audits, Managing Teacher Performance*).

Relevance of department performance indicators
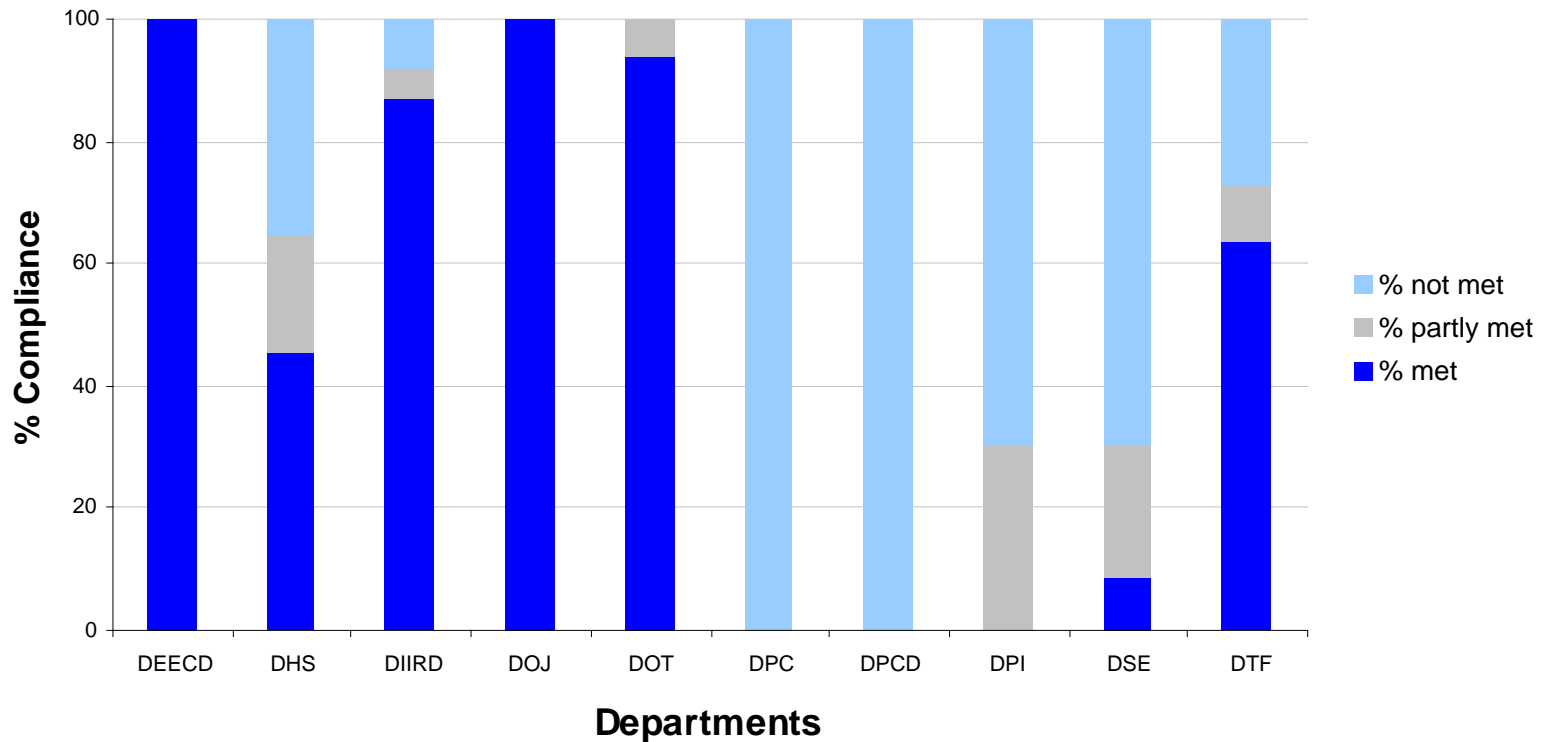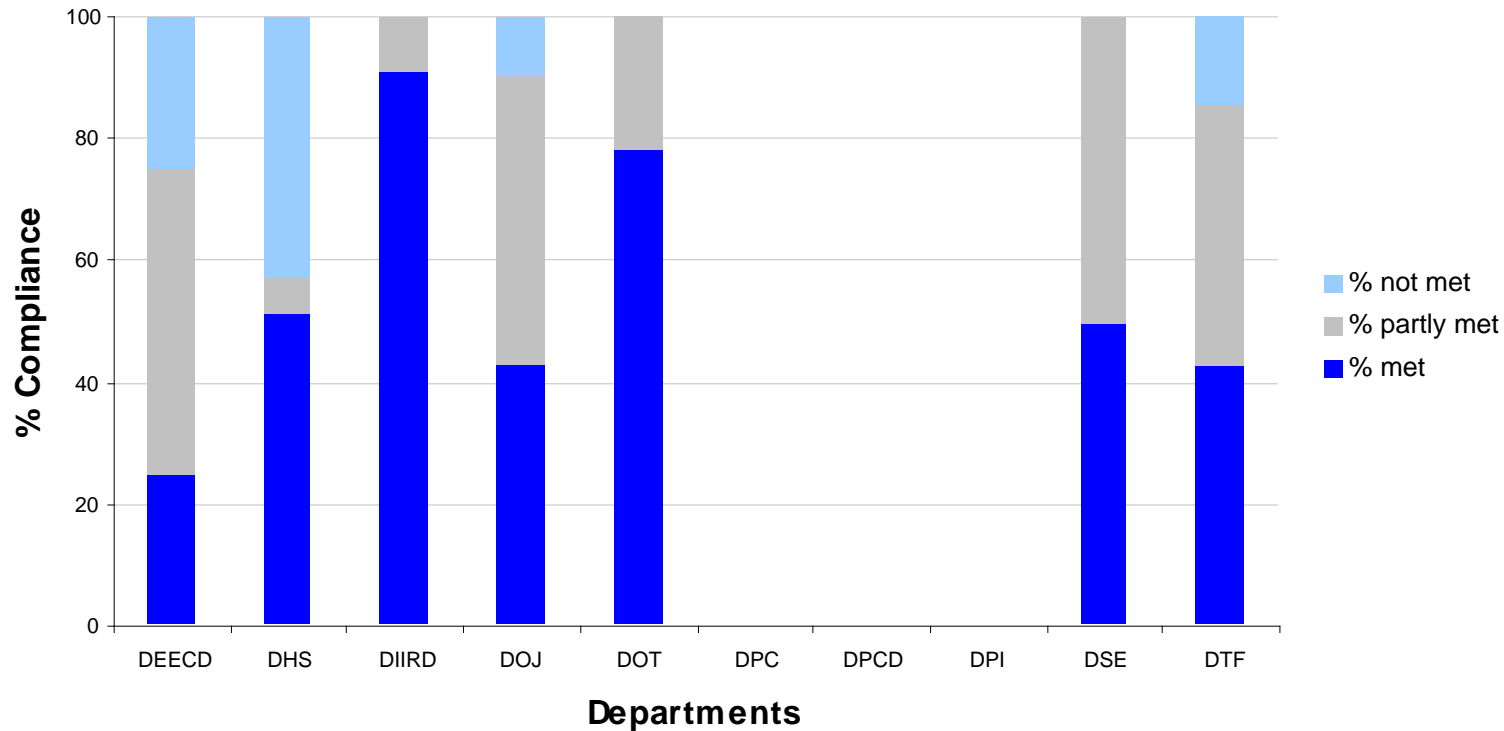
6. Information technology

