

VICTORIA

Auditor-General
of Victoria

**REPORT ON
PUBLIC SECTOR
AGENCIES**

**Results of
special reviews**

May 2003

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VICTORIA

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I am pleased to forward this report to you for presentation to each House of Parliament, pursuant to section 15 of the *Audit Act* 1994.

This report sets out the results of a number of special reviews undertaken up to the date of preparation of this report, as well as a section on the status of matters raised in previous *Reports on Public Sector Agencies*.

Yours faithfully

J.W. CAMERON
Auditor-General

7 May 2003

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Part 1

Executive summary

MAJOR FINDINGS

Criminal Justice Enhancement Program

- As a major e-government project extending across many agencies within the Justice portfolio, the Criminal Justice Enhancement Program offers significant potential for enhancing the effectiveness, efficiency and timeliness of service delivery within the State's criminal justice system.

Paras 2.8 to 2.12

- With a revised completion target of March 2004 now in place, the Department of Justice should establish firm milestones for all remaining critical tasks and closely monitor performance against those milestones so that it can be confident the new deadline will be achieved.

Paras 2.13 to 2.15

- Independent oversight by a body removed from direct management decisions, such as the Department's audit committee, should be a key element of the Program's future governance arrangements.

Para. 2.24

- The Department's experiences with the development and implementation of such a major initiative involving multiple agencies will be a source of valuable information for the Government and its other agencies when embarking upon new e-government projects.

Para. 2.33

Regional Infrastructure Development Fund

- Between July 2000 and January 2003, 76 applications for grants from the Fund totalling \$133.6 million were approved and \$37.1 million (or 28 per cent) had been disbursed to successful applicants. At January 2003, \$47.1 million (available funds of \$180.7 million less approvals of \$133.6 million) remained unallocated.

Paras 2.40 to 2.47 and Para. 2.50

- Several factors, some due to unforeseen circumstances, have contributed to the relatively slow rate to date of project approvals and disbursement of funds. At January 2003, 12 of the 76 approved projects had been completed.

Paras 2.48 to 2.53

- Many aspects of the Fund's administration are managed soundly by the Department of Innovation, Industry and Regional Development. However, more attention needs to be given to the quality of business cases supporting projects, as submitted by applicants, and to assessments of the level of project management expertise demonstrated by applicants.

Paras 2.60 to 2.67

MAJOR FINDINGS - *continued*

Regional Infrastructure Development Fund *- continued*

- An economic impact evaluation of the Fund's effectiveness in realising expected benefits, commissioned by the Department in October 2002, should be finalised as soon as possible, with its findings communicated to Parliament.

Paras 2.68 to 2.72

Asset confiscation scheme

- The Asset Confiscation Office is reliant on Victoria Police to notify it in all circumstances where forfeited assets have been returned to the rightful owner (such as with stolen property) or have been destroyed under a disposal order. The Office is currently seeking information from Victoria Police to identify the status of property associated with over 1 300 forfeiture orders dating as far back as June 1999.

Paras 2.84 to 2.87

- There needs to be timely exchange of information between Victoria Police and the Asset Confiscation Office so that both parties can be assured that all forfeiture orders have been managed in the manner intended by the legislation.

Paras 2.88 to 2.90

- Since 1998, when the Asset Confiscation Office was established, approximately \$10.6 million in revenue has been raised from assets confiscated from convicted criminals. Average annual revenue has increased from \$500 000 to \$3.2 million since that year.

Paras 2.93 to 2.96

- Governance arrangements would be strengthened if there was a clearer allocation of responsibility for strategic oversight of the scheme and monitoring its ongoing impact as a deterrent to criminal activity.

Paras 2.109 to 2.112

MAJOR FINDINGS - *continued*

Outsourcing of information technology services at Victoria Police

- Although several aspects of the tender evaluation stage for the outsourcing contract were soundly managed, Victoria Police should ensure that some identified shortcomings are adequately addressed in its planned re-tendering of the contract.
Paras 2.131 to 2.139
- The outsourcing contract was signed by Victoria Police in February 1999 after considering the views of its own solicitors, but before final advice on the contract from the Victorian Government Solicitor was received. This latter advice indicated there were several areas that had the potential to adversely impact on the interests of Victoria Police.
Paras 2.153 to 2.161
- External specialist advice communicated to Victoria Police in 2002 did not reflect highly on its capacity to fully assess the provider's progressive performance under the contract.
Paras 2.165 to 2.169
- Expenditure of \$35.4 million was incurred under the contract without Ministerial approval.
Paras 2.176 to 2.178
- Victoria Police should ensure that its future management strategies are conducive to minimising the number of disputes with its provider.
Paras 2.198 to 2.205
- Victoria Police received specialist advice in June 2002 that the contract be re-tendered at the earliest opportunity. It was determined 8 months later there was insufficient time available within the contract's base period to February 2004 to re-tender the contract and that a one year extension was necessary.
Paras 2.214 to 2.215
- Early planning within Victoria Police for the retender is positive and indicative of a commitment within the organisation to ensuring the problems it has experienced with the outsourcing contract are not replicated.
Paras 2.216 to 2.220

MAJOR FINDINGS - *continued*

Status of the Federation Square development

- Cost increases have continued to be experienced over the final stages of the project. The latest estimate by Federation Square Management Pty Ltd, of cost to completion is \$473.3 million, a rise of \$21.8 million since February 2002.
Paras 2.232 to 2.235
- Funding confirmed to the company for the Square's development at February 2003 was \$14 million less than the estimated completion cost at that date.
Para 2.239 to 2.241
- The company's cash flow projections indicate that additional funds, either from the State or generated from other sources such as private sponsorship, will be needed from June 2003 to meet remaining project commitments.
Paras 2.242 to 2.246
- The company has made solid progress in attracting tenants to the Square with 15 out of the 20 available tenancies now operational, and an additional 4 expected to become operational during 2003.
Paras 2.249 to 2.251

Administration of study assistance by government departments

- The only centrally-held data available on the extent of study assistance provided by the 3 departments selected for examination was from the results of a 2001 census conducted by the Office of Public Employment. Those results showed that around 14 per cent of the Victorian public sector work force was undertaking work-related formal education and, of these employees, about 62 per cent received study assistance from their employer.
Paras 2.272 to 2.275
- While the departments generally have sound procedures in place for the management of study assistance, they were not well positioned to demonstrate the success of their investment in attracting and retaining suitably skilled employees or in contributing, in conjunction with other staff development programs, to organisational effectiveness.
Paras 2.276 to 2.298

MAJOR FINDINGS - *continued*

Internet security management

- None of the 4 agencies reviewed had conducted a comprehensive threat and risk analysis of their key information systems and data, including those relating to internet services.

Paras 2.314 to 2.316

- For 2 agencies, where the hosting of websites was outsourced, very few security provisions were incorporated within the outsourcing contracts.

Paras 2.328 to 2.330

- All 4 agencies had not developed appropriate strategies to monitor security activity over web applications and other key systems. While logging and monitoring of activity were generally conducted, this was undertaken on an ad hoc rather than a regular and planned basis.

Paras 2.341 to 2.345

- Several weaknesses were identified in the configuration and security of the sampled servers and devices within all 4 agencies. Some of these vulnerabilities were considered a high risk to the security over those systems.

Paras 2.346 to 2.348

State Library redevelopment

- The selection of construction contractors to date has been based primarily on the price quoted in tenders. This practice is not in line with guidelines issued by the Victorian Government Purchasing Board which recommend that, before consideration of price, each tender be evaluated against weighted criteria.

Paras 2.361 to 2.366

- The Government is currently considering a request from the State Library of Victoria for further funding of \$36 million, based on the latest cost estimate for the project of \$226.6 million.

Paras 2.367 to 2.371

MAJOR FINDINGS - *continued*

Control over drugs and poisons in public sector agencies

- Most agencies reviewed had established appropriate frameworks for the management of drugs and poisons. However, scope exists in several agencies for further enhancement of these frameworks.

Paras 2.382 to 2.385

- Instances of non-compliance with regulations for the storage and recording of drugs and poisons indicate a need for agencies to reassess current controls, particularly over storage of drugs in agency wards and units, and to ensure staff are aware of standard procedures for the handling, storage and recording of drugs and poisons.

Paras 2.386 to 2.390

- The Drugs and Poisons Unit within the Department of Human Services should consider potential changes to the current “self-assessment” approach by agencies that might give greater assurance that agencies involved in drug administration have consistently implemented controls for ongoing regulatory compliance.

Paras 2.393 to 2.395

Redevelopment of the driver licensing system

- The redevelopment of the driver licensing system was completed by VicRoads in February 2002 at a cost of \$26.5 million.

Paras 2.403 to 2.405

- VicRoads is yet to undertake a post-implementation review of the new system to assess whether its anticipated benefits have been realised.

Paras 2.406 to 2.409

Part 2

Special reviews

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- Regional Infrastructure Development Fund _____ 18
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CRIMINAL JUSTICE ENHANCEMENT PROGRAM

2.1 The Criminal Justice Enhancement Program is a major information technology project underway within the Justice portfolio. It is managed by the Department of Justice in collaboration with several supporting agencies within the Victorian criminal justice system. Work on the program commenced in 1998.

2.2 As a joined-up e-government policy initiative, the program primarily aims to develop and integrate key information systems to improve the recording and management of information about persons accused of criminal activity and the disposition of cases in the courts. Its emphasis is on minimising transaction costs, integrating and streamlining systems and processes across agencies, and improving access, quality and timeliness of relevant information to agencies, courts, legal practitioners and the general public.

2.3 The program comprises 5 principal projects, namely:

- ***Accused Management Project*** - creation of a system for accessing and updating information about the accused person throughout the person's lifecycle contact with the legal system;
- ***Electronic Brief/Disclosure Project*** - improved case preparation through streamlined briefs, progressive disclosure and an early involvement process;
- ***Caseflow Improvement Project*** - enhanced caseflow in the Magistrates' Court through integrated diversion programs and better case listing practices;
- ***Case and List Management System Project*** - development of a case listing and management system in the County Court to support more active judicial supervision of cases; and
- ***Justice Knowledge Exchange Project*** - establishment of a secure information exchange layer across the justice portfolio.

2.4 The program was established to implement 5 key recommendations that flowed from an earlier major process re-engineering review of the Victorian criminal justice system, sponsored by the Department of Justice, known as "Project Pathfinder".

2.5 Critical to the program's success is the active support of the participating agencies, namely, Victoria Police; Office of Public Prosecution; Victoria Legal Aid; Magistrates' Court of Victoria; County Court of Victoria; Office of Correctional Services Commissioner; and various public and private corrections providers.

2.6 For information technology applications, the program mainly incorporates the modification of packaged IT solutions sourced under a systems integration and development contract entered into in November 2000 with the consulting arm of PricewaterhouseCoopers (which became part of IBM Business Consulting Services Pty Ltd in October 2002) and their consortium partners. Tasks associated with the modification and implementation of software, and the upgrading of the infrastructure platform are managed by a core project team in the Department, supported by project teams in each of the participating agencies.

Ambit of our review

2.7 The objective of our review was to assess the progress of the program and the adequacy of its management. The review did not examine the functionality of the various systems forming part of the program or the extent to which the anticipated future benefits of the program are likely to be realised.

Benefits expected from the program

2.8 At the time of our review, the main achievements under the program were implementation of:

- a new Case and List Management system in the County Court;
- enhanced information and search capabilities, for case listing on the Magistrates' Court and County Court websites;
- diversion programs in the Magistrates' Court; and
- the Justice Knowledge Exchange linking key systems between Victoria Police and the Department of Justice.

2.9 Other elements of the program are not sufficiently progressed to provide a reliable assessment of additional benefits that might have been realised to date. The Department anticipates that the integration of systems and the associated move to electronic storage and handling of information will deliver a range of future benefits to the participating agencies and the community including:

- better risk management of the accused person while in custody;
- early representation for the accused;
- speedy access to the brief for the defence;
- less time and effort consumed in the preparation and disposition of cases;
- fewer court adjournments;
- less waiting time spent by court users; and
- streamlined handling of information.

2.10 These expected outcomes from the program's ultimate implementation offer significant potential for improving the efficiency and effectiveness of the criminal justice system. The Department envisages the program will deliver productivity savings of 350 000 hours per annum across the sponsoring agencies and community time savings from earlier Magistrates' Court hearings of around 180 000 hours per annum. These benefits have not yet been converted into dollar terms.

2.11 One important side benefit of the program is that its infrastructure will facilitate implementation of other joined up e-government initiatives in the Justice portfolio. For example, it is envisaged that the Government Infrastructure Management System, a business system project jointly sponsored by the Department of Justice and the Department of Treasury and Finance for the strategic planning and financial management of land, buildings, plant and equipment, will utilise part of the program's infrastructure.

2.12 Given that administration of the State's criminal justice system is dependent on the activities of multiple agencies, realisation of anticipated benefits will be greatly influenced by successful implementation of systems within those agencies. This characteristic of the program reinforces the importance of the overseeing and monitoring role of the Department of Justice.

Widening of the project's scope

2.13 An initial plan for the program compiled by the Department in August 1999 provided for a preliminary target completion date of November 2000. This projection was based on the scope of the program at the time.

2.14 The Department is now managing to a completion target date of March 2004. It attributes extension of its target to a widening of the program's scope which now includes provision for:

- infrastructure upgrade of existing hardware and communication;
- a civil module within the case and list management system;
- replacement of systems within the Office of Correctional Services; and
- various unplanned requests from participating agencies.

2.15 **With a revised time target now in place, the Department should establish firm milestones for all critical tasks and closely monitor performance against those milestones so that it can be confident that its main deadline of March 2004 will be achieved.**

Latest position on program costs

2.16 Capital funding of \$14.5 million was initially approved for the project. Due mainly to the above mentioned scope changes, the level of approved funding has since increased by \$20.5 million to \$35 million. The breakdown of this additional funding is as follows:

- infrastructure upgrade (\$7.5 million);

- civil module for the case and list management system (\$2.6 million) ;
- replacement of systems of the Office of Correctional Services (\$4.5 million);
- unplanned requests from agencies (\$1.1 million); and
- program management expenses of the Department (\$4.8 million).

2.17 At February 2003, \$29.8 million, or 85 per cent of approved funding, had been expended on the program. Table 2A summarises the actual costs to February 2003 and the estimated remaining costs to March 2004.

TABLE 2A
CAPITAL COSTS OF THE PROGRAM
((\$million))

| | <i>Program capital costs</i> | | |
|---|--------------------------------|------------------------------|----------------------|
| | <i>Actual to February 2003</i> | <i>Balance to March 2004</i> | <i>Total program</i> |
| Original scope - | | | |
| Design and implementation of applications | 13.4 | 1.1 | 14.5 |
| Additions to scope - | | | |
| Civil case management | 2.6 | - | 2.6 |
| Infrastructure upgrade | 6.8 | 0.7 | 7.5 |
| Office of Correctional Services systems | 1.5 | 3.0 | 4.5 |
| Unplanned agency requests | 1.1 | - | 1.1 |
| Department's program management costs | 4.4 | 0.4 | 4.8 |
| Total | 29.8 | 5.2 | 35.0 |

Source: Department of Justice.

2.18 The Department does not envisage there will be a need for it to seek additional funding for the program.

2.19 The above figures do not include the program management expenses of the participating agencies. The Department estimates these costs to be around \$3.3 million at February 2003. The Department does not routinely monitor these costs as part of the overall management of the program.

2.20 While individual agencies are directly accountable for their own costs, we have suggested to the Department that the relevant management expenses and overheads of agencies form part of its budgeting and monitoring processes so that progressive financial reports can disclose program-wide expenditure. **Information on the program included in the Department's Annual Report to Parliament should ideally be compiled on this aggregate basis.**

Project management

2.21 Because of the program's magnitude and complexity, it is imperative that its management framework is well structured and periodically evaluated.

2.22 The Department has directed significant attention to this matter and its program management structure exhibits a number of strengths. These strengths include:

- the establishment of an IT steering committee to oversee the activities associated with infrastructure upgrading and systems development;
- the appointment of a program director reporting to the Secretary of the Department responsible for project planning, liaison with agencies, risk and quality control, budgeting, and change management;
- use of a fixed price contract for the system integration and development functions to avoid potentially adverse cost and time variations which may be experienced with variable pricing arrangements; and
- the direct involvement of representatives of agencies in project teams which reinforces user confidence in the program and facilitates collaboration between a diverse group of participating agencies.

2.23 There are some aspects of the management framework that require the Department's attention. These areas relate to the need for greater independent scrutiny of the program's development, widening of performance measures to focus on the future effectiveness of the program in achieving envisaged outcomes and taking the necessary action to confirm the availability of ongoing IT support for the program's applications.

Need for independent oversight

2.24 The program director fulfils the roles of both chairperson of the steering committee and overall program manager. The overlapping of these roles is not conducive to achieving effective independent oversight of the program. We feel the governance arrangements would be further strengthened if there was oversight involvement by an independent body such as the Department's audit committee. **All key aspects of the program, including performance monitoring, budgetary control, risk management strategies and quality assurance should be subject to periodic independent scrutiny.**

Performance measures linked to outcomes

2.25 The current key performance indicators for the program encompass technical aspects of its development as well as productivity gains and user acceptance. It is important that the Department devises measures of a strategic nature that are linked to the program's expected outcomes. **Outcome measures should be the principal means of informing Parliament on the overall effectiveness of this major initiative as the various elements of the program move into operational stage.**

*Work under a contract variation commenced well
in advance of formal approval*

2.26 As mentioned in an earlier paragraph, the scope of the program has been widened to encompass replacement of systems of the Office of Correctional Services. The contractor commenced work for this new element of the program in March 2002. **The Department did not receive the approval of its Accredited Purchasing Unit to this scope change (estimated cost of \$4.5 million) until October 2002 and a formal contract variation agreement with the contractor was not finalised until March 2003, 12 months after commencement of work.**

IT support beyond June 2003 to be finalised

2.27 Post-implementation IT support for the program's applications cease under the current contract from 30 June 2003. At that time, many of the applications will be operational. **At the time of our review, ongoing support arrangements beyond 30 June 2003 had not been determined. The Department should resolve this matter as early as possible.**

Overall conclusion

2.28 As a major e-government project extending across many agencies within the Justice portfolio, the Criminal Justice Enhancement Program offers great potential for enhancing the effectiveness, efficiency and timeliness of service delivery within the State's criminal justice system.

