

Lessons from audits: Key themes from VAGO's 2010-11 audit program

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Introduction

Personal context:

- Auditor-General across 2 jurisdictions, ~ 20 years
- Personal inclination - 'value add' of audits – catalyst for change

Key audit themes - background

- The idea of 'key audit themes' triggered by CSA in 2008-09
- This is the third year of this presentation
- Strong take-up → discussed with Secretaries and incoming Ministers, used by Minister for Finance in his report, considered by VMIA (WovG risk), shared with Australasian Council of Auditors-General

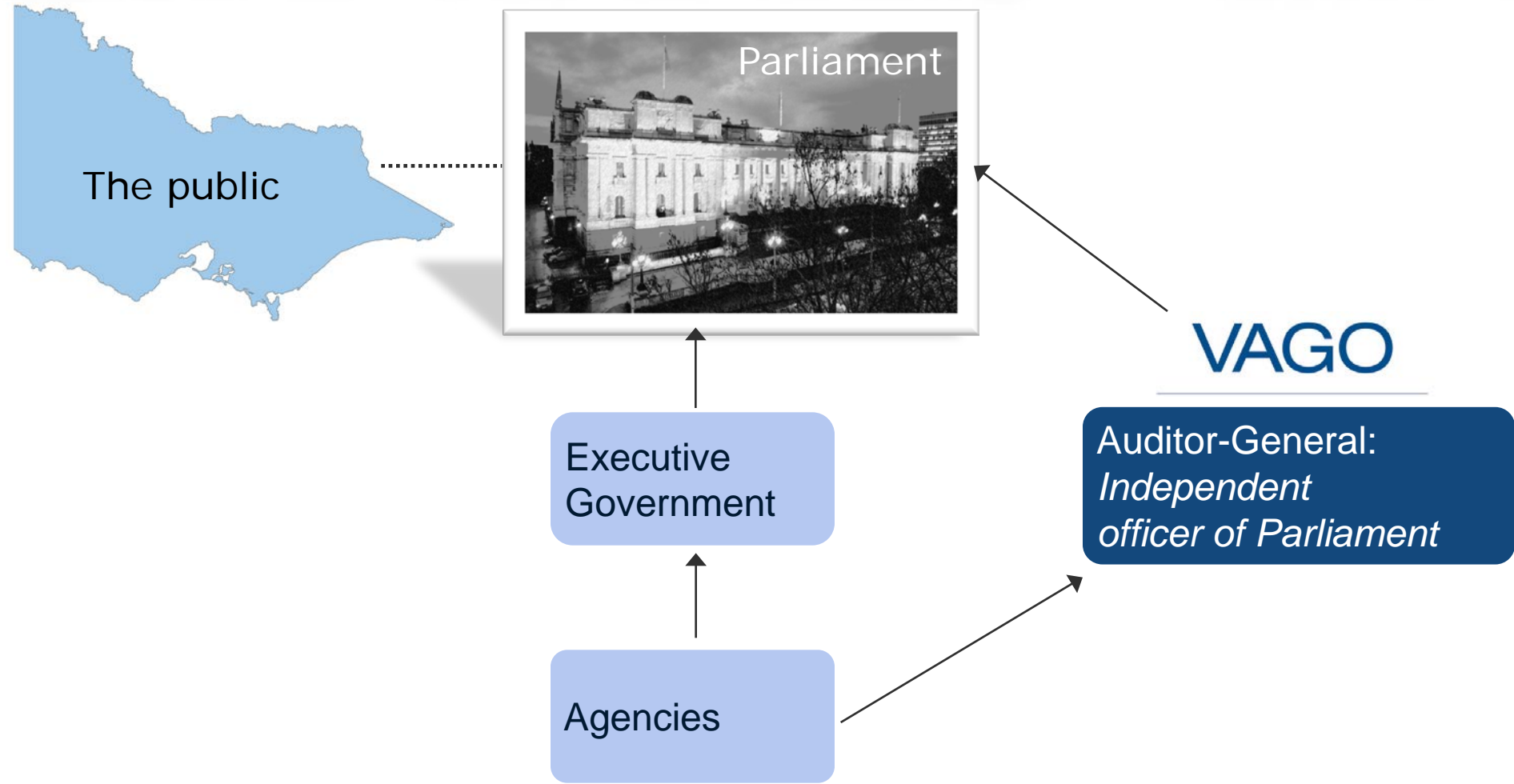
Pleased to once again launch the year's themes in partnership with CSA

Today's presentation

Today I will...