This is a consistent 'governance soft spot' in the public sector.

2009-10 financial audits have (again) found issues:

- Continuity - weaknesses in business continuity plans and disaster recovery.

- Outsourcing - outsourced provision is common, yet contracts not always in place, and performance monitoring was often inadequate.

- Security - poor controls over password and remote access, with limited monitoring of the integrity of security systems.

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(Linked to the previous theme…)

Vast amounts of **personal information** is held by public sector entities. Weak control environments puts this information at risk.

Financial audits found that information could easily be compromised, and that the sector (and its systems) often lacked robust controls in this area.

A major cross-sector performance audit found evidence that the risk of inappropriate use of information had, in some cases, translated into reality…

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Audit found that the confidentiality of personal information collected/used by the public sector can be, and has been, easily compromised.

- Unauthorised people could access personal information quickly and easily.
- Database access controls were either missing or not operating.
- Systems logs were not maintained nor routinely reviewed.
- Personal information stored/exchanged in unsecured formats.
- Third parties (e.g. vendors) didn't certify their security arrangements at least equalled public sector requirements.

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8. Conflicts of interest

Public sector management requires the highest standards of **probity**. Conflicts of interest must be declared and managed.

Audits found sector-wide issues, including:

- No systematic gathering of declarations of interest.
- No consolidated policies.
- Lack of guidance on managing conflicts, once declared.
- Lack of clarity on consequences for non compliance.
- Need for improved (more frequent, more inclusive) training.
- Conflicts of interest on tender panels in local government.

(Portfolio Departments: Interim Results of the 2009–10 Audits, Tendering and contracting in local government)

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So…we share these lessons today in this public sector context to help drive improvement across governance, compliance and performance.

Agencies should continue to learn from audits →
Audits are not a closed book but they should inform the future.

You can learn from

- Agency internal and external audit
- Other people's audits! (***Advantage of the public sector - these are in the public domain***)
- Good practice guides

Conclusion

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Audits and reviews are not about **avoiding risk**, but **allowing intelligent risk-taking**

Audits inform risk assessment

Risk informs your governance practice

Governance drives compliance

Compliance underpins performance.

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Discussion?

More information
www.audit.vic.gov.au

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