2.29 The program has the added potential of facilitating, through its established infrastructure, implementation in the portfolio of future e-government initiatives.

2.30 Following expansion of the program's scope, the Department of Justice is now working to a completion date of March 2004. It has the responsibility of ensuring that the program becomes fully operational by this target date and within the existing cost budget.

2.31 The Department also has the challenge of devising suitable performance measures that are directly linked to the program's expected outcomes so that there is maximum transparency available to Parliament on the program's future effectiveness.

2.32 Independent oversight by a body removed from direct management decisions such as the Department's audit committee should be a key element of future quality assurance arrangements established for the program.

2.33 The Department's experiences with the development and implementation of such a major initiative involving multiple agencies should be a source of valuable information for the Government and its other agencies when embarking upon new e-government projects. It is important that these experiences are adequately captured and disseminated across the public sector.

RESPONSE provided by Secretary, Department of Justice

The Department of Justice (DOJ) is in broad agreement with the management issues raised in the report.

There are, however, two achievements of the program which are not covered in the report but which deserve comment.

First, CJEP has helped create a much stronger commitment to information sharing based on mutual trust and cooperation amongst key criminal justice agencies than was the case prior to the project's inception in 1999. Each agency has benefited by gaining a deeper appreciation of how, despite their independent role, their activities contribute to 'whole of system' outcomes and how they can work together around common goals to achieve sustainable improvements.

Secondly, it should be noted that compared with national and overseas projects of a similar scale, CJEP has been successful in implementing an integrated approach in relation to the criminal justice system where other jurisdictions have struggled or failed to achieve comparable results.

Independent oversight

The DOJ's Internal Audit group, oversighted by the Audit Committee, was tasked in July 2002 with conducting an internal review of CJEP. This review was deferred in September 2002 when the Auditor-General's review was announced. It will be rescheduled for 2003-4. Key aspects of the CJEP Program have, over the lifecycle of the project, been through a series of independent reviews. These have included an independent probity audit (related to the 1999/2000 tender process), program initiated reviews in Victoria Police and the Office of the Correctional Services Commissioner, and Quality Assurance reviews of PricewaterhouseCoopers (PwC) as the IT developer.

Performance measures linked to outcomes

A series of strategic measures linked to the program's expected outcomes have been formulated by the Department and will be included in future reporting to Parliament. The Department has been monitoring indicators of progress since the first components of implementation began in early 2002. Outcomes however cannot be effectively measured until implementation is complete in 2004.

Approval of contract variation

The change to project scope involved an extension of the original DOJ and PwC contract terms of November 2000. The contractor elected to commit resources to the additional work in March 2002 at its own commercial risk. DOJ maintained extensive oversight and quality control of the contractor's work. Although not strictly in compliance with the Approved Purchasing Unit (APU) approval process, DOJ benefited from the contractor's work as it kept the project in alignment whilst avoiding significant loss of time from the implementation schedule.

APU and Ministerial approvals for the variation were obtained in October 2002. Further time delays were encountered due to change in business ownership when IBM Business Consulting Services Pty Ltd purchased the PwC consulting business. This necessitated extensive legal negotiations on a Deed of Novation between the Department and the two transacting parties before the variation could be finalised.

Post-June 2003 support arrangements

The Department is currently negotiating with the contractor on support arrangements. Arrangements are expected to be finalised by 30 June, 2003.

REGIONAL INFRASTRUCTURE DEVELOPMENT FUND

2.34 The Regional Infrastructure Development Fund was established in December 1999 as a major program contributing to the revival of rural and regional Victoria. The Fund was established under the authority of the *Regional Infrastructure Development Fund Act 1999*, as a trust fund within the Public Account, and is administered by the Department of Innovation, Industry and Regional Development. From 1 July 2003, this responsibility will transfer to a newly established statutory body, Regional Development Victoria. The primary purpose of this new entity will be to facilitate economic and community development in rural and regional Victoria.

2.35 A total of \$180.7 million is available from the Fund over the 3-year period to June 2003 for grants for capital works that benefit or support the development of rural and regional Victoria. These benefits are primarily in the nature of new employment opportunities and capital investment.

2.36 In November 2002, the Government announced that it will extend the operation of the Fund for a further 5-year period to June 2008 and set aside an additional \$180 million over this period. The types of capital works provided for under the Fund include:

- industry development, including physical works, to facilitate economic development;
- transport improvements, such as roads, rail, ports or airports, of strategic regional significance;
- tourism-related capital works for new and improved facilities; and
- strategic education, and information and communication technology infrastructure.



Extension of runway at Shepparton Airport located in the North East Region of Victoria, partly funded by the Regional Infrastructure Development Fund.

2.37 The Fund also incorporates the 6 Statewide Programs described in Table 2B

**TABLE 2B
REGIONAL INFRASTRUCTURE DEVELOPMENT FUND, STATEWIDE PROGRAMS**

| <i>Program</i> | <i>Purpose</i> |
|---|---|
| Stock Under/Overpasses | Shared contributions with farmers for the construction of stock under/overpasses throughout regional Victoria. Administered by the Victorian Farmers Federation. |
| Victorian Dairy Electricity Infrastructure Upgrade | Shared contributions with dairy farmers for power upgrades in the dairying regions of regional Victoria. Project managed by Powercor Australia and TXU Networks. |
| Regional Community Infrastructure Allocation | Shared contributions with councils to develop and revitalise community infrastructure in small rural towns. |
| Customer Access Network Demonstration Program | Shared contributions to partnerships between local government and industry, for communications technology to remote areas. |
| National Livestock Identification Scheme at Victorian Saleyards | Provision of funding for saleyards to be upgraded to meet the requirements of the National Livestock Identification Scheme. Administered by the Livestock and Saleyard Association of Victoria. |
| Re-Use Irrigated Private Plantations | A Department of Sustainability and Environment lead initiative to accelerate the development of Wastewater Re-Use Irrigated Private Plantations through irrigation infrastructure assistance. |

Source: Department of Innovation, Industry and Regional Development.

2.38 In my *Report on Ministerial Portfolios*, presented to Parliament in June 2001, I commented on the results of an audit of the Fund. I concluded that the Department had established an adequate administration and accountability framework, which reflected the underlying risk and materiality of grants provided under the Fund. However, the Department needed to do more work in terms of improving its prioritisation of projects and establishing a performance and reporting framework to assess the effectiveness of the initiative.

2.39 A further audit of the Fund has now been undertaken to examine:

- distributions from the Fund;
- action taken by the Department on the 2001 audit recommendations; and
- management of the Fund, including the application, assessment, approval and monitoring processes (this element of the audit excluded the 6 Statewide Programs described in Table 2B).

Distributions from the Fund

2.40 As mentioned in my June 2001 report, it is not the Government's intention to fully fund projects and applicants are required, under the Fund's eligibility criteria, to maximise funding support from other sources.

2.41 Over the period July 2000 to January 2003, the Department received 255 applications for grants totalling \$430.5 million. Seventy-six applications have been approved for funds totalling \$133.6 million. A further 13 applications for funds totalling \$80.4 million are under consideration.

2.42 Funding has been distributed across the Department's 5 regional areas shown in Chart 2C.

**CHART 2C
DEPARTMENTAL REGIONAL AREAS**



Source: Department of Innovation, Industry and Regional Development.

2.43 Table 2D illustrates the total amount of funding sought and approved at January 2003 across the Department's 5 rural regions.

**TABLE 2D
REGIONAL AREAS ASSISTED BY THE FUND,
JANUARY 2003**

| <i>Region</i> | <i>Applications received</i> | <i>Projects approved</i> | <i>Approval rate</i> | <i>Funding sought</i> | <i>Funding approved</i> | <i>Approval rate</i> |
|---------------|------------------------------|--------------------------|----------------------|-----------------------|-------------------------|----------------------|
| | <i>(no.)</i> | <i>(no.)</i> | <i>(%)</i> | <i>(\$m)</i> | <i>(\$m)</i> | <i>(%)</i> |
| Northern | 66 | 20 | 30.3 | 74.4 | 27.9 | 37.6 |
| Western | 40 | 9 | 22.5 | 74.8 | 17.7 | 23.7 |
| South-West | 38 | 14 | 36.8 | 58.3 | 28.6 | 49.0 |
| North-East | 57 | 14 | 24.6 | 103.3 | 15.2 | 14.7 |
| Gippsland | 38 | 12 | 31.6 | 54.1 | 13.2 | 24.4 |
| Statewide | 15 | 7 | 46.7 | 64.7 | 31.0 | 47.9 |
| Not specified | 1 | - | - | 1.0 | - | - |
| Total | 255 | 76 | 29.8 | 430.6 | 133.6 | 31.0 |

Source: Department of Innovation, Industry and Regional Development.

2.44 As can be seen from Table 2D, at January 2003 funding under this initiative has been provided to all regional areas, with the most (other than for Statewide projects) provided to the South-West Region (\$28.6 million) and the least to the Gippsland Region (\$13.2 million).

2.45 Around one-fifth (\$31 million) of the funding has been allocated to the 6 Statewide Programs described in Table 2B (e.g. the construction of stock under/overpasses, upgrading of power infrastructure for dairy farms and the use of treated wastewater for irrigating timber plantations).

2.46 Table 2E further analyses the allocated funds according to the types of projects assisted and the amount provided for each type.

TABLE 2E
TYPES OF PROJECTS ASSISTED AND AMOUNT OF FUNDING,
JULY 2000 TO JANUARY 2003

| <i>Project type</i> | <i>Successful applications</i> | <i>Funding approved</i> |
|---|--------------------------------|-------------------------|
| | <i>(no.)</i> | <i>(\$m)</i> |
| Industry or economic development | 35 | 56.4 |
| Transport improvements | 11 | 11.9 |
| Tourism facilities | 18 | 27.2 |
| Education, information and communication technology | 11 | 28.1 |
| Regional Community Infrastructure Allocation (a) | 1 | 10.0 |
| Total | 76 | 133.6 |

(a) Funding provided to councils to develop and revitalise community infrastructure in small rural towns.

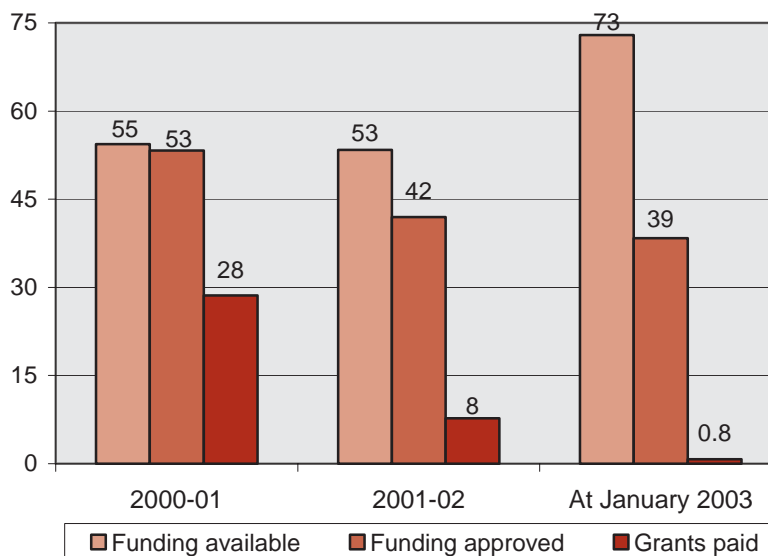
Source: Department of Innovation, Industry and Regional Development.

2.47 At the date of our audit, around half of the approved funding (\$65.8 million) related to applications submitted by local government. Only 9 approved projects (\$18.3 million) involved non-government entities (Birchip Cropping Group, Victorian Farmers Federation, Powercor Australia and TXU Networks Pty Ltd, Murray Goulburn Cooperative Co Limited, Sovereign Hill Museums Association, Uniting Church in Australia, Castlemaine and Maldon Railway Preservation Group, and Livestock Saleyard Association of Victoria).

Status of annual distributions

2.48 Chart 2F shows the status of distributions from the Fund in terms of funds available, funding applications approved and disbursements made to grant recipients.

CHART 2F
STATUS OF DISTRIBUTIONS,
JULY 2000 TO JANUARY 2003
 (\$million)



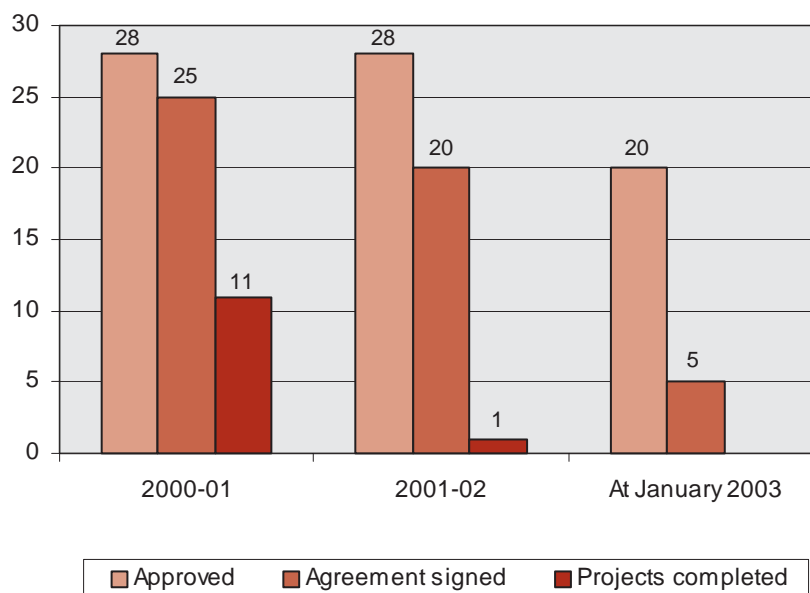
Source: Department of Innovation, Industry and Regional Development.

2.49 Chart 2F highlights that to January 2003, the proportion of funds disbursed to grant recipients relative to funding approvals is relatively low. **By January 2003, only \$37.1 million (28 per cent) of the \$133.6 million approved had been disbursed.** This is primarily due to the long-term nature of many projects (the majority of funded projects have a construction phase of greater than one year) and that funds are only released progressively upon satisfactory achievement by recipients of milestones agreed with the Department. This latter factor reflects good practice.

2.50 **At January 2003, of the \$180.7 million available within the Fund, \$47.1 million remained unallocated.** Although the final funding round for 2002-03 closed in February 2003, it is unlikely that funding agreements will be in place for the unallocated funds prior to the end of June 2003. On average, it takes around 130 days from the date a grant application is approved to the signing of a funding agreement. This timeline is due to a number of factors such as negotiations with approved applicants on the terms and conditions of agreements, and the time taken by applicants to respond to issues raised by the Department.

2.51 Further analysis identified that, **at January 2003, 50 of the 76 approved projects had funding agreements in place and 12 projects had been completed.** Ten of the completed projects were approved in the first year of the Fund. For those 76 projects that have been approved, the elapsed time for completion ranges from 9 months to 5 years. Chart 2G shows the status of approved projects.

CHART 2G
STATUS OF APPROVED PROJECTS,
JANUARY 2003
 (number)



Source: Department of Innovation, Industry and Regional Development.

2.52 The timelines for completing 18 (36 per cent) of the 50 projects with funding agreements have been extended. The Department advised that this has been due, primarily, to unforeseen circumstances (e.g. a new heritage listing prevented certain works being undertaken on a project), and the timelines initially proposed were subsequently found to be unrealistic. Two of the 18 projects have required a revision of scope to ensure that they remained within budget and 2 have received additional funding to accommodate changes to the project scope. All of these variations have contributed to delays in disbursing funds to approved projects (refer to paragraphs 2.60 to 2.63 of this report for further comment).

2.53 While we acknowledge that some projects have been delayed due to unforeseen circumstances, the number of variations to project timelines raises questions about the quality of the applications and the adequacy of assessment processes. The long timeline from approval of a grant application to the signing of a funding agreement needs to be reviewed by the Department in consultation with applicants.

Distributions from Statewide Programs

2.54 Table 2H shows the level of funding approvals and disbursements made from the Fund's Statewide Programs at January 2003.

**TABLE 2H
DISTRIBUTIONS FROM STATEWIDE PROGRAMS,
JANUARY 2003**

| <i>Program</i> | <i>Date approved</i> | <i>Funding allocated (a)</i> | <i>Funding approved</i> | <i>Payments made</i> |
|---|----------------------|------------------------------|-------------------------|----------------------|
| | | <i>(\$m)</i> | <i>(\$m)</i> | <i>(\$m)</i> |
| Stock Under/Overpasses | Aug. 2000 | 6.0 | 6.0 | 4.1 |
| Victorian Dairy Electricity Infrastructure Upgrade | Sept. 2000 | 8.0 | 2.6 | 1.8 |
| Regional Community Infrastructure Allocation | Sept. 2001 | 10.0 | 9.9 | 1.2 |
| Customer Access Network Demonstration Program | Apr. 2002 | 5.0 | - | - |
| National Livestock Identification Scheme at Victorian Saleyards | Oct. 2002 | 0.5 | - | - |
| Re-Use Irrigated Private Plantations | June 2002 | 1.5 | 1.5 | - |
| Total | | 31.0 | 20.0 | 7.1 |

(a) This forms part of the total funding approved at January 2003 of \$133.6 million.