- Give a background on the changing role of external audit as a catalyst for improvement in the public sector
- Highlight 7 key themes emerging from our almost 600 financial audits and 30 performance audits across 2010-11
- 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.

Role of Auditor-General



Role of Auditor-General: Assurance and improvement

Our Purpose

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

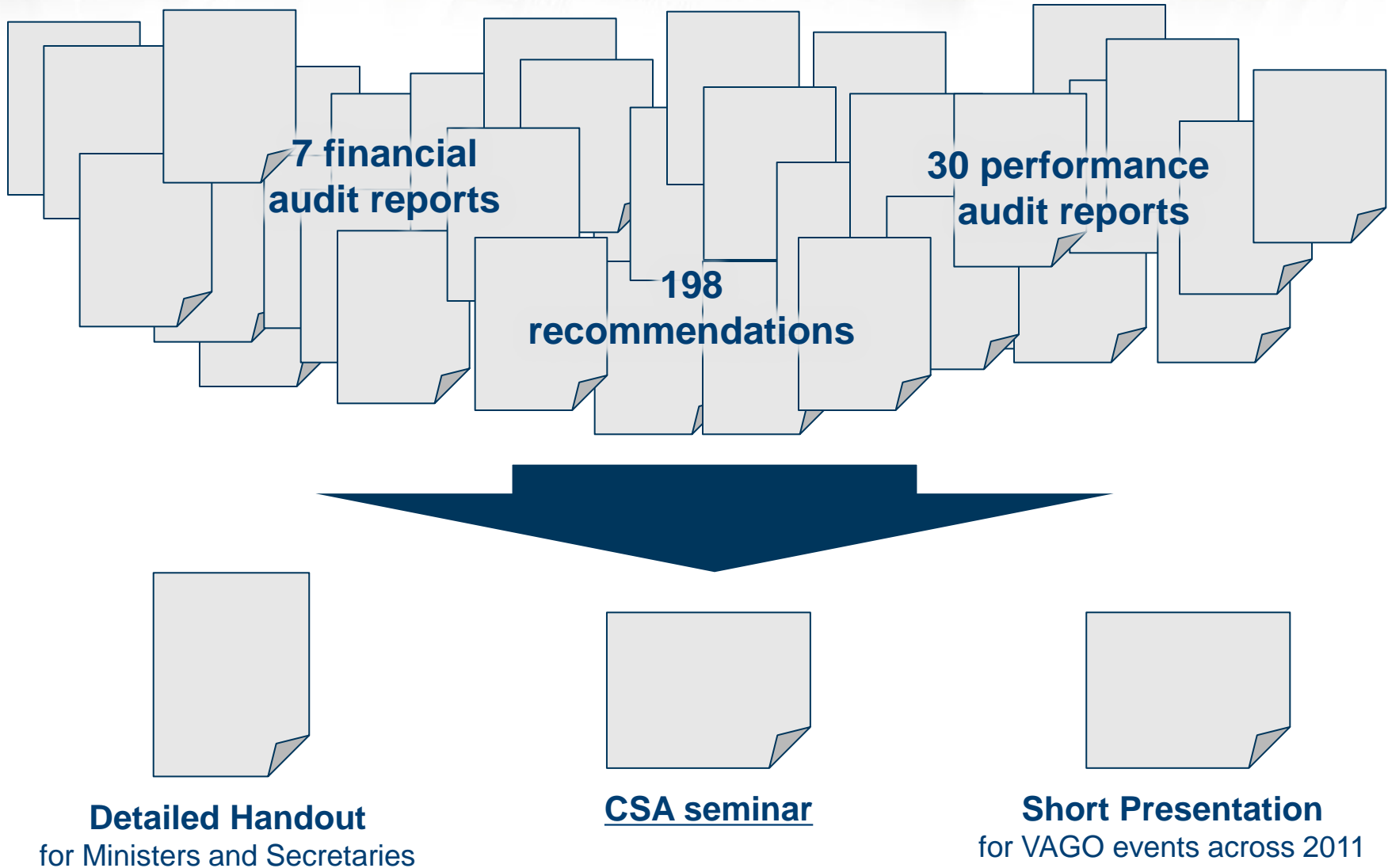
Underlying this, we aim to:

- Promote improvement in the public sector

Presentations like this:

- ✓ promote improvement
- ✓ share lessons from audits
- ✓ encourage agencies to learn not just from their own audits, but from all relevant audit reports

The Key Audit Themes project: Maximising value from our audits



Key audit themes 2010-11

1. Managing performance of outsourced services
2. Regulation, compliance and oversight
3. Using evidence to support decision-making and planning
4. Reporting meaningfully on performance
5. Managing risks from joined-up initiatives
6. Probity in procurement
7. Security of systems and information

1. Managing performance of outsourced services

Departmental approaches to contract design and management create gaps in accountability and missed opportunities to improve performance.

Delivery of Nurse-on-call (September 2010)

- Weaknesses in contract design and management contributed to under-performance by the service provider
 - Until penalties were introduced, service provider often failed to meet timeliness targets.
- The contract should be reviewed to seek better value-for-money
 - Contracting out wasn't maximising competition – IP and termination clauses advantaged the status quo.

(cont'd)

1. Managing performance of outsourced services (cont'd)

Management of Prison Accommodation Using Public Private Partnerships (September 2010)

- Significant failures in contract design and management
 - Some contracts did not have clear performance standards e.g. did not specify condition of facility on return to the state.
 - Performance management provisions were not fully utilised – stronger management could drive higher contractor performance

Portfolio Departments: Interim Results of the 2009–10 Audits (July 2010)

- Inadequate monitoring of performance of outsourced IT services e.g.
 - 3 departments did not monitor the performance using targets
 - 2 departments had no service level agreements with providers.

(Agreements and monitoring recommended in 2009 – still not in place)

2. Regulation, compliance and oversight

An 'oversight deficit' persists in the Victorian public sector. 'Light touch regulation' and devolved governance structures often fail to adequately monitor compliance with frameworks, agreements and guidelines.

Taking Action on Problem Gambling (July 2010)

- The Victorian Commission on Gambling Regulation struggled to audit compliance by private sector operators with codes of conduct
 - Compliance criteria were vague
 - Auditing focussed on written commitments not actions.

Victorian Registration and Qualifications Authority (October 2010)

- Extensive use of outsourced quality auditors by VRQA, without adequate oversight mechanisms, led to concerns about independence and effectiveness of the regulator.

2. Regulation, compliance and oversight (cont'd)

Security of Infrastructure Control Systems (October 2010)

- Oversight agencies (DSE and DoT) are not fully aware of the weaknesses in the infrastructure controls systems of operators (private sector franchisees and State companies) and do not provide effective oversight of security management.

Restricting Environmental Flows during Water Shortages (October 2010)

- DSE did not effectively oversee and enforce compliance by water authorities with guidelines on restricting flows.

Environmental Management of Marine Protected Areas (March 2011)

- Poor oversight by DSE allowed Parks Victoria to mis-direct dedicated funds, leading to a lack of active environmental management of MPAs.

3. Evidence in decision making and planning

Plans and decisions often do not make good use of evidence and supporting information – ‘options analysis’ and business cases are sometimes incomplete, lacking quality information or missing completely.

Management of Major Road Projects (June 2011)

- Major weaknesses in forecasting traffic and (over) estimating benefits
- Quality concerns re. cost estimates informing decision to use a PPP.

Motorcycle and Scooter Safety Programs (February 2011)

- Programs would be improved by more information on unreported injuries and off-road riding.

Management of the Freight Network (October 2010)

- The strategy, although logical, had incomplete information on the problems it addressed and the likely impact of its outcomes.

3. Evidence in decision making and planning (cont'd)

Facilitating Renewable Energy Development (April 2011)

- The achievement of renewable energy targets has been undermined by poor planning and a lack of evidence supporting decisions:
 - Two publicly funded large-scale solar projects were not supported by a documented assessment of need and no business cases were completed before approving these major investments.
 - The Victorian Large Scale Solar Feed-in Tariff was endorsed with limited analysis of the associated costs and benefits.
- Yet again - a gap in the accountability framework when approving 'off budget' initiatives involving significant economic costs to consumers.
 - Similar issues raised in *Towards a 'smart grid'—the roll-out of Advanced Metering Infrastructure* (November 2009).