Source: Department of Innovation, Industry and Regional Development.

2.55 Table 2H shows that, while the Stock Under/Overpass Program has proceeded well in terms of disbursement of approved funding, the up-take of other Statewide Programs has been slow. The Department advised that, since January 2003, most of the Regional Community Infrastructure Allocation funding is now allocated and projects are underway. Further, the Customer Access Network Demonstration Program is now progressing, following completion of an initial step to identify companies capable of undertaking this project and its feasibility.

2.56 The Department also advised that the small amount paid under the Victorian Dairy Electricity Infrastructure Upgrade Program is primarily due to the difficulties faced by farmers in meeting the requirement to contribute matching funds. Difficulties in getting groups of farmers to agree on the infrastructure priorities for their area has also contributed to this position. As a result, it is unlikely that the approved funding will be fully disbursed by June 2003.

Management of the Fund

2.57 The documentation and processes established by the Department to manage the Fund (e.g. applications, assessment process, funding agreement) were again examined in the current audit. Our work in this area included a follow-up of the action taken by the Department in response to the recommendations contained in the 2001 audit report. **Although we found that the Fund was generally managed soundly, the Department needs to give more attention to the quality of business cases supporting projects, as submitted by applicants, and to assessments of the level of project management expertise demonstrated by the applicant.**

Action taken on 2001 audit recommendations

2.58 The recommendations arising from the 2001 audit of the Fund, and subsequent actions taken by the Department, are outlined in Table 2I.

**TABLE 2I
STATUS OF 2001 AUDIT RECOMMENDATIONS**

| <i>Summary of earlier recommendations to the Department</i> | <i>Audit comment</i> |
|---|---|
| <p>Ranking the relative importance of each criteria</p> <p>Explore the feasibility of ranking the relative importance of each criterion and re-write them more succinctly with a view to enhancing the selection and prioritisation process.</p> | <p><i>Not implemented</i></p> <p>The Department has not adopted this recommendation. The Department considers weighting the criteria would undermine the Fund's aim of attracting a wide range of projects and would skew the assessment process towards industry development projects in large regional centres.</p> <p>The Department now receives fewer, but better targeted, applications in each funding round.</p> |
| <p>Performance and reporting framework</p> <p>Develop and implement a performance and reporting framework, and collect the relevant data.</p> | <p><i>Partly implemented</i></p> <p>The Department has initiated some action in this area by:</p> <ul style="list-style-type: none"> • commissioning a review to identify the economic impact of individual projects and the aggregated impact on rural and regional Victoria; • requiring grant recipients to report on project achievements; and • recording the direct and indirect benefits expected to be derived and actually derived from projects. <p>Only limited progress has been made by the Department in establishing performance measures for outcomes of funded projects (refer to paragraphs 2.68 to 2.72 of this report).</p> |

TABLE 2I
STATUS OF 2001 AUDIT RECOMMENDATIONS - continued

| <i>Summary of earlier recommendations to the Department</i> | <i>Audit comment</i> |
|---|--|
| <p>Information to applicants relating to the outcome of the assessment process</p> <p>Provide timely and complete information to applicants relating to the outcome of the assessment process.</p> | <p><i>Implemented</i></p> <p>The Department has reduced the elapsed time from the receipt of an application until a recommendation is made to the Minister (from 98 days and 79 days in the first and second funding rounds in July and August 2000 to 57 in the latest funding round in October 2002. On average, it takes a further 9 days to provide feedback to applicants).</p> <p>All applicants receive written notification of the outcome of the assessment process. As the assessment process is extensive, it prolongs the time taken to notify applicants of the outcome.</p> |

Source: Victorian Auditor-General's Office.

2.59 Since the previous audit, the Department has initiated improvements to the administration and management of the Fund, such as:

- providing more information to grant applicants about the purpose of the Fund and its operation, including how applications are prioritised and the specific requirements for grant applications with a value greater than \$1 million; and
- revising application forms to request more specific detail in relation to project management, timelines and finances.

Assessment and approval processes

2.60 We found the Department's process for assessing and approving applications was clearly documented and ensured funding is only approved for projects that are consistent with the Fund's aims and satisfy the selection criteria. Key steps in the process included:

- clarifying issues or requesting further information from the applicant as needed;
- seeking comment from other government departments and agencies, as relevant;
- completing a financial risk assessment of major proponent(s);
- assessing and prioritising the application against the eligibility criteria and identifying the need for any amendments or conditions for successful applications; and
- providing assessment and recommendation to the Minister regarding the outcome of the application, through the inter-departmental committee.

2.61 In a small number of instances, evidence was not on file confirming that some steps had been fully completed. We found examples where the Department identified the need for, but did not seek or receive, comment from other departments on their support for, or concerns with, the project. In some cases, it was not clear how concerns raised by other departments, such as the reliability of the applicant's forecast of economic benefits (investment and employment), or deficiencies with the submitted business case, had been addressed.

2.62 Our examination showed that, although applications cleared by the Department contained the required information, the quality of that information was, in some cases, deficient with respect to:

- The business case in place to support the project. Some applications did not include information that fully substantiated the proposed project benefits (e.g. job creation), or a project risk assessment identifying potential risks and strategies to manage these risks; and
- Level of project management experience held by or available to the applicant.

2.63 We consider deficiencies in the quality of project business cases and low levels of project management experience are affecting the completion of projects within the proposed timelines and budgets. The Department should maintain attention to these issues:

- in its requests for information to support applications; and
- when it is assessing grant applications.

Funding agreements

2.64 Our examination of funding agreements in place for approved projects showed that they comprised both standard terms and conditions, and those tailored to the type of applicant, nature of the project, risk and value of funds provided. Agreements covered:

- roles, expectations and obligations of each party;
- purpose of the project;
- desired output and outcomes (expected benefits) of the project; and
- content of status and financial reports.

2.65 We found that the Department ensures payment conditions are rigorously adhered to before grant funds are disbursed. Payments are made only after the achievement of milestones (e.g. creation of jobs, level of capital investment), which are generally evidenced by audit certificates. If the project does not eventuate, proceeds on a lesser scale or is delayed, the amount of funding is reduced accordingly.

Monitoring processes

2.66 Our examination of files identified that the Department's main methods for monitoring the progress of projects comprised:

- incorporating milestones for key phases of projects within the funding agreement and requiring grant recipients to progressively demonstrate their achievement before paying any grant funds;
- participating on project management committees for some larger projects in the capacity of observer;
- requiring grant recipients to submit ad hoc progress reports which complement information received on achievements against milestones; and
- undertaking a final inspection of the project.

2.67 We consider that the monitoring processes established by the Department are sound and should ensure funding is used for the intended purpose.

Progress by the Department in establishing a performance and reporting framework

2.68 The Department has initiated some action directed at establishing a performance and reporting framework. However, more work needs to be undertaken to assess the success or otherwise of individual projects and the overall performance of the Fund.

2.69 In July 2002, the Department, in a positive initiative, sought submissions from interested parties to undertake an economic impact evaluation of the Fund. A successful tenderer was appointed in October 2002. Although a number of report drafts have subsequently been forwarded to the Department, at the date of the audit (February 2003), the report was incomplete and a sizeable amount of work was still needed to finalise the document.

2.70 In these circumstances, **information on the extent to which the expected benefits from the Fund have been realised may not be available before June 2003 when the initial 3-year period of the Fund is completed. As mentioned in an earlier paragraph, a further \$180 million has been made available by the Government for infrastructure projects.**

2.71 Measuring outcomes would lead to valuable information on the effectiveness of the Fund's management and assist in informing Parliament and the community on the return (in terms of realised benefits) to the State that has been progressively generated from allocated funds. Such action would also facilitate future policy or strategic decisions by the Government concerning the Fund.

2.72 The current economic impact evaluation should be finalised and its findings made publicly available as a matter of priority. There would be merit in conducting an independent economic assessment on a regular basis, e.g. every 3 years, with the results communicated to Parliament.

Overall conclusion

2.73 Overall, the administration and accountability framework of the Regional Infrastructure Development Fund is sound. While the processes minimise the risk of funding unviable projects, to date the approval of projects and disbursement of funds has been slow. If this continues, it could delay realisation of the anticipated benefits for regional Victoria. Attention may need to be given to assist grant recipients where problems are contributing to delays in the disbursement of funds.

2.74 The absence of any public information on the outcomes from the Government's investment is not satisfactory, particularly as a further \$180 million has been earmarked for infrastructure projects. Parliament should be kept informed of the actual achievements of the Fund relative to those expected. For this to be achieved, the Department needs to promptly finalise its performance and reporting framework.

RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development.

Status of annual distributions

Paras 2.48 to 2.53

Chart 2F identifies the amount of funding approved for projects in each specific year. The Department considers it important to note that the full 2000-01 and 2001-02 budgets have been allocated to approved projects.

As noted by the Auditor-General, projects funded from the Regional Infrastructure Development Fund may take between 9 months and 5 years to complete. While 12 projects have been completed to date, the Department estimates that a further 15 projects will be completed by 30 June 2003.

As projects are delivered by applicants, such as councils, statutory authorities and community groups, the Department has a limited ability to ensure projects are delivered on schedule. Of the 18 project extensions granted, approximately 8 were due to factors outside the control of the Department and the applicant. The balance of extensions were due mainly to applicants underestimating the amount of time required to complete the project. The Department considers that setting realistic time lines in consultation with the applicant, and extending these as required, is preferable to setting overly generous time lines, as the Department is better able to monitor project progress when realistic milestones are in place.

The long lead time in executing agreements can occur as a result of a number of factors, including negotiation of conditions, the need for both parties to seek legal advice, the need for most agreements for be taken to council or board meetings for approval, and the need for applicants to finalise project time lines. While the Department considers that it is more important to ensure that agreements are comprehensive and minimise government risk, the Department will work with applicants to ensure agreements are finalised as efficiently as possible.

RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development - continued

Distributions from Statewide Programs

Paras 2.54 to. 2.56

Since the completion of the audit report, the majority of funding under the Customer Access Network Demonstration Program and the National Livestock Identification Scheme at Victorian Saleyards Program has been allocated to projects, with works to commence shortly.

In relation to the Victorian Dairy Electricity Infrastructure Upgrade Program, the Department believes that uncertainty of income resulting from a period of below average rainfall may have also impacted on take-up. In order to assist groups of farmers in evaluating their need for a power infrastructure upgrade, the Department has engaged the Department of Primary Industries to provide facilitative assistance on an as needs basis.

Management of the Fund

Paras 2.57 to 2.67

The Department ensures that, where necessary, comments on applications are received from relevant government agencies. Where these comments identify specific barriers to project feasibility and delivery, further action is taken. Where these comments raise general concerns about forecasts or the strength of business cases, they are presented to the Regional Infrastructure Development Fund Interdepartmental Committee verbatim. The Committee is made up of membership from the Departments of Innovation, Industry and Regional Development, Premier and Cabinet, Infrastructure, and for applications seeking over \$2 million, Treasury and Finance in an observer roll. It is the Committee's role to consider these comments in conjunction with all other information available and make an informed recommendation to the Government.

As highlighted by the Auditor-General earlier in this report, the majority of funding under the Regional Infrastructure Development Fund has gone to local government and statutory bodies, such as universities and water authorities. These organisations manage multi-million dollar capital budgets and are major deliverers of infrastructure projects in regional Victoria. They, therefore, have a comprehensive portfolio of projects that have been successfully delivered, and experienced staff on which to draw. The Department believes that under the Regional Infrastructure Development Fund, these organisations are often delivering projects that are of a different nature to those normally delivered. This may be the cause of some of the project management issues identified by the Auditor-General.

The Department agrees that the quality of business cases varies between applications. The Department believes that one of the factors that may effect the quality of a business case is the reluctance of applicants to spend significant sums of money on developing a project when there is no guarantee of funding at the end of the process. In assessing a project, the Department and the Committee considers all available information in conjunction with the business case to reach a decision.

Progress by the Department in establishing a performance and reporting framework

Paras 2.68 to 2.72

As noted by the Auditor-General earlier in this report, projects can take between 9 months and 5 years to complete. The Auditor-General also notes that the monitoring processes put in place by the Department are sound. The Department believes that as more projects reach their conclusions in the coming months, the procedures put in place to monitor outcomes will provide the Department with sufficient information to assess the effectiveness of the Fund. As recommended by the Auditor-General, the Department will continue to refine and improve its systems to ensure this information is captured and available to assess the achievements of the Fund.

RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development – continued

Overall conclusion

Paras 2.73 to 2.74

The Department does not agree with the statement that approval of projects has been slow. It is anticipated that the initial \$180 million allocation will be allocated to approved projects by 30 June 2003. While disbursements have been slow in the initial phase of the Fund, this is primarily as a result of the inherent long lead times in infrastructure projects, with lengthy design and construction periods, and the use of performance-based contracts, resulting in often extended periods between approval and payment. The Auditor-General notes in the body of the report that this represents good practice. The Department expects disbursements to increase over the coming months as more projects make significant progress on achieving milestones.

Information on the outcomes of the Government's investment has been made publicly available. Information about the level of leveraged funding has been widely cited, while the benefits of facilitated private investment have been reported on a case by case basis. Feedback on the Fund from various sectors of the Victorian economy has been very positive. While the Department believes that it meets all its statutory obligations in relation to reporting on the Fund, it remains receptive to suggestions on how this may be improved.

ASSET CONFISCATION SCHEME

2.75 A number of asset confiscation schemes with differing characteristics have been operating over the past decade across Australia. The principles underpinning these schemes are that convicted individuals should be deprived of the benefits stemming from their criminal activity and asset confiscation should act as a deterrent to criminal activity.

2.76 Asset confiscation came to prominence in Victoria when the Crimes (Confiscation of Profits) Act was enacted in 1986. The primary purpose of this legislation was to provide an effective mechanism to confiscate proceeds of crime. It mainly covers commercial drug-related criminal activity.

2.77 In 1994, a study commissioned by the Attorney General highlighted concerns with the administration of the asset confiscation scheme in Victoria. These concerns included the duplication of processes between agencies and an absence of sufficient overall co-ordination in enforcement activities.

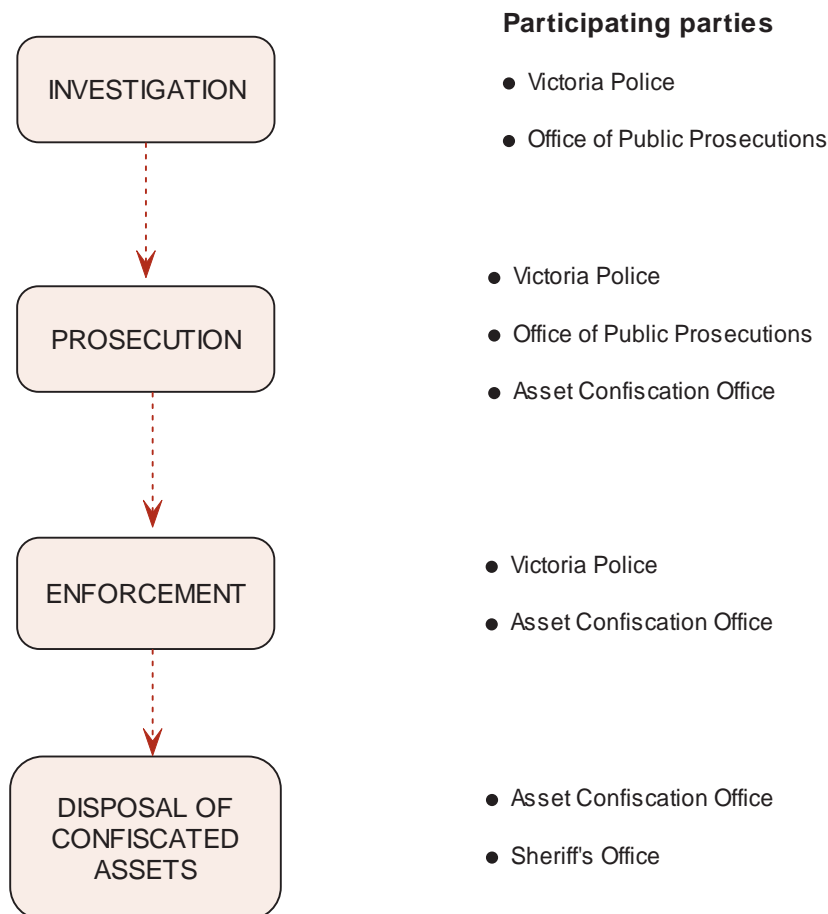
2.78 Later legislation, *the Confiscation Act 1997*, provided for the establishment of the Asset Confiscation Office, a business unit within the Department of Justice. The Office commenced operations on 1 January 1998 with the primary functions of coordinating confiscation activities, developing policy guidelines and having a direct role in the management of seized property.

Outline of Victoria's asset confiscation scheme

2.79 The asset confiscation scheme in Victoria involves four agencies within the Justice portfolio, namely: the Department of Justice through the Asset Confiscation Office; the Sheriff's Office, the Office of Public Prosecutions; and Victoria Police. Each agency is required to apply the legislation at various stages of the confiscation process while having regard for the civil rights of individuals suspected of criminal activity. An Operations Committee has been established with representatives from each of the agencies to consider and address any issues arising from implementing the scheme.

2.80 In general terms, the asset confiscation process involves 4 phases. Chart 2J outlines the 4 phases and the parties involved.

**CHART 2J
ASSET CONFISCATION PROCESS**



Source: Victorian Auditor-General's Office.

2.81 The asset confiscation process occurs in those criminal prosecutions outlined in the *Confiscation Act 1997*. For instance, one of the main types of criminal activity that will trigger the commencement of the process is the trafficking of commercial quantities of prohibited drugs. The commercial quantity thresholds are outlined in the *Drugs, Poisons and Controlled Substances Act 1981*.

2.82 Once property has been forfeited, the Asset Confiscation Office is responsible for its management and ultimate disposal. Property confiscated can be returned to the victim of crime, sold through an auction process or destroyed. Proceeds of any sales are paid to the Consolidated Fund.

Objective and scope of the review

2.83 The objective of our review was to establish whether the asset confiscation scheme is managed efficiently and in accordance with relevant legislation. We examined the level of compliance of the scheme's activities with the legislative framework, the adequacy of control over seized assets and disposal processes, and the extent of transparency associated with management of disposal proceeds.

Need for improved communications on assets subject to forfeiture orders

2.84 The most common Court Orders obtained under the Confiscation Act are forfeiture orders. These orders are for property that Victoria Police usually has in their possession following a criminal conviction. They enable Victoria Police to lawfully dispose of property.

2.85 Under the Confiscation Act, a forfeiture order provides that, “*all properties seized be forfeited to the Minister and disposed of or otherwise dealt with according to the direction of the Minister*”. Upon making a forfeiture order, the Minister effectively becomes the owner of the forfeited property. Only the Minister or the Asset Confiscation Office, as the authorised delegate, can determine the means of disposal of the forfeited property.

2.86 In several instances, we found that forfeited property (such as stolen property) had been returned to its rightful owner by Victoria Police, without prior approval or notification to the Office. Such approval or notification is a requirement of sections 41 and 44 of the Confiscation Act. While the direct return of assets to owners is, in most circumstances, performed by Victoria Police, the legislation does not allow for this process.

2.87 The Asset Confiscation Office maintains a register of all forfeiture orders and is reliant on Victoria Police to notify it in all circumstances where assets have been returned to the owner or a subsequent disposal order had resulted in the destruction of the asset. **At the time of our review, the Asset Confiscation Office was seeking information from Victoria Police in order to identify the status of property associated with over 1 300 forfeiture orders dating as far back as June 1999.**

2.88 Forfeiture orders do not provide a listing of the convicted criminal’s assets. It therefore becomes critical that Victoria Police swiftly notify the Asset Confiscation Office of any relevant action and that the Office promptly follows up outstanding forfeiture cases with Victoria Police.

2.89 Given the significant volume of aged outstanding orders, the Asset Confiscation Office believes that the majority of forfeited assets have either been returned to owners or destroyed. **However, in the absence of centralised records at both organisations to identify the nature of the assets involved and the associated action, it is not possible for us to provide any assurance that the status of property relating to the 1 300 outstanding orders has been managed in the manner intended by the legislation.**

2.90 We recommend that Victoria Police review its current communication procedures with the Asset Confiscation Office to ensure that the Office is immediately notified of Victoria Police’s intention to return assets to a victim of crime or when property has been destroyed under a disposal order. The Asset Confiscation Office should regularly review the status of long outstanding orders and instigate prompt follow up orders with Victoria Police.

Impediments to the effectiveness of the scheme identified by participating agencies

2.91 Since the commencement of the *Confiscation Act* 1997, the participating agencies have raised with the Government a number of legislative impediments that restrict effective administration of the scheme. These impediments include:

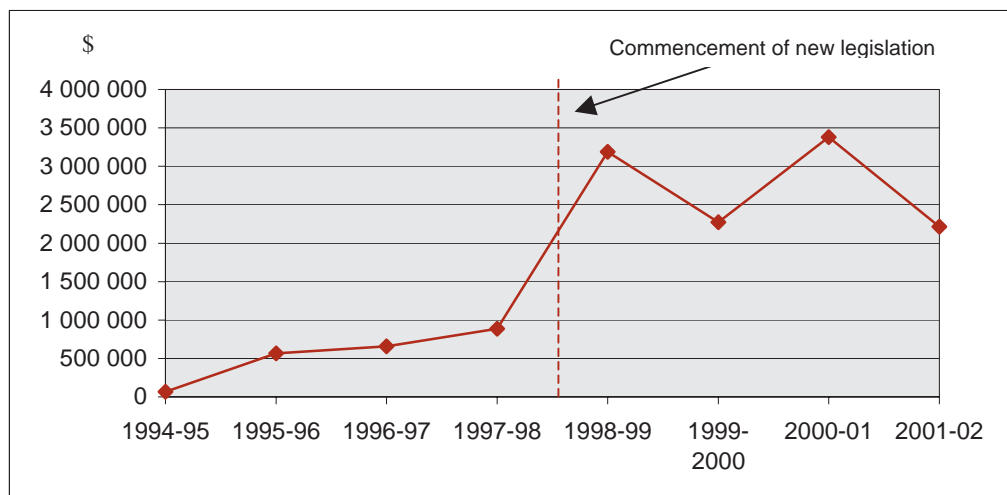
- **Information sharing:** Under the existing provisions of the *Confiscation Act* 1997, the only means by which the Asset Confiscation Office can secure sufficient information and admissible evidence for the litigation of a civil forfeiture case is from the associated criminal investigation and brief evidence. As Victoria Police is of the view that the Asset Confiscation Office does not meet the legislative definition of a legal enforcement agency, it is reluctant to share information regarding possible criminal matters. Legislative amendments have been recommended by the scheme's Operations Committee to create powers for Victoria Police to share information, mainly for the conduct of civil and enforcement functions performed by the Asset Confiscation Office.
- **Property management:** One of the prime functions of the Asset Confiscation Office is to manage property under the confiscation program. However, the Office does not have sufficient power under existing legislation to manage restrained or seized property. It is not able to manage or inspect property until a conviction is obtained.
- **Information gathering tools:** There are a number of tools such as production orders, search warrants and monitoring orders that only Victoria Police can apply to directly investigate civil forfeiture cases. The Asset Confiscation Office has recommended that it also be given sufficient powers over some information gathering tools to be able to directly investigate cases for the enforcement of Court Orders.

2.92 **The Government intends to introduce amending legislation to Parliament in the Autumn 2003 session to address these matters.**

Confiscation revenue

2.93 Chart 2K outlines revenue collected from asset confiscation between 1994-95 and 2001-2002.

**CHART 2K
CONFISCATION PROGRAM REVENUE**



Source: Asset Confiscation Office.

2.94 Since 1998, with the introduction of the *Confiscation Act 1997* and the establishment of the Asset Confiscation Office, approximately \$10.6 million in revenue has been raised from assets confiscated from convicted criminals. Revenue collected equates to an average of \$3.2 million per annum compared with only \$0.5 million per annum under the former legislation. About half of this revenue has been generated through the seizure of cash with the balance from the sale of assets such as real estate, motor vehicles and personal effects.

2.95 The total cost associated with administration of the scheme is difficult to estimate, given the number of agencies involved. It is more than likely, after taking account of direct staff time and overheads, that the annual cost of the scheme exceeds the annual revenue generated from confiscated asset sales. However, the objective of the scheme is more related to deterring crime than maximising revenue.

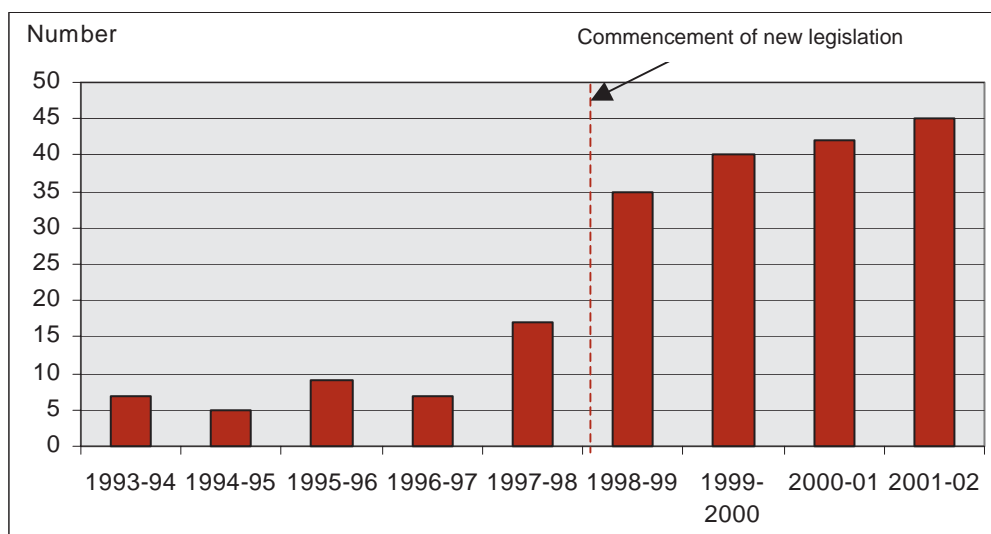
2.96 We found that it was difficult to compare the level of revenue generated in Victoria with other States as the legislative and operational frameworks vary greatly between jurisdictions. In both New South Wales and Western Australia, confiscation can occur without conviction while the Victorian model requires a conviction before confiscation action can take place. Revenue obtained from confiscated assets in those States is therefore likely to be higher.

Restraining Orders

2.97 Restraining orders are one of the first mechanisms employed by Victoria Police to prevent defendants from disposing of crime-derived property, without permission of the Court. They also assist victims of crime to recover compensation. A restraining order affords Victoria Police the time to gather sufficient evidence for a prosecution.

2.98 Chart 2L shows there has been a strong upward trend in the number of restraining orders issued in Victoria, since establishment of the Confiscation Act.

**CHART 2L
RESTRAINING ORDERS**



Source: Asset Confiscation Office.

2.99 There is no direct correlation between this rising trend and confiscation revenue because the asset value of restrained items vary under each order. The revenue recovered from any restraining order may also be affected by an exclusion clause. For example, a person can apply to the Court to have certain assets excluded from a restraining order.

2.100 As outlined in earlier paragraphs, the Asset Confiscation Office places heavy reliance on Victoria Police to ensure that all potential confiscations are performed and all relevant information is communicated to it by Victoria Police.

Asset handling and disposal

2.101 We examined procedures involving the handling and disposal of confiscated property to ascertain whether confiscated assets were maintained in a secure environment and the items tendered for sale were sold at their best net realisable value

2.102 Procedures for handling confiscated property at the central property management branch of Victoria Police and the Sheriff's warehouse were found to be adequate in cataloguing seized assets, ensuring property is kept in a secure environment, and timely disposal of property.

2.103 The Sheriff's Office in conjunction with the Asset Confiscation Office conducts a monthly public auction to dispose of assets confiscated from convicted criminals. The Asset Confiscation Office may sell goods through the Internet using an online auction process.

2.104 We are satisfied that both sales methods are sufficiently transparent to ensure market prices are achieved. Prospective buyers were made aware that some goods had reserve prices and that items would be withdrawn from sale if reserves were not met.

Asset storage

2.105 Confiscated assets are held at:

- police stations (where the assets are held as evidence until the case is heard);
- the central property management branch of Victoria Police (mainly for storage of motor vehicles); or
- the Sheriff's Office (where items are stored for disposal).

2.106 Because of increasing volumes of confiscated assets, adequate storage space has become a key issue for the participating agencies. The extent of the problem was such that, during 2000, the Crime Department of Victoria Police introduced a policy limiting the seizure of motor vehicles to those with a value above \$30 000 and white goods to those valued above \$7 500. We were advised that some cases could take up to 2 years to gain a conviction and that the costs associated with storage and depreciation were greater than the lower-valued vehicles.

2.107 The agencies will need to consider the impact on already strained storage facilities stemming from the current legislative reform proposals. These proposals include the lowering of commercial drug trafficking thresholds for forfeiture and additional legislative powers for effective management of civil forfeiture.

2.108 A review of storage facilities should be conducted by the participating agencies to ensure that the effectiveness of the asset confiscation scheme is not impaired by the lack of storage capacity.

Governance framework

2.109 Each participating agency fulfils an important role in the confiscation process with:

- Victoria Police providing the necessary authority, skills and experience for the investigation, restraint and forfeiture of assets;
- the Office of Public Prosecution possessing the legal expertise to ensure applications for Court Orders are properly prepared; and
- the Asset Confiscation Office having responsibility for collection, storage and disposal of forfeited goods.

2.110 Effective co-ordination of the functions of each agency is therefore critical for the successful administration of the scheme.

2.111 The scheme's Operations Committee primarily addresses operational issues. Its function does not encompass evaluation of the overall performance of the scheme, including its ongoing impact as a deterrent to criminal activity and the soundness of co-ordination between agencies.

2.112 **The governance framework would be strengthened if there was a clearer allocation of responsibility for strategic oversight of the scheme and provision of high-level advice to the Government.** As one option, a small executive body comprising the Heads of each participating agency could fill this governance gap

Performance measurement

2.113 Setting and monitoring of performance against expected outcomes and targets should be a key part of the scheme's performance measurement framework.

2.114 In certain areas, the scheme's performance measurement system could be enhanced. For instance, while strategies have been established to facilitate attainment of the scheme's objectives, the Asset Confiscation Office has not developed performance indicators for all of these strategies. Consideration should be given to some non-monetary performance measures that may include, among other things, time taken for specific activities such as from when a forfeiture order is issued until receipt of proceeds of sale; resources involved; and periodic trend analyses.

2.115 **Without relevant performance measures, it is difficult to ascertain whether objectives of the scheme have been achieved.**

RESPONSE provided by Secretary Department of Justice

The report provides a general summary of the Scheme and the functions of the key agencies involved in the Scheme. The report however minimises or over simplifies the roles of the Director of Public Prosecutions (DPP), the Office of Public Prosecutions (OPP) and the Asset Confiscation Office (ACO).

The report minimises the role played by the DPP and OPP in supporting the outcomes of the Scheme. The DPP has a responsibility to personally and individually approve every application for a Restraining Order obtained under the legislation. The role of the OPP in the evaluation and obtaining of Restraining Orders is critical to ensuring the accountability and transparency in confiscation applications.

In addition the DPP and OPP are not merely providing the legal expertise to ensure applications for court orders are properly prepared but rather they become a party to any legal proceedings arising from action taken under the confiscation legislation. Finally the DPP and OPP provide skills in the negotiation and resolution of a wide range of confiscation matters.

The role of the ACO is broader than just the collection, storage and disposal of forfeited goods. The ACO's role also extends to the management of restrained property, the conduct of legal proceedings to assist the investigative functions of Victoria Police (VicPol) and OPP (examinations), the protection of the Minister's interest in forfeited property (declarations) and to seek further court orders to facilitate effective enforcement. In addition the ACO is responsible for the recovery of outstanding pecuniary penalty orders.

The key agencies are working closely together to ensure the effective operation of the Scheme.

Need for improved communications on assets subject to forfeiture.

You note that there were a number of forfeiture orders outstanding at the time of the audit and that it is critical that VicPol swiftly notify the ACO of any relevant action and that the ACO promptly follows up outstanding forfeiture cases with VicPol.

Plans are underway to develop an information technology platform to be shared by the key confiscation agencies to ensure that all relevant case information is shared from seizure to sale. This enhancement shall eliminate outstanding orders and provide accurate information as to the identification of forfeited assets.

Restraining orders

The report records the increase in the number of restraining orders obtained in the Courts over property for forfeiture or to satisfy compensation for victims of crime. The report correctly observes that it is very difficult to develop a correlation between the increase in the number of restraining orders and any likely revenue to be recovered due to the effect of exclusion applications by third parties. I would like to draw attention to the fact that this situation is further complicated as a large proportion of the increase in restraining orders arises from restraint to satisfy victims compensation claims. This dimension in the confiscation legislation is growing at a rapid rate as victims and their respective legal representatives utilise this process. While these cases will not generate revenue to the State, the costs associated with the administration processes shall still be incurred by the participating agencies.

The report does not highlight that in the current financial year some 105 Restraining Orders have been made and by the end of the financial year it is expected that the total will be in the vicinity of 140 orders. That is over a 300 per cent increase on the previous year.

Asset storage

The report cites as an issue the provision of adequate storage facilities and a need to consider the impact of already strained storage facilities under the proposed legislative reforms. The Department is aware of this issue and will continue to closely monitor the storage situation and its impact upon the Scheme.

Performance measures

The report highlights that the ACO, while having strategies developed to facilitate the attainment of the Scheme's objectives, has not developed performance indicators for all of these strategies. The planning process implemented by the ACO requires the setting of performance measures against its respective strategic and business plans. The Department concurs with the development of overarching performance measures as recommended in the report.

Governance

The Department agrees with the recommendation that the governance framework would be improved through the development of a high level executive group to oversee the strategic operation of the Scheme.

OUTSOURCING OF INFORMATION TECHNOLOGY SERVICES AT VICTORIA POLICE

2.116 As early as 1995, Victoria Police began planning a major outsourcing strategy for the provision of information technology and associated services. The overall objective of the strategy was to negotiate a 5-year contract for delivery of the full range of information technology services. The primary reasons for outsourcing these services were to:

- improve their quality and responsiveness, with a greater focus on customer needs;
- reduce their unit cost;
- improve access to specialist skills;
- enable Victoria Police to focus on its core business of providing policing services; and
- facilitate provision of additional services not currently provided by Victoria Police internally.

2.117 The project includes the replacement of all obsolete information technology equipment and the integration of Victoria Police into the Government's Vic-One wide area network.

2.118 The project comprises 4 phases with the fourth phase now at the implementation stage as shown in Table 2M.

**TABLE 2M
PHASES OF INFORMATION TECHNOLOGY OUTSOURCING STRATEGY**

| | |
|---------|---|
| Phase 1 | Identification of outsourcing opportunities |
| Phase 2 | Development of a business case |
| Phase 3 | Evaluation of tenderers and selection of preferred tenderer: <ul style="list-style-type: none"> • Issue Request for Tender • Evaluate tenders • Shortlist service providers • Evaluate best and final offer • Select preferred tenderer • Decision to proceed |
| Phase 4 | Contract negotiation, signing and implementation |

2.119 In February 1999, Victoria Police entered into an outsourcing contract with IBM Australia Limited for an initial period of 5 years, with provision for 2 optional one year extensions of this period.

2.120 During February 2003, Victoria Police obtained Ministerial approval to a one year extension of the contract period to February 2005.

2.121 Victoria Police is currently preparing to retender the contract from February 2005.

2.122 Because of its nature and breadth, the project offers significant potential for enhancing the efficiency and quality of police services. Its size and importance means that successful implementation requires strong governance and management procedures.

2.123 Our review focused on Victoria Police's management of the outsourcing contract under phases 3 and 4. It did not include an assessment of the effectiveness of the delivery of information technology services under the outsourced arrangements.

Governance arrangements for project

2.124 A steering committee oversees the project's development and implementation.

2.125 From 1998, responsibility for overseeing the project lay with the Victoria Police Information Management Board. Its membership comprised senior Victoria Police personnel, including the Chief Commissioner, and representatives of Multimedia Victoria (now part of the Department of Infrastructure) and the Department of Justice. Responsibility for the project has recently been transferred to the Victoria Police Corporate Management Group.

2.126 The steering committee has been supported by a firm of consultants engaged to provide ongoing advice from commencement of the project to the signing of the contract and several consultancy reviews. Thus, the steering committee has had available to it valuable external specialist input into aspects of the project's management.

2.127 An independent probity auditor was appointed to provide independent assurance to Victoria Police on the integrity of the tendering process and contract negotiations.

2.128 One conspicuous gap in the governance framework for a project of such magnitude has been the limited involvement of Victoria Police's internal audit section. A number of the matters addressed in later paragraphs of this section of the report may have been avoided, or their impact minimised, if there had been regular scrutiny by internal audit of the project's ongoing management.

2.129 **Internal audit should be an active component of the oversight arrangement for all future stages of the project. Its reports to Victoria Police's Audit Committee and the Victoria Police Corporate Management Group should be key sources of independent assurance on the soundness of the project's management.**

Selection of preferred tenderer

2.130 The steering committee determined at an early stage not to conduct an expression of interest phase and instead move directly to seek requests for tender, with a preference for a single prime contractor. Seven parties ultimately submitted tenders.

Evaluation of tenderers

2.131 Tender evaluations occurred between July and September 1997 employing the following evaluation criteria:

- financial soundness and experience of supplier
- ability to deliver services
- security and privacy including protection of data and site security
- human resources arrangements associated with the transfer of Victoria Police personnel to the successful contractor; and
- value-for-money.

2.132 Weightings were assigned to the first 4 criteria.

2.133 Five separate evaluation teams were established to evaluate the tenders, one for each of the evaluation criteria. The teams comprised Victoria Police personnel (both sworn and unsworn members), and were supported by the steering committee's consultant. Training was provided to team members on the assessment of tenders, including scoring techniques and probity aspects.

2.134 The evaluation process included presentations from tenderers, assessment of information received from referees and interviews with representatives of other organisations.

2.135 Evaluation team members independently prepared individual score sheets detailing the results of their evaluation against the established criteria. Once all team members had prepared their individual score sheets, a team meeting was held to agree on the team score for each element of the evaluation criteria.

2.136 A key part of our assessment of the tender evaluation procedures was the involvement of the probity auditor.

2.137 While Victoria Police had called for tenders to perform the audit role in May 1997, a probity auditor was not appointed until 5 months later in October 1997. At that time, the process for evaluation of tenderers was substantially complete. Although the probity auditor subsequently reviewed documentation related to the selection process, the late appointment meant that this aspect of the project's management did not have the benefit of the probity auditor's ongoing input and review.

2.138 Some other shortcomings in the process were:

- The request for tender did not indicate the weightings applied to each of the evaluation criteria. To have done so could have assisted tenderers in the preparation of their tenders and helped to ensure that emphasis was placed on those areas of greatest importance for Victoria Police;
- While Victoria Police established a policy on conflicts of interest and confidentiality, written declarations were not sought from relevant personnel; and

- The probity auditor reported directly to the officer within Victoria Police who had overall management responsibility for the outsourcing project and was also chairperson of the steering committee. The March 1997 probity guidelines of the Department of Treasury and Finance recommend, in respect of independence, that the probity auditor preferably report to a party, such as an audit committee, viewed to be at arms-length from those managing the tendering process.

2.139 We consider that several aspects of the evaluation stage were soundly managed. Nevertheless, Victoria Police should ensure the above shortcomings are adequately addressed during the process for retendering the outsourcing contract scheduled to be completed by 2005.

Selection of preferred tenderer

2.140 After the evaluation of tenders, 3 of the 7 tenderers were short-listed by the steering committee and invited to submit a best and final offer.

2.141 The same evaluation teams analysed the tenderers' final offers. Overall findings by the teams included;

- analysis of all tenderers' financial reports and associated records demonstrated they were financially sound;
- investigation by the Crime Department of Victoria Police into the history of the tenderers, including their senior staff, did not identify any issues that could preclude any of the 3 final bidders from working with Victoria Police;
- all tenderers displayed convincing track records and were considered capable of providing the service and flexibility required by Victoria Police;
- all tenderers had appropriate management structures in place to work co-operatively with Victoria Police; and
- all tenderers had issues that, if they were selected, would require resolution during the contract negotiation stage.

2.142 On the basis of the above qualitative factors, there was only a minor point score difference between the 2 highest placed tenderers. When price was considered, IBM Australia Limited had submitted the lowest offer, assessed to be lower by \$9.4 million on a 5-year net present value basis, and was therefore regarded as the preferred tenderer exhibiting the best value-for-money.

Negotiations with the preferred tenderer

2.143 The steering committee nominated 5 members of Victoria Police to participate in the negotiation process. These members received appropriate training and were supported by the committee's consulting advisor.

2.144 The negotiation phase commenced in July 1998 and culminated almost 8 months later in a signed contract with IBM Australia Limited in February 1999.

2.145 The following key adjustments to the preferred tenderer's best and final offer were agreed between the parties during negotiations:

- A "Greenfield" strategy was adopted which provided for delivery of 5 300 new personal computers and 500 new notebook computers in year one, in lieu of the 3-year replacement program originally proposed in the preferred tenderer's best and final offer. This amendment was designed to ensure Year 2000 compatibility of Victoria Police's computer equipment. It increased the contract value by **\$7.7 million**;
- A lower value for assets to be acquired by IBM Australia Limited from Victoria Police, including mainframe, wide area network and local area network equipment, was agreed and resulted in an increase in the contract value of **\$4.8 million** (79 per cent of the originally offered asset transfer value);
- The base year used to calculate cost of living allowance adjustments was altered from 1998 to 1999 leading to a rise of **\$1.6 million** in the contract value;
- The estimated cost of an accompanying contract for the proposed network audit and design project (commented on under the next heading of this section of this report) was extended during the negotiation period by **\$1.4 million** (125 per cent of the originally offered cost of this project);
- The agreed network roll-out period was reduced from an original 12 month period to 7-months due to concerns over Year 2000 compatibility. The financial impact of this adjustment was an increase of **\$1 million** in the contract value; and
- Other mainframe, mid-range, help desk and wide area network costs underwent minor changes as a result of the negotiation process.

2.146 Victoria Police also determined that it would not contract for a portion of the offered applications development services on the basis that it might elect (which it subsequently did) to source these services from alternative suppliers. This decision reduced the contract value by **\$7.1 million** (33 per cent of the total value of the offered application development and maintenance services).

2.147 **The net financial impact of the above adjustments was an increase of approximately \$9 million in the value of contractual services (based on a 7 year contract term).**

2.148 In a February 1999 report, the probity auditor reported that "*we have no outstanding issues of probity within the process*" for phase 3, evaluation of tenderers and selection of a preferred tenderer, and phase 4, contract negotiation, signing and implementation.

2.149 Probity guidelines issued by the Department of Treasury and Finance highlight the importance of ensuring compliance of final bids with indicative bids. On this important aspect of the negotiation process, Victoria Police advised the then Minister (at the time of seeking approval to enter into the contract with IBM Australia Limited) that its probity auditor had indicated *“that there is appropriate continuity between the tender and the finalised contract”* and *“that where additional outcomes have been achieved this has not changed or affected the fundamental structure of the tendered business but merely represents effective negotiation by Victoria Police”*.

2.150 At an earlier point in the project, Victoria Police had committed to the Minister that it would not accept any changes to the preferred tenderer’s offer during negotiations if such changes impacted on the basis of its selection of that party as the preferred tenderer. Given that some of the adjustments agreed between Victoria Police and the preferred tenderer were significant in terms of variations to the cost of individual services, **the conclusion reached by the probity auditor, as communicated by Victoria Police to the Minister, confirmed adherence to this commitment. Victoria Police advised that the detailed comments attributed to the probity auditor included in its written advice to the Minister were based on verbal discussions with the probity auditor.**

Audit and design project

2.151 Victoria Police entered into a separate contract for this task with the preferred tenderer during the negotiation phase. Its intended outcome was to provide within the main contract a clearer definition of the existing site conditions, including the extent to which the then information technology infrastructure required replacement due to Year 2000 compatibility and to take into account other changes not anticipated in the best and final offer of the preferred tenderer.

2.152 This project was also intended to enable the main contract to include a fixed price for the local area network and desktop services. However, this aim was not achieved as the main contract was executed in February 1999 prior to the completion of this work, which occurred later in 1999. **The estimated costs of these services, based on the results of the audit and design project, progressively increased during the year from an initial estimate of \$10 million to a final figure of \$31.7 million.**

Signing of contract

2.153 The preferred tenderer's amended offer was valid until February 1999. The validity date of the offer had been previously extended on a number of occasions and Victoria Police had requested a further extension beyond this date to finalise some unresolved matters. However, the preferred tenderer was unwilling to further extend the validity period of its offer, due predominately to Year 2000 considerations.

2.154 Despite many months of negotiations, Victoria Police found itself under some pressure to sign the contract in February 1999, earlier than it desired.

2.155 The final outsourcing contract was eventually signed between the parties during February 1999. The contract provided for provision of the following services:

- distributed computing (comprising desktop and local area network);
- wide area network;
- mainframe and mid-range computing;
- application development, enhancement and maintenance;
- an upgrade and replacement program for information technology equipment; and
- help desk facilities.

2.156 The contract contained a number of features of relevance:

- It was conditional upon the outcome of the network audit and design project;
- It did not clearly define the desktop infrastructure to be used for the technology replacement program during the contract term;
- It provided that the annual service charge excluded security administration charges, which were to be the subject of a later contract variation;
- It did not set out the number of procedure manuals to be provided without an additional charge levied under the contract or the price payable for the provision of additional copies of the manual; and
- It was signed before the Victorian Government Solicitor's final advice on the proposed contract was received. Drawing on the advice of its own solicitors, Victoria Police determined that the Victorian Government Solicitor's recommendations would not be acted upon since its solicitors believed the proposed contract met its needs.

2.157 The Victorian Government Solicitor did highlight several issues of significance in the proposed contract. In particular, while the contract's performance standards had been prepared in a most detailed manner, the extent to which Victoria Police may use those standards to ensure the delivery of a satisfactory service was somewhat limited. The Solicitor had also expected to see a more detailed payment regime within the contract to ensure that the payment obligations of Victoria Police were consistent with the level of service delivered to it.

2.158 The Victorian Government Solicitor was of the view that some of the shortcomings in the contract had the potential to impact adversely on the interests of Victoria Police.

2.159 Weaknesses in the contractual provisions were also raised in specialist advice commissioned by the Minister in June 2002, around 3 years into the implementation of the contract. These weaknesses are outlined on the following page of this report on the performance management procedures followed by Victoria Police. Some of the points reported by the specialist related to Victoria Police's less than optimum position in managing the delivery of services and in receiving appropriate performance data from the provider. These matters were not dissimilar to those identified in the earlier advice from the Victorian Government Solicitor.

2.160 The views expressed to Victoria Police by its external specialist and the Victorian Government Solicitor reinforce the importance of Victoria Police ensuring the terms and conditions of its impending re-tender adequately protect its interests.

2.161 **Because the work of the Victorian Government Solicitor is specifically focused on protecting the Government's interests in contractual matters, it is important that its final advice, when sought, is fully considered before any contractual arrangements are formalised. Victoria Police should be mindful of this position when managing the re-tendering of the current contract.**

Full public release of contract still to occur

2.162 The Victoria Government Purchasing Board's policies require that all contracts over \$10 million in value be disclosed in full on the Contracts Publishing System website, subject to the application of the exemption criteria in the *Freedom of Information Act* 1982. To date, only a one page summary has been included on the relevant website (the contract comprises some 400 pages). It is understood that IBM Australia Limited has not yet given its consent for the full public disclosure of the contract on the basis that it is a confidential document which is commercially sensitive.

Senior officer of Victoria Police accepts employment with provider

2.163 On 10 June 1999, a senior staff member within Victoria Police resigned to accept a position with the provider. A probity audit arranged by Victoria Police of that officer's role in the negotiation and administration of the outsourcing contract concluded that:

- the officer had been involved in the evaluation of tenders, contract negotiations with the provider and post-contract administration but there was no evidence to suggest that the staff member had any undue opportunity to influence the selection of the preferred tenderer or to give any advantage to that company during negotiations;
- employment discussions had commenced between the officer and the provider on 6 May 1999 and the officer received an employment offer on 22 May 1999; and

- while in receipt of an offer of employment from the provider, the officer had influenced 2 important decisions relating to security administration and cabling costs with potential ongoing benefits to the provider which required further review and documentation by Victoria Police.

2.164 A subsequent review by solicitors engaged by Victoria Police also concluded that the involvement of the officer in post-contract negotiations demonstrated a conflict of interest and duty but the decisions did not reflect on the validity of the tender or contracting process as a whole.

Weaknesses in performance management

2.165 An earlier paragraph in this report mentioned that 2 external parties had expressed concerns to Victoria Police regarding the adequacy of the contract, including its terms dealing with performance management.

2.166 These parties were the Victorian Government Solicitor in 1999, just after Victoria Police had arranged for signing of the contract, and the specialist who reported to the Minister in 2002 on the results of a wide-ranging review. The issues raised by the specialist included:

- Many of the service levels specified in the contract are inappropriate tools for Victoria Police to manage the delivery of services;
- The service levels are not reported in a manner that facilitates performance management within Victoria Police (70 graphs and 19 tables are presented by IBM Australia Limited each month);
- Reported service levels are not meaningful in many cases and provide little benefit for planning and monitoring purposes, and are therefore not used;
- A number of service levels are unclear and imprecise leading to confusion over their exact meaning;
- The service charges do not differentiate between the differing levels of support required by each user type (such differentiation is considered best practice and can have a significant impact on pricing);
- While the use of penalties and incentives is considered best practice to ensure the right focus and behaviour in service delivery, the contract's service levels are generous, and, as a consequence, no financial penalties have been applied since commencement of the contract. Further, the way that the service levels have been structured has made it easier for them to be met, even though the level of service at times has been unsatisfactory; and

- There have been limited changes to the service levels since contract inception, (the specialist recommended that reviews of the levels be undertaken annually to ensure continued alignment with the business needs of Victoria Police). Victoria Police advised that these changes had not been implemented due to additional contractual costs that would be incurred through the implementation of more stringent service level targets.

2.167 Service level information prepared by IBM Australia Limited is not subjected to routine verification by Victoria Police, such as through a program of internal audit reviews, despite the contract providing for such verification. We acknowledge that Victoria Police has initiated 3 reviews of software licensing and business continuity matters. These exercises identified significant deficiencies in the subject areas, which at the time of preparation of this report, had not been completely resolved. We also acknowledge that during 2001, Victoria Police instituted procedures to verify help desk activity and that a 2001 in-house review identified certain deficiencies in the maintenance of asset registers by IBM Australia Limited and in performance reporting.

2.168 The specialist also reported on some wider issues regarding the contractual environment, but still of relevance to performance management. The reported matters encompassed:

- A considerable difference in perception within Victoria Police regarding what services are included within the contract after three and a half years, based on a sample of interviews. Further, confusion existed over who actually was the provider under the contract, as it had been signed by one company while another company delivered the services. Representatives of both companies deal with Victoria Police leading to confusion over who had the authority to provide services. It was not until August 2002 that the signatory to the contract formally confirmed to Victoria Police that it had authorised the other company to act as its agent and that it was bound by any actions or omissions, representations or conduct of that other company;
- A lack of transparency in pricing across some information technology areas, particularly in the desktop/local area network environment. For example, all servers are charged at the same rate, even though there are many different types and sizes of servers with different performance requirements;
- Based on a high-level, commercial reasonableness point of view, the specialist concluded that Victoria Police had a favourable pricing arrangement, however, an anomaly existed in one area where pricing seemed extremely high. The specialist stressed that this element of the review did not extend to detailed data collection and analysis of pricing;
- The relationship with the provider was no longer strategic in nature and had become tactical resulting in “micro-management” of the terms of the contract; and

- Contract management costs of Victoria Police were, in percentage terms, just above the top end of an expected range, on a rule of thumb basis. However, an increased level of governance costs was due to the fact that much of this time is taken up constantly “*firefighting*” issues with the provider. In addition, disputes over terms and conditions in a relatively poor contractual agreement has also meant that key projects such as the replacement of desktop computers, have been delayed, and internal resources have been distracted from undertaking more valuable strategy and oversight.

2.169 The above concerns communicated to Victoria Police did not reflect highly on its capacity to fully assess the provider’s performance under the contract. Specific attention will need to be directed to this aspect of the arrangements ultimately established for the re-tendered contract.

Adequacy of financial management

2.170 Our review considered the financial management procedures of Victoria Police under the contract from 3 perspectives:

- monitoring contract expenditure;
- financial approval procedures; and
- review mechanisms for verifying contract payments.

Monitoring of contract expenditure

2.171 The internal financial reporting processes within Victoria Police are quite detailed. Regular reports are produced which record actual contract expenditure against budget on a monthly and year-to-date basis.

2.172 One weakness of the existing financial reporting system is that it does not produce reports of actual contract expenditure against approved contract amounts, including contract cost variations. If utilised, such reports could be broken down into the various key expenditure items within the contract and would assist Victoria Police in monitoring expenditure.

2.173 Corrective action on this matter would give Victoria Police a sounder basis for the preparation of briefings to the Minister on progressive estimated and actual contract expenditure. It would also give it greater assurance that payments are only made for approved items.

2.174 A further weakness in the reporting procedures is that Victoria Police had not yet established a mechanism for monitoring performance to determine whether one of the key objectives for the outsourcing of information technology services, namely, to provide services at a reducing cost over time, has or has not been achieved.

2.175 This latter matter should be addressed without delay given that it is over 4 years since the signing of the contract.

Financial approval issues

2.176 Regulations issued under the authority of the *Financial Management Act* 1994, provide that Victoria Police can incur or meet expenses and obligations within the limits conferred upon its personnel by the Minister for Police and Emergency Services. The maximum financial delegation conferred upon Victoria Police to incur or meet expenses and obligations during 1999 was \$250 000. This amount was increased to \$500 000 during May 2000. The Minister has also authorised certain Victoria Police personnel to incur or meet expenses and obligations for contract commitments previously approved by the Minister up to \$55 million per annum.

2.177 Our examination of contract payments and variations found that:

- The contract provides that it can be varied in writing by the contractual parties. The State of Victoria (represented by Victoria Police) is a party to the contract, which was signed for and on behalf of the State of Victoria by the then Minister. The contract does not expressly delegate the power to enter into contract variations to an officer within Victoria Police. Amendments to terms and conditions agreed to date between the parties have not been formally endorsed by the Minister for and on behalf of the State of Victoria;
- Twelve cost variations extending over the 6-year life of the contract, with an aggregate gross value of \$85.9 million, individually had a value greater than the maximum financial delegation of \$500 000 conferred upon Victoria Police. **These cost variations had not been approved by the Minister. Based on the available financial information, \$35.4 million had been expended against these unapproved variations as at December 2002. Victoria Police has since initiated action to obtain the necessary approvals;** and
- Five contract cost variations totalling \$8.1 million were approved by Victoria Police's Accredited Purchasing Unit, between 10 to 24 months after their effective date. The Unit was created to, among other things, approve or endorse certain expenditure proposals and to monitor Victoria Police's purchasing processes and procedures.

2.178 The above points indicate that there is a need for Victoria Police to be more attentive in the future to the formal approval requirements associated with the management of its outsourced information technology services.

Review processes over contract payments

2.179 Victoria Police receives a monthly invoice from IBM Australia Limited for services provided under the contract. Our review of the current procedures for the verification of invoices found:

- each monthly invoice can amount to some 40 pages and range between \$2 million to \$3 million in value;

- while a check of additions and of the inclusion of goods and services tax and credit notes is carried out, audit was advised that verification of invoiced amounts and that charge rates fall within the approved contract amount, was not performed; and
- there was an absence of evidence of independent verification, other than in respect of help desk services, that invoiced services had actually been delivered.

2.180 Victoria Police should tighten its procedures for verification of invoiced services submitted by the provider.

Performance against time targets

2.181 As mentioned in the introductory paragraphs of this section of the report, Victoria Police divided its information technology outsourcing strategy into 4 phases.

2.182 It was initially anticipated that contract signing would occur during June 1997. This did not take place until February 1999, approximately 20 months after the initial target, and even at that point, Victoria Police had sought additional time to complete the process.

2.183 Because of progressive delays, timelines for specific tasks were subject to regular change. Even when revisions were made, Victoria Police experienced difficulty in meeting new targets.

2.184 Table 2N summarises for each phase of the project Victoria Police's actual performance against its original time targets.

**TABLE 2N
ACTUAL PERFORMANCE AGAINST TIME TARGETS**

| <i>Phase</i> | <i>Description</i> | <i>Original Proposed timing</i> | <i>Actual duration/ completion date</i> |
|--------------|--|---------------------------------|---|
| 1 | Identification of outsourcing opportunities | 9 weeks | • June 1996 (a) |
| 2 | Develop business case | 9 weeks | Approx 8 weeks: • August 1996 |
| 3 | Evaluation and selection: <ul style="list-style-type: none"> • Issue Request for Tender • Evaluate tenders • Shortlist service providers • Evaluate best and final offer • Select preferred tenderer • Decision to proceed | 20 weeks | Approx 56 weeks: <ul style="list-style-type: none"> • April 1997 • September 1997 • November 1997 • March 1998 • March 1998 • June 1998 |
| 4 | Contract negotiation and signing | 18 weeks | Approx 30 weeks: • February 1999 |

(a) Duration of this initial phase could not be confirmed.

2.185 We recognise that some of the delays that have occurred to date can be attributable to the size and complexity of the outsourcing program.

2.186 Other causal factors, particularly in terms of additional delays that were experienced during implementation of the contract, were cited in the previously-mentioned June 2002 consultancy report commissioned by the Minister. The specialist engaged for this exercise had commented that disputes over terms and conditions in a relatively poor contractual agreement had meant that key aspects of the project such as the replacement of desktop computers had been delayed.

2.187 Delays at various stages of a major information technology project can adversely impact on performance and make difficult the attainment of qualitative and efficiency goals. These circumstances can also frustrate users of the services delivered under the project and lessen their confidence in the ability of the project to meet their needs.

2.188 **Consistent adherence to established time targets should, therefore, be a priority for Victoria Police in its impending re-tendering of the information technology services contract.**

Movement in cost projections

2.189 In February 2003, after considering a submission from Victoria Police and advice from the Department of Justice, the Minister approved a one year extension to the contract period from February 2004 to February 2005. With this decision, the overall contract period was expanded from 5 to 6 years.

2.190 In January 2003, Victoria Police completed a review of cost variations that have been experienced since the signing of the contract in February 1999. Based on the data arising from this review, estimated costs associated with the outsourcing contract have increased by \$85 million over the 4 years since commencement of the contract. This amount is shown in Table 20

TABLE 20
DISSECTION OF COST INCREASES
((\$million))

| | |
|--|---------------|
| Cost variations as at the end of January 2003 | \$83.5 |
| Additional costs identified during February 2003 | \$1.5 |
| Total | \$85.0 |

2.191 The base value in the 1999 contract for a 6-year term was \$151.5 million. This figure, together with the cost variations of \$85 million and the separate \$3 million contract entered into with IBM Australia Limited for the network audit and design project, bring the estimated costs as at February 2003 to \$239.5 million.

2.192 The items making up the above variations are:

- the cost outcome from the network audit and design project which became known late in 1999 - \$31.7 million (19 per cent of the base contract amount);
- additional user requirements, which include support, software and security costs - \$27.6 million (19 per cent of the base contract amount);
- new initiatives (including provision for the involvement of Victoria Police in the Criminal Justice Enhancement Program underway within the Justice portfolio) - \$11.6 million (8 per cent of the base contract amount); and
- cost of living adjustments as provided for in the contract - \$13.8 million (9 per cent of the base contract amount).

2.193 At the time of our review, Victoria Police had identified that further cost increases are likely to flow from some recent strategic decisions impacting on police services such as the Government's commitment to recruit an additional 600 police members. These additional costs had not, at that time, been quantified by Victoria Police.

2.194 Further costs are also likely to emerge following a proposed settlement between Victoria Police and IBM Australia Limited of a number of matters that are subject to formal dispute under the contract.

Customer satisfaction

2.195 The provider performs a monthly survey of the level of satisfaction expressed by Victoria Police personnel with the operations of help desk facilities. The provider's February 2003 survey of some 90 respondents showed that at least 75 per cent indicated that they were either satisfied or very satisfied with the facilities for almost all of the surveyed services.

2.196 The contract prescribes that a bi-annual customer satisfaction survey should result in more than 90 per cent of respondents rating prime services (i.e. excluding help desk services) as either satisfactory or very satisfactory. We were advised that these bi-annual surveys are not conducted.

2.197 **It is important that appropriate action is taken by Victoria Police to address this omission.**

Contractual disputes

2.198 As would be anticipated in a contract of such magnitude and complexity, a number of disputes have arisen during the contract term.

2.199 Victoria Police has implemented a process of regular meetings with representatives of the provider as a means of facilitating early resolution of issues. Some longstanding matters have been settled by the parties through this process. Some further matters have become formal disputes under the contract, involving the most senior officers within both organisations.

2.200 One matter that has been the subject of deliberation at meetings between the parties is the allocation of financial responsibility for certain software licenses. An external consultant's review of the use and licensing of certain software by various departments within Victorian Police identified, in March 2001, there were potential instances of unlicensed software. **Victoria Police immediately purchased the required licenses in order to rectify the situation at a cost of \$528 000. However, it did not raise the matter of which party had financial responsibility for those licenses at an issues meeting until May 2002. The subject was further considered at a meeting during November 2002 but was still outstanding at the date of preparation of our report.**

2.201 We have previously referred to the views expressed by an external specialist that much of Victoria Police's scarce resources had been absorbed in "firefighting" issues with IBM Australia Limited and that the relationship between the parties had become tactical rather than strategic in nature.

2.202 At the time of preparation of this report, a number of longstanding matters in dispute had been escalated, in accordance with the contractual dispute resolution procedures, to discussion at chief executive officer level.

2.203 The matters in dispute relate to the scope and nature of the technology upgrade program and which party has financial responsibility for certain desktop computer software. An in-principal agreement has been reached between the parties and has been reviewed by Victoria Police's solicitors and advisors. The agreement has also been approved by Victoria Police's Accredited Purchasing Unit. It now requires Ministerial approval.

2.204 **The proposed agreement takes into account a number of other matters not in dispute and requires a greater commitment, in financial terms, by Victoria Police than by the provider. The outworking of this exercise could, therefore, add to Victoria Police's estimate of future contractual costs.**

2.205 **Victoria Police should ensure that its future management strategies under the retendered contract minimise the number of disputes with its provider.**

Software license management

2.206 Pursuant to the contract, the provider is required to manage all software licenses and maintain a software and hardware register. An external consultant's review, during March 2001, of software licensing matters identified that the provider's software register was incomplete and inaccurate, and was not supported by appropriate documentation.

2.207 At the time of preparation of this report, Victoria Police was awaiting written verification from the provider that the previously identified deficiencies in the software register had been corrected.

Business continuity

2.208 Sound business continuity and disaster recovery procedures are important matters which underpin the reliable and effective provision of information technology services. Business continuity procedures ensure an appropriate level of services in the event of an unexpected business systems failure, while disaster recovery procedures seek to restore business critical services within specified time frames. The provider has contractual responsibilities in respect of both these matters.

2.209 Victoria Police carried out 2 in-house reviews of the provider's business continuity procedures during May and June 2002, which identified some deficiencies in the manner in which particular continuity procedures had been documented. It has raised this matter at issues meetings with the provider.

2.210 The provider was required under the contract to develop a disaster recovery plan within 12 months of the execution of the contract. The development of the plan required Victoria Police's agreement to the underlying strategy and subsequent contract cost implications.

2.211 Victoria Police advised that strategies for business continuity and disaster recovery procedures had been incorporated within a corporate-wide strategy developed to address concerns associated with the Year 2000 software issue.

2.212 However, while the provider had proposed a specific disaster recovery strategy in accordance with the contract, the process has not yet been finalised between the parties. Victoria Police has allocated funding to this task during 2002-03 to enable development of an agreed plan, including associated business continuity matters.

2.213 **This matter should be concluded promptly. Having uncertainty over disaster recovery arrangements is always undesirable, but for it to be present in a major information technology facility of government is clearly unsatisfactory.**

Current management direction of Victoria Police

2.214 In February 2003, the Minister endorsed the recommendation of the Chief Commissioner that the period of the outsourcing contract with IBM Australia Limited be extended for one year to February 2005 and that the contract be re-tendered before the end of the extended period.

2.215 The Minister, in taking this action, noted the accompanying advice provided by Victoria Police which indicated that its external specialist, who had found significant shortcomings in relation to the contract, had reported in June 2002 that it should be retendered at the earliest opportunity (which would be during the remainder of the contract's base period ending in February 2004). The Minister also noted that, based on the advice given by Victoria Police and supported by the Department of Justice, such action could not be done thoroughly within the remaining period of the contract.

2.216 With its decision to re-tender now made, Victoria Police has advised its focus is firmly fixed on ensuring that the various problems that have been experienced with the outsourcing contract, including the issues reported to it by its specialist, will be critically reviewed as part of its current preparation to retender the contract.

2.217 An important action taken to date by Victoria Police has been the development of a draft concept paper which:

- includes a 3 phase approach, comprising (1) consultation within Victoria Police and other stakeholder groups on business requirements and the preferred type of servicing arrangement, (2) an expression of interest process, and (3) the tasks involved from a request for tender stage through to contract signing and implementation;
- proposes a governance structure, including an inter-departmental stakeholder committee (with representatives of Victoria Police, the Minister for Police and Emergency Services, the Department of Treasury and Finance, the Police Association, the Department of Justice and a probity advisor) as well as a project director, project sponsor and project team (supported by an external consultant); and
- provides for inclusion of a fully costed business case and public sector comparator for consideration by the Government.

2.218 The early action taken by Victoria Police in compiling its draft concept paper is positive and indicative of the current management commitment within the organisation to ensuring that the problems that have been experienced with its outsourcing of information technology services are not replicated in the coming retender.

2.219 The cumulative beneficial impact of the various initiatives it has initially signalled through its planned concept paper should help greatly towards attainment of this goal. The organisational focus is rightly on the future and achieving best practice in the development and ongoing management of the retendered outsourcing of its information technology services.

2.220 We consider that the importance of information technology services to the efficiency and effectiveness of the delivery of police services suggests that nothing short of continuing adherence to best practice under the retendered contract should be an acceptable outcome.

RESPONSE provided by the Chief Commissioner of Police

I have duly noted the findings of the review of the information technology outsourcing contract, entered into by Victoria Police in 1999.

The outsourcing project for the provision of information technology and associated services is the largest single objective undertaken by the Victoria Police in its entire 150 year history. It is therefore with satisfaction that I note that a project of such magnitude has drawn what may be described as a favourable audit review.

I note the findings on the costing of this project and references to increases in contract costs. It is submitted that the increased value experienced was a situation that would have arisen with other tenderers; namely the unforeseen information technology infrastructure replacement and other changes due to Y2K compatibility requirements.

*With reference to the financial approvals, the contract does expressly delegate the power to enter into contract variation. In the contract the term “delegate” is defined and nominates the information technology steward as the delegate. Legal advice has been sought by Victoria Police which confirmed this conclusion. A recent Federal Court decision should be noted, involving **GEC Marconi vs BHP Information Technology**, in which it was held that parties can orally vary or waive the requirement for writing, and hence orally vary the contract. Respective ministers have not, at any time, rescinded the delegation within this particular contract.*

The conclusion that the cumulative value of the contract cost variation has exceeded 10 per cent is based on the assumption that the contract is a fixed price contract. This is incorrect as three separate legal opinions have been sought which conclude that the contract is a service contract with the rate determined in the market place at the time of the tender. Therefore the cumulative costs have not exceeded the conferral limit of \$55 million.

Another issue that I would like to draw attention to is the customer satisfaction rating where it is indicated that at least 75 per cent indicated satisfaction or above compared to the required level of 90 per cent or more. Of all the questions answered in the February 2003 survey (total 563), 492 were answered either Satisfied or Very Satisfied (rated 4 or 5). This represents 84 per cent of the total.

On the specific question: “Overall, how satisfied were you with the services provided”, 84 answered either Satisfied or Very Satisfied out of 91. This represents 92 per cent satisfied. The suggestion within the review that the customer satisfaction survey is, by contract, required each six months is held to question. Our current system of monthly surveys affords a far greater perspective of the operations and allows prompt remedial responses if required.

It is further noted that the review found that an enhanced governance framework would enable appropriate and timely responses to various management issues identified within the report. This issue, as well as the other allied issues arising from management practices will be addressed at the earliest opportunity.

These and all other concerns raised in your review with respect to the existing contract are duly noted and Victoria Police are committed to ensuring similar issues are not repeated in the future. All recommendations contained within the report for further improvement in the processes adopted by Victoria Police for information technology contracts will be addressed in full. This will provide continuance of initiatives mandatory in the provision of an effective, efficient and informed police service for the community of Victoria.

I would like to convey my appreciation to the members of the audit team for their exemplary efforts during this review. It is only with such effective liaison between the Victoria Police, the Auditor-General’s Office and other government agencies involved with the provision of information technology resources that we can ensure the optimum customer satisfaction and a world class technological tool for our police service.

STATUS OF THE FEDERATION SQUARE DEVELOPMENT

2.221 Federation Square is a major development project encompassing a range of recreational, cultural, commercial, multimedia and entertainment facilities. The Square is situated in the Melbourne central business district at the intersection of Flinders Street and Swanston Street.

2.222 Responsibility for oversight of the construction and day to day management of the Square rests with Federation Square Management Pty Ltd, a State-owned company.

2.223 Progress on the development of the Square has been subject to annual audit reviews since June 2000. My most recent report to Parliament on the subject was in June 2002, entitled *Report on Public Sector Agencies*. Key observations made in that report included:

- The estimated completion cost of the Square had increased significantly to \$451.5 million in February 2002. The company's then worst case scenario cost estimate identified further costs amounting to \$16 million which could bring the total estimated cost to \$467 million;
- The then current level of confirmed project funding of \$445.1 million did not completely cover the February 2002 cost completion estimate of \$451.5 million, leaving a funding shortfall of \$6.4 million; and
- The company had executed *Agreements for Lease* for 12 of its 20 tenancies and negotiations were well progressed with a further 7 prospective tenants. Negotiations with a potential tenant for the remaining tenancy had been unsuccessful at that time.

Summary of issues addressed in this report

2.224 The main points identified in this further update on the development of the Square are:

- formal opening of the public areas of the Square took place in October 2002 with a significant portion of buildings and works completed at that time;
- an increase of costs by \$21.8 million bringing the latest cost estimate to \$473.3 million for completion of the project;
- confirmed funding for the Square at February 2003 was some \$14 million less than the overall estimated cost;
- the company's cash flow projections indicate that additional funds will be needed from June 2003 to meet remaining project commitments; and
- from a management perspective, the company has made solid progress in attracting tenants to the Square, with 15 out of the 20 available tenancies now operational and an additional 4 expected to be operational during 2003.

2.225 Following a request by the company for additional funding, the Government approved conversion of a repayable advance of \$14.2 million to a non-repayable grant. Without this action, the shortfall in confirmed funding for the Square would have been significantly higher than the current shortfall of \$14 million.

2.226 Further, a temporary chief operating officer, nominated by the Treasurer, has been appointed to review the company's financial situation in respect of its project management and operational functions.

2.227 **This Government action is important as it is critical for the Square's satisfactory completion and its future operations that the rising costs and funding uncertainty associated with the final stages of the project be quickly resolved.**

Formal opening of Federation Square

2.228 Since my last report, the public areas of Federation Square were formally opened on 26 October 2002. This event signalled the completion of most of the major construction and base building works on the Square. The opening also marked the beginning of a major transition for the company from project construction manager to facility manager of an operational facility.



Federation Square, Melbourne, viewed from Swanston Street.

2.229 At the time of the formal opening of the Square:

- nine of the 20 commercial tenancies had commenced operations (an additional 6 tenancies became operational subsequent to the opening);

- fitout works were proceeding for a number of the commercial tenancies and other major areas of the Square, including the function centre, the Alfred Deakin Building (a multi-storey facility which also houses the Special Broadcasting Service and the Australian Centre for the Moving Image), the amphitheatre, the car park and the Ian Potter Centre (a multi-storey structure displaying the National Gallery of Victoria's Australian art collection); and
- building works were underway for the 2 commercial buildings, known as the Yarra and Transport Buildings, and the area leading from the Square's atrium to the car park.

2.230 At the date of preparation of this report, the fitout works for the function centre (now known as Zinc Functions), the Ian Potter Centre and the car park were complete and operational, while some fitout works for the Alfred Deakin Building were still underway. The company expects the base building works for the 2 commercial buildings to be completed by the end of April 2003, and major fitout works to be finalised by September 2003.

2.231 Between October 2002 and February 2003, measured attendances at the Ian Potter Centre had reached 734 300 while the Australian Centre for the Moving Image and the visitor information centre had attracted 496 000 and 264 600 members of the public, respectively.

Further increases in the project's estimated costs

2.232 Cost increases have continued to be experienced over the final stages of the project, with the company's most recent estimated cost to completion of the Square rising to \$473.3 million, at January 2003. This represents a further escalation in anticipated project costs of \$21.8 million from February 2002 and exceeds the company's then worst case estimate by \$5.8 million. Relevant details are set out in Table 2P.

TABLE 2P
INCREASES IN PROJECT'S ESTIMATED COST SINCE FEBRUARY 2002
((\$million))

| | | |
|---|-------|--------------|
| February 2002 estimated completion cost | | 451.5 |
| Building works (mainly for the Ian Potter Centre, the Australian Centre for the Moving Image, the Plaza, the 2 commercial buildings and the Atrium) | 15.4 | |
| Managing contractor fees and costs (\$11.7 million for building works and \$200 000 million for fitout works) | 11.9 | |
| Fitout works (mainly for the Ian Potter Centre and the Australian Centre for the Moving Image) | 2.9 | |
| Contingency (reflects the resolution of project variation claims) | (8.4) | 21.8 |
| January 2003 estimated completion cost | | 473.3 |

Note: The above estimated completion cost includes the costs of fitout of the Ian Potter Centre and the Australian Centre for the Moving Image, some of which is separately funded by the State.

Source: Victorian Auditor-General's Office.

2.233 The company advised that the recent increases in expected project costs are mainly due to delays in the completion of the project.

2.234 As mentioned in our earlier parliamentary reports, not all of the costs associated with the development of the Square are included in the estimated completion cost. For example, the costs of demolishing the former Gas and Fuel Corporation Towers and Princes Plaza amounting to \$5.4 million, which were met by the State, are not included in the final estimated completion cost figures.

2.235 At January 2003, \$428.5 million had been expended on the project.

Continuing cost risks for the Square

2.236 The company's quantity surveyors have progressively identified a number of major risks that could impact adversely on the latest estimated completion cost of the Square. These risks, which represent ongoing project management challenges for the company, involve the potential for higher costs arising from:

- cost variations associated with incomplete documentation;
- trade contract disruption and delay claims;
- managing contractor cost increases (due to further project delays);
- tenancy fitout costs borne by the project;
- consultants' fees and management delivery expenses;
- unplanned prolongation to completion of outstanding works leading to additional costs for the project;
- latent design defects;
- operator initiated changes (post-completion);
- poor or unco-ordinated workmanship; and
- failure to secure full reimbursement for costs of works undertaken on behalf of major tenants.

2.237 Cost risks do remain in relation to pending and anticipated contract variations and prolongation claims continue to exist, notwithstanding the completion of most of the building and development works on the Square.

2.238 Prolongation claims of \$9.5 million (submitted by trade contractors, for work disruption and loss of profit resulting from project delays) and unapproved contract variation claims amounting to \$13.9 million remain outstanding. A contingency sum has been provided in the current estimated completion cost to cover any expected payments arising from these claims, however, a shortfall in the contingency amount will be incurred, if the expected settlement outcomes are exceeded.

Increased funding shortfall

2.239 As illustrated in Table 2Q total funding confirmed to the company for the Square's development as at February 2003 amounted to \$459.3 million and included contributions from the State Government, City of Melbourne and the Commonwealth Government.

TABLE 2Q
CONFIRMED FUNDING AT FEBRUARY 2003
((\$million))

| <i>Source of funding</i> | <i>Total confirmed funding at April 2002</i> | <i>Change since April 2002</i> | <i>Total confirmed funding at February 2003</i> |
|-----------------------------|--|--------------------------------|---|
| Grants - | | | |
| State Government | 304.9 | 14.2 | 319.1 |
| City of Melbourne | 65.2 | n.a. | 65.2 |
| Commonwealth Government | 50.0 | n.a. | 50.0 |
| Company borrowings - | | | |
| Repayable advance | 14.2 | (14.2) | n.a. |
| Loan facility | 10.8 | 14.2 | 25.0 |
| Total | 445.1 | 14.2 | 459.3 |

Source: Victorian Auditor-General's Office.

2.240 The change in confirmed funding since our last report on the Square relates to a repayable advance of \$14.2 million which the State Government had previously provided to the company for the construction of the 2 commercial buildings; the Transport and Yarra buildings. In February 2003, the Treasurer approved the conversion of this repayable advance to a non-refundable grant in response to the company's December 2002 funding request to the Minister for Major Projects. The Treasurer also indicated to the company that, following this conversion, it could fully access its expanded loan facility of \$25 million.

2.241 The current level of confirmed funding of \$459.3 million, at February 2003, indicates a funding shortfall of \$14 million against the earlier mentioned estimated completion cost of \$473.3 million.

2.242 The company's cash flow projections, which assume that the full \$25 million borrowing facility will be drawn-down by April 2003, indicate that there will be insufficient funds to meet estimated project payments from June 2003 unless additional funding is provided by the State or generated from other sources such as private sponsorship.

Other funding issues requiring attention

2.243 In its December 2002 funding submission, the company advised the Minister for Major Projects that it was able to service only \$18 million of its \$25 million loan facility. In response to the company's concerns, the Treasurer advised that arrangements will be made for additional rental income from 2 government tenants, the National Gallery of Victoria and the Australian Centre for the Moving Image, to address this problem and deal with its immediate short-term financial issues.

2.244 The company's submission to the Minister also requested additional funding of \$7.8 million to cover a range of other costs which, in its view, required attention.

2.245 At the time of preparation of this report, the company's funding position was under review by the Department of Treasury and Finance and the Department of Infrastructure. In the interim, a temporary chief operating officer, as nominated by the Treasurer, has been appointed for the company to review its financial position with regard to both its project management and operational functions prior to consideration of any further funding by the State. The Departments of Premier and Cabinet, Treasury and Finance, and Infrastructure are currently identifying details of the specific tasks to be carried out by the chief operating officer.

2.246 **The current shortfall in funding for finalising the development of the Square, in conjunction with the prevailing project cost risk exposures, could detrimentally impact upon finalisation of the development of the Square and its future operations. We, therefore, recommend that the issue be resolved as a matter of priority.**

Delays in contractor payments

2.247 Some delays have occurred in the settlement of contractor claims for payment.

2.248 **Payment of approved contractor claims for the months of November and December 2002, and January 2003 had been delayed by up to 4 weeks due to cash flow management problems.** Ultimately, the company made 3 draw-downs during 2003, (\$2 million in January, \$8.8 million in February and \$7.2 million in March) against its loan facility to enable settlement of approved contractor claims.

Status of tenancies

2.249 The company has achieved substantial progress since our last report in finalising tenancy arrangements. Tenancy occupation at the Square commenced in September 2002 with the majority of tenants taking up occupancy during October and November, 2002.

2.250 Some 15 tenancies out of a total of 20 were operational at the time of preparation of this report. The company expects another 3 tenancies to commence operations during May 2003, and one further tenancy to commence during October 2003. Negotiations are continuing to secure another tenant for a significant area within the Yarra Commercial Building. The company advised that leasing documentation had not been finalised for 10 of the operational tenancies at the time of preparation of this report due to delays in fitout works. However, the company, as an interim measure, has entered into agreements for lease in respect of those operational tenancies. The company also has an opportunity to utilise vacant areas within the Eastern Shard, which is currently accommodated by various consultants involved in project management activities.

2.251 Tenancy activities are critical to the successful operation of the Square, as tenancy rentals constitute a principal source (88 per cent) of revenue for the company. However, as previously reported in April 2002, tenancy rentals in some instances are linked to tenant sales turnover and tenant outgoings are capped, which puts at risk the actual level of tenancy revenue that will be derived by the company. The commencement of tenancy revenue is also dependent upon the timely completion of the tenant's fitout works.

2.252 Our previous parliamentary reports on the Square have commented on the status of the title to the site, which had resided with the Victorian Rail Track Corporation. This matter was resolved on 19 July 2002, when the company was issued with a Crown Grant for the Federation Square site.

Programming of events at the Square

2.253 A variety of events have been organised at the Square since its formal opening in October 2002, including the Melbourne Festival, Mercedes Australian Fashion, Melbourne Jazz Festival, Screening of the Australian Open, and a range of public performances and private functions.

2.254 Forward planning of events is undertaken by the company through the procurement of events up to 12 months ahead of their performance and liaising with festival and events' organisers, as well as various artists to promote the use of the Square.

2.255 To date, free public events have dominated events and net operating deficits are projected from events to 2006-07. The aim of this deliberate strategy is to create a greater sense of interest, awareness and patronage at the Square.

2.256 Events programming could represent a potential source of additional revenue for the company, through both increased venue hire and associated positive secondary impacts on car parking and tenancy revenues, if a greater number of commercial events are staged at the Square.

Ongoing management of the Square

2.257 In addition to project management of the development of the Square, the company is responsible for its day-to-day operations including marketing and communications, event organisation, commercial services encompassing the car park, venue hiring, tenancy administration and maintenance of the Square. A number of major service contracts relating to security, car park management, cleaning, waste removal and recycling have been executed to facilitate operations.

2.258 The company significantly reduced its business plan financial projections for the years 2002-03 to 2006-07 during March 2003. While marginal positive cash flows from the operations of the Square are now projected for the longer-term, the amended projections indicate a negative cash flow position for 2002-03 of \$1.7 million. The company attributes these changes to delays in the opening of the Square and commencement of commercial activities.

2.259 The achievement of projected cash flows will be heavily dependent on a number of key variables, including car park usage levels and tenancy sales (where this determines rental income for the company). As previously outlined in this report, the Government has recently taken action to review the company's financial position.

RESPONSE provided by Secretary, Department of Infrastructure

The total project cost figure of \$473.3m is misleading. As identified in the State's response to the 2002 report, the estimated completion cost of \$473.3m is misleading as it includes funding for fitout works of \$43.4m for the National Gallery of Victoria's Ian Potter Centre Museum of Australian Art (NGV) and the Australian Centre for the Moving Image (ACMI). The budget for these works is separately allocated through each agency and has been provided progressively since 1998. Therefore, as at January 2003, FSM's estimated completion cost of the Federation Square project was \$429.9m.

In March 2002, the State provided the project with additional capital increasing the total combined funding from the State, Commonwealth and City of Melbourne to a total of \$394m. In addition the State made available to FSM a \$25m loan facility to be repaid from Federation Square's tenancy revenue. FSM also identified that it could obtain \$3.4m in sponsorship funding and \$1.2m from the City of Melbourne, a total of \$4.6m, to contribute to the cost of the project. Therefore, as at March 2002, the total funding available to the project from all sources was \$423.6m.

The Auditor-General's report has identified a cost increase of \$21.8m which is misleading. The \$21.8m includes \$17.6m against the project and \$4.3m against fitout costs for ACMI and NGV. Further, when analysing the \$17.6m, \$11.3m was anticipated and funded by the State for a worst case scenario and \$5m was identified by FSM which the State was not prepared to fund at that time, leaving a \$1.3m "actual" increase in the project's estimated completion cost since March 2002.

RESPONSE provided by Secretary, Department of Infrastructure - continued

In early 2002 FSM advised the State that it estimated the cost to complete the project would be \$396.3m plus \$16m in contingency costs – a total of \$412.3m. FSM further estimated that in a “worst case” scenario the project costs might increase by \$16.3m, a total of \$428.6m. As the State was not prepared, at that time, to provide an additional \$5m in contingency funding on top of the initial \$16m, the total project budget for the worst case scenario, as at March 2002, was \$423.6m. To provide for the initial contingency and \$11.3m to meet the worst case scenario, as identified above, a loan facility with a maximum capacity of \$25m was provided. The capacity to convert FSM’s existing \$14.2m repayable advance was also approved at that time as a measure to increase the loan facility to \$25m if the worst case scenario was required.

The total shortfall of \$14m identified in the report is misleading as it includes a \$4.3m funding dispute between FSM and 2 of its tenants (ACMI and NGV) regarding fitout costs. The remaining \$9.7m is as a result of FSM failing to obtain \$3.4m in sponsorship funding and a budget gap of \$6.3m beyond the funding made available by the State.

In response to FSM’s request for additional funding, the State has appointed a new chief operating officer. His role will include undertaking a full review of FSM’s financial position with regard to both operational and project management functions, prior to any consideration of further funding by the State.

ADMINISTRATION OF STUDY ASSISTANCE BY GOVERNMENT DEPARTMENTS

2.260 The provision of study assistance, through paid leave and financial support, aims to encourage employees to undertake further formal education to enhance their skills and knowledge and, thereby, increase the capacity of a department to meet its strategic objectives. Study assistance represents a major investment for departments and a significant benefit to the individual.

2.261 There is no overarching policy framework for the provision of study assistance within the Victorian public sector. Study assistance is made available at the discretion of individual government agencies, which are responsible for formulating their own administrative processes.

Key central government agencies

2.262 The *Public Sector Management and Employment Act 1998* devolves significant employment powers and responsibilities to government departments. In departments with decentralised operations, employment and training assistance powers are further devolved to regional area managers.

2.263 The Commissioner for Public Employment was established in 1998 and is supported administratively by the Office of Public Employment. The Office of Public Employment gathers work force statistics from Victorian public service (VPS) organisations to facilitate reporting on the application of the employment and conduct principles contained in the *Public Sector Management and Employment Act 1998*. Until 2002, the Commissioner was responsible for service-wide people management initiatives, including various training and development programs.

2.264 In 2002, these responsibilities were transferred to the Office for Workforce Development in the Department of Premier and Cabinet. One of that Office's key objectives is to provide a focal point for responses to cross-departmental and service-wide work force development and mobilisation issues. It has assumed responsibility for service-wide work force data collection, analysis and planning associated with the development of a career framework and structure for the VPS.

Australian and New Zealand Graduate School of Government

2.265 A recent initiative by the Governments of Australia, New Zealand, Victoria, New South Wales and Queensland, in conjunction with 10 university and business school members, has been the establishment of the Australian and New Zealand Graduate School of Government. This school will offer masters level programs in public administration and specialised programs for emerging leaders in the public, government-related and not-for-profit sectors, focusing on the critical elements of public policy and management. The first student intake is planned for May 2003.

2.266 At the date of preparation of this report, Victorian Government departments have committed funds totalling \$1.16 million for 40 scholarships for staff to undertake Master of Public Administration programs at the School.

Audit objective, scope and methodology

Audit objective

2.267 The objective of this review was to assess the extent of study assistance provided by departments to their employees and the adequacy of arrangements established to administer such assistance.

Audit scope and methodology

2.268 For the purposes of this audit, we surveyed all government departments and selected for in-depth examination the study assistance policies and guidelines of 3 departments. These departments were:

- a central government agency (Department of Treasury and Finance);
- a non-central government department with a predominantly Melbourne-based administration (Department of Innovation, Industry and Regional Development); and
- a non-central agency with a devolved structure throughout regional Victoria (Department of Human Services).

2.269 These 3 agencies were not selected for the purpose of reaching conclusive results for the entire VPS, but were intended to illustrate a range of study assistance policies and management practices. At each selected department, the study assistance policies and management processes were examined to identify strengths and weaknesses. Audit then conducted site visits to central and selected regional offices to ensure that any study assistance provided to employees complied with the departments' own policies and guidelines.

2.270 We also obtained from the Commissioner for Public Employment and staff of the Office for Workforce Development information on the extent of involvement by central government agencies in the strategic development and administration of study assistance.

Audit assessment criteria

2.271 We expected departments to have:

- clear, communicated policies and guidelines for the approval and monitoring of study assistance in the context of the department's key strategic priorities;
- processes for study assistance applications which incorporate assessment criteria to address departmental priorities, business impact and equity issues, as well as the applicant's performance, potential and commitment;
- clear relevance of the assisted course of study/qualification attainment to the work responsibilities of the applicant;
- administrative processes to ensure the monitoring of ongoing eligibility for assistance and progress with studies undertaken; and
- mechanisms for the collection and evaluation of management information to facilitate periodic assessment of the cost-effectiveness of study assistance.

Centrally-held data on study assistance

2.272 Neither the Office of Public Employment nor the Office for Workforce Development collect data on the extent and cost of study assistance from departments.

2.273 However, the Office of Public Employment undertakes a census of government employees and consolidates information from a self-assessment questionnaire it forwards to departments. To gain a perspective on the study assistance in the VPS, we examined the latest census, conducted in 2001. It was distributed to 30 284 VPS employees (99 per cent of the total VPS workforce 2001) and the overall response rate was 45 per cent. It found that:

- approximately 14 per cent of the VPS work force was currently undertaking work-related formal education; and
- of these employees, 62 per cent received study assistance from their employer.

2.274 The most common type of assistance received was the payment of fees or a scholarship (32 per cent), followed by study or examination leave with pay (28 per cent).

2.275 We consider there is scope to widen the central overseeing role in this area in a way that would complement the existing delegated framework. Central strategies, which would also be relevant to other learning and development actions, could include:

- periodic analysis of departmental experiences to identify success factors and to disseminate better practice guidance;
- articulation of specific skill requirements flowing from contemporary directions in government policy, e.g. Growing Victoria Together, Public/Private Partnerships etc., that could influence departmental priorities on study assistance; and
- evaluation of VPS-wide trend data on study assistance to assess the effectiveness of past strategies and to support future decision-making in the area.

Policies and guidelines

2.276 There should be clear, communicated policies and guidelines for the approval and monitoring of study assistance in the context of a department's key strategic priorities.

2.277 The policies and guidelines of all selected departments share common features in that:

- there is no automatic entitlement to study assistance, which can take the form of study leave, whether paid or not, and/or financial reimbursement of course fees, training materials etc.;
- approval is subject to formally specified criteria;
- assistance must add some value to the department; and
- study assistance is described in the context of the department's training and development objectives.

2.278 We found that at all 3 selected departments, policies and processes for study assistance were clearly documented, referred to departmental objectives, policies and strategic objectives, and were made available to all managers and staff.

Approval processes

2.279 There should be approval processes for study assistance applications that incorporate criteria to address:

- the priorities of the department or business unit;
- the applicant's performance and potential;
- the impact of the applicant's absence on the departmental workload;
- equity issues;
- the financial cost of assistance and leave, including consideration of alternatives; and
- any commitment of the individual to the department following completion of the assisted study program.

2.280 The approval processes of all 3 selected departments satisfied the audit criteria outlined above. In general, the departments required that the longer the study leave and the greater level of financial assistance given, the higher the level of performance, capability and commitment expected of the individual. Individual departmental approaches to the management of study assistance were particularly diverse. This reflects their various sizes, administrative structures, strategic and other priorities, all affecting their approaches to staff recruitment, training and development.

2.281 Assessing the assisted course of study against the priorities of the agency showed broadly consistent criteria across the 3 departments.

2.282 While 2 of the departments emphasise the primacy of the department's business needs and objectives in their assessment criteria, the third department allows individual benefit and State Government priorities to be equal criteria for full-time study leave. Its policy states that full-time study leave may be granted where the study:

- results in a direct and significant benefit to the department or
- is directly related to the key priorities of the Government; or
- is the most appropriate form of training and development for the individual; or
- is aligned with the overall training and development priorities and needs of the work area; and
- results in the provision to the department of highly demanded skills, consistent with departmental and local priorities (for full-time study leave with pay).

2.283 In relation to the applicant's current performance and potential, one department required that applicants for part-time study leave should have at least one year of satisfactory employment in the VPS, but at least 2 years of satisfactory and continuous employment for full-time study leave without pay. At another department, study assistance may be available to staff who are seeking tertiary qualifications, have a consistent record of at least *effective* performance and exhibit the potential to move into more senior positions. To qualify for post-graduate, part-time scholarships, the applicant requires a good performance record with consistent ratings of *commendable* or *outstanding*. To qualify for assistance under the Executive Development Scheme, the applicant needs to demonstrate the above qualities and additional managerial and leadership capability.

2.284 The willingness to require an assisted employee to enter into a Deed of Bond Agreement with the department for full-time study leave with pay also varies. Our review found that:

- one selected department did not require any Agreement;
- another department required bonding to the Victorian public sector or the department for 2 consecutive years for each year on leave, or its equivalent (pro-rata); and
- the third department required bonding to the Victorian public sector (not the department) for 18 months for each year or part year.

2.285 Audit visits at the head offices of 2 selected departments and one regional office of the third selected department found that documentation supporting the approval and monitoring of study assistance payments to a sample of staff complied with each department's policies and guidelines. At each location, the selected applicants' personnel files contained documentation required by departmental policies and guidelines supporting the approval decisions of management and proof of entitlements to progressive reimbursement claims.

Course relevance

2.286 The course of study assisted should be relevant to the work responsibilities of the applicant.

2.287 We examined the courses/qualifications for which study was assisted and the functions and strategies of the department and business unit as outlined in their annual reports. The courses examined ranged from graduate and post-graduate certificates, diplomas, degrees and masters degrees, to specialised qualifications awarded by industry bodies. All courses and qualifications were applicable to departmental functions and relevant to the assisted individuals' work responsibilities.

Monitoring of eligibility

2.288 Administrative processes should ensure the monitoring of ongoing eligibility for assistance and progress with studies undertaken.

2.289 All 3 departments had processes in place to ensure supporting documentation of successful progress or completion was provided prior to reimbursement of fees and study expenses, e.g. proof of enrolment and results of study.

Determining the cost-effectiveness of study assistance

2.290 Departments should have management information systems and evaluation mechanisms in place which enable the department to:

- determine how successful study assistance outcomes have been in assisting agencies to achieve business outcomes; and
- demonstrate the cost-effectiveness of their investment in study assistance.

Management information

2.291 There has been a progressive transfer of responsibility, authority and accountability for the management of funds and other resources, including human resources, to area managers at departments operating in regional areas. The intention is to facilitate flexibility and enable managers to make staffing decisions about the type and number of staff they recruit and the best way to deploy, manage, develop and reward those staff.

2.292 At one department, managers are required to designate a portion of their operating budget specifically to implement staff development plans in accordance with work unit priorities. However, study-related leave is only recorded on the human resources management system when managers provide the department's VPS Personnel Services Branch with the details of the staff member's absence. As only a small proportion of study leave details are recorded on the management system, the data available from the department is only indicative.

2.293 At 2 departments, we found no evidence that study assistance data was aggregated for management reporting purposes. While the relevant data was made available for the purposes of this review, the lack of an established reporting framework meant that it was not possible to check the accuracy of the information provided by comparing it to pre-existing management reports.

Evaluation mechanisms

2.294 In October 2002, Parliament's Public Accounts and Estimates Committee expressed concern about certain issues that could potentially undermine the capability of the public service. These issues included:

- an urgent need to develop the human resources and work force planning capability of the public service; and
- a need for high quality research to investigate issues such as what being an employer of choice means in a public service context, including training and development opportunities offered to attract and retain suitably skilled employees¹.

2.295 We examined the evaluative frameworks for study assistance at the 3 selected departments in the light of the developmental and research needs identified by the - parliamentary committee, and the individual departments' strategic attraction and retention needs.

2.296 At one of the departments examined, the investment in study assistance, and corresponding risk to the department, is comparatively low. Financial support is generally limited in its application to the reimbursement of the cost of a single subject or semester, with a pre-set cap on the maximum amount to be reimbursed per employee. Accordingly, the department does not evaluate study assistance outcomes as it considers such action to be too resource intensive, complex and not cost effective.

2.297 In the remaining 2 departments, training and development strategies, with study assistance as a component, were evaluated using tools such as employee satisfaction surveys. One of these departments expressed the view that such high level evaluation was sufficient for a review of study assistance programs.

2.298 We requested from the 3 departments information on the likely contribution of study assistance programs to the attraction and retention of employees, particularly those that are in short supply or for whom there is significant competition with other sectors. No information could be provided by the 3 departments.

Conclusions and recommendations

2.299 **It is pleasing to report that each of the 3 departments examined has in place:**

- policies and guidelines for the approval and monitoring of study assistance;

¹ See Public Accounts and Estimates Committee, 2002, *Report on the Review of the Victorian Public Service*.

- approval processes for study assistance applications that include appropriate criteria such as consistency with departmental priorities, business impact and equity issues, as well as the applicant's performance, potential and commitment;
- mechanisms to ensure that assisted applicants are undertaking courses that are relevant to their work responsibilities; and
- procedures to monitor the progress of assisted applicants in their studies and to assess their ongoing eligibility for study assistance.

2.300 However, the 3 departments were not well positioned to demonstrate the success of their investment in study assistance and its contribution to organisational effectiveness or its efficacy compared with other forms of staff development. This is due to the absence of an evaluative framework supported by adequate management information systems. It is difficult, therefore, to determine if the departmental policies for the provision of study assistance are appropriate.

2.301 We recommend that agencies monitor and evaluate study assistance as an important element in staff training and development programs.

2.302 At the whole-of-government level, there is only limited information available on the extent and cost of study assistance in the VPS. The Office for Workforce Development has advised that it was considering policy guidelines that will facilitate the collection of work force data. It has indicated the policy framework would be dependent on:

- the availability of appropriate infrastructure and software at all departments;
- an agreed set of data fields allowing meaningful comparison; and
- departmental policies to support data collection and monitoring.

RESPONSE: *provided by Secretary, Department of Human Services.*

The Department will put into place a simple evaluative framework for study assistance in the future.

RESPONSE: *provided by Secretary, Department of Innovation, Industry and Regional Development.*

The recommendation in the review that agencies monitor and evaluate study assistance is supported by the Department. This is an issue that should be considered on a whole-of-government basis as promotion and retention within the Victorian public service are possibly key evaluative mechanisms. The work being undertaken by the Office for Workforce Development on the collection of data on study assistance may be able to be expanded to incorporate this.

INTERNET SECURITY MANAGEMENT

2.303 The use of internet technology to improve the delivery of services within the Victorian public sector has progressed substantially over recent years. The increased use of the internet was supported by the Victorian “Government Online” program, which was established in 1996 and aimed to have all suitable Victorian Government services on line by the end of 2001.

2.304 At December 2001, the Government estimated that 86 per cent of all budget sector products and services deemed suitable for on line delivery were available on line to the public and businesses. More specifically, within the inner-budget sector, the Government estimated that 105 agencies had developed an on line capacity for their services and completed 659 separate projects as at December 2001¹. Outside of central government, most local government councils, and other Victorian government organisations had also initiated on line programs.

2.305 The level of complexity of internet services utilised by agencies differs greatly, particularly in relation to the type of website operated. Some sites provide only static information about a particular agency whereas others allow some form of interaction, such as making payments for goods and services or accessing corporate databases. Outsourcing the hosting or management of websites to third parties is also common among Victorian Government agencies.

2.306 While there are benefits to taxpayers from Victoria’s increasing on line services, there are also additional risks faced by public sector agencies from having an increased internet presence. These risks may impact on the confidentiality, integrity and availability of corporate systems and data as well as the privacy of information, and include:

- unauthorised access to internal systems;
- disclosure or alteration of confidential or sensitive agency data;
- denial-of-service attacks over agency systems resulting in an inability for legitimate users to access these systems; and
- defacement of agency websites.

2.307 The adequacy of security and related control mechanisms over agency internet systems and services is therefore critical in safeguarding IT operations and minimising any, operational, financial, legal or reputational damage that could arise from the exploitation of any vulnerabilities.

¹ Government Online: A Report Card 1996-2001.

Scope of review

2.308 We undertook a review to evaluate the adequacy of internet security practices in 4 Victorian Government agencies. These organisations differed in size, nature and the sector within which they operated. While each agency supported at least internet email and web browser access for their staff, other services varied and, in a number of cases, included the operation of transactional websites linked to internal systems. At 2 of the agencies selected, hosting of web services was outsourced to third party IT providers. The operations of these providers were also subject to our review.

2.309 In assessing internet security practices, the review addressed both organisational policies and procedures in relation to information security, as well as security risks in the configuration of a sample of specific internet devices (e.g. firewalls and routers) and servers at each agency.

Overall conclusion

2.310 Securing agency systems from the risks present through the use of the internet is a continuous process that requires planning and expertise, particularly given the ongoing and rapid developments in technology. With the increased focus on the provision of on-line services within the Victorian public sector, agencies must ensure that they have implemented an appropriate framework for the management and implementation of security both organisationally as well as for their internet-based systems.

2.311 Overall, we found that there was scope to improve the current security practices over the internet-related activities at the agencies examined. Areas for improvement included the need for:

- formally assessing the threats and risks that relate to internet activities and evaluating existing security measures to ensure that they adequately mitigate these risks;
- developing and implementing comprehensive policies and procedures in relation to information security;
- developing and implementing strategies to regularly log and monitor critical security-related activity; and
- appropriately securing critical systems prior to implementation, and ensuring that security-related patches (i.e. vendor supplied software updates) are installed in a timely manner.

2.312 While the findings of this review relate to the specific agencies examined and are, therefore, not representative of internet security vulnerabilities across the entire Victorian public sector, they are indicative of security exposures that may exist within other agencies. It is, therefore, important that all Victorian public sector entities consider the findings and recommendations within this report as they relate to their operations.

2.313 The agencies subject to our review have responded positively in relation to taking the necessary action on the specific internet security issues raised with them.

Risk assessment

2.314 A key aspect of an organisation's overall information technology security management framework should be the conduct of formal threat and risk assessments of key information technology systems and data. These assessments should seek to evaluate the threats to systems and data, their likelihood of occurring and the potential consequences or harm to the organisation should such data or systems be compromised.

2.315 We found that none of the 4 agencies reviewed had conducted a comprehensive threat and risk analysis of their key information systems and data, including those related to internet services. Without such a process in place, the information security practices and level of protection implemented by an agency may not be appropriate for their current internet activities.

2.316 We recommend that agencies conduct an initial threat and risk assessment of their key information systems and data. Assessments should then be conducted periodically to determine if the risk environment has changed. Agencies should also ensure, as an integral element of system acquisition and change management processes, that all newly developed or acquired systems or technology are evaluated.

Information security policies and procedures

2.317 Agencies should develop policies and procedures to govern the management and implementation of information security. Effective security management is critical in supporting an agency's operations, not only in relation to IT but also in relation to its key business processes, physical assets and staff.

2.318 We found that the coverage and quality of planning and documentation in relation to information security varied widely between agencies. For instance, 2 of the selected agencies had developed formal information security policies, whereas the other 2 agencies had developed only limited documentation in this area. We considered the risk of not having such procedures in place at the 2 agencies to be high, given the size and nature of their operations.

2.319 We also identified a need within all of the agencies reviewed to develop procedures for reporting and handling security incidents, and at 2 of the agencies to implement training and awareness programs to educate staff on information security practices and requirements.

2.320 Agencies examined had adequately documented guidelines for the acceptable use for internet and email services provided to staff. These included requirements for staff to formally acknowledge their acceptance of such requirements.

Business continuity management

2.321 Business continuity planning should be implemented to assist in the recovery of critical business operations following an interruption to, or failure of, critical business processes. One aspect of business continuity management is the development and documentation of a formal disaster recovery plan to assist in the recovery of key information systems.

2.322 Disaster recovery plans for internet services should include detailed recovery procedures for a range of potential interruptions to services, such as physical damage to computer facilities or damage through the introduction of viruses. Other aspects of an organisation's plans should include:

- current staff emergency contact details;
- arrangements for the provision of alternative processing sites, if the services are assessed as being critical to the agency;
- education of staff on the plans;
- formal testing of the procedures; and
- a process to update the plans on a periodic basis or when significant changes to the organisation's IT environment are made.

2.323 We found that while all agencies had developed backup and recovery procedures, none of the agencies reviewed had an adequate disaster recovery plan for