4. Reporting meaningfully on performance

Many agencies report performance but few report relevant, appropriate performance measures in a form that is accessible to the user. There is a lack of consistency in reporting requirements across the public sector, sending 'mixed messages' about the importance of this fundamental accountability mechanism.

Water Entities: Interim Results of the 2009–10 Audits (August 2010)

- Performance reporting continues to be of limited value to users:
 - 4 metro entities not required to prepare performance reports for audit
 - 15 non-metro entities who do prepare performance reports are not required to set targets.

Tertiary Education & Other Entities: Results of 2010 Audits (May 2011)

- Production of performance reports is still reliant on Departmental direction – no consistent legislative requirement.

4. Reporting meaningfully on performance cont'd

Access to Ambulance Services (October 2010)

- Although performance indicators were relevant, reporting would be more meaningful for the public and funding bodies if
 - geographic variations were reported (so users understood response times in their area)
 - consolidated case times were reported (not just response times)
 - performance was 'broken down' by responsibility – different phases of cases are administered by different agencies.
 - results were benchmarked with other States

Effectiveness of Victims of Crime Programs (February 2011)

- The sole performance measure for the Victims' Support Agency - 'number of victims receiving a service' - doesn't properly reflect performance.
 - No reporting on whether services actually help victims recover.

5. Managing risks from collaborative projects

Governance can easily become confused and compromised in 'joined-up', networked or partnership projects, where initiatives are delivered collaboratively by different areas of government or the community.

Revitalising Central Dandenong (May 2011)

- Cross government collaboration that underpins the initiative is not systematic and structured – significant delays have arisen.

Local Community Transport Services (March 2011)

- Partnership issues emerged at 3 of the 4 projects.
- Cross government coordination for the Transport Connections Project was limited and hindered achievement of objectives.

Indigenous Education Strategies for Government Schools (June 2011)

- DEECD has not held to account a key community partner that failed to deliver service obligations.
- Accountability within DEECD is also blurred.

6. Probity in procurement

Complex procurements carry high risks and are complex projects in their own rights. Lack of attention to probity will undermine accountability and public trust in the government and the services procured.

Allocation of Electronic Gaming Machine Entitlements (June 2011)

- Procurement was poorly planned, which resulted in a lack of competition in the engagement of consultants.
 - Contracts worth \$4.2 million were awarded to the two principal consultants without a competitive process.
- There is insufficient evidence and third-party assurance to conclude there was no major breach of probity.
 - The Independent Review Panel is yet to report publicly
 - The probity auditor's report has omissions and gaps
 - Probity functions were significantly hampered by the lack of timely action by the project team.

6. Probity in procurement (cont'd)

Victorian Life Sciences Computation Initiative (June 2011)

- Insufficient documentation meant that the procurement was not sufficiently transparent or demonstrably fair.
- The University selected a service provider who had:
 - had significant prior involvement with the initiative
 - had no direct competition i.e. no other capable provider responded to the procurement.
 - offered a proposal that did not meet the stated requirements.
- The University did not recognise the probity risk arising from this relationship – it could have been avoided through better planning.
- There was a probity advisor but no probity auditor – contravening VGPB requirements for high risk/complex procurements.
- There was a probity plan – but no-one checked it was completed.

7. Security of systems and information

Year after year, audits have highlighted weaknesses in the systems underpinning public sector financial and information systems. The risks from these systems can be a 'blind spot' for management.

Portfolio Departments: Interim Results of the 2009–10 Audits (July 2010)

- Poor controls over passwords and remote system access
- Limited monitoring by Depts of the integrity of their systems
- Lack of recognition of risks to personal information held by Depts.

Security of Infrastructure Control Systems (October 2010)

- Operators' security processes and controls are unsatisfactory.
- Staff and external parties can inappropriately access and manipulate these critical systems – the risk of further inappropriate access is high.
- Management reporting on security compliance is inadequate.

Conclusion

Each year, we find ‘functional findings’ that seem to be common across different audits, different agencies, different operational areas.

Most often, they point to common challenges not in what we do, but on the way that we do it.

Sadly, some persist year upon year...

The public sector is lucky to have access to this information across the whole of government – beyond just your own audits.

VAGO encourages you to leverage this free access and grasp this opportunity to learn from others.

Discussion?

All VAGO reports available at www.audit.vic.gov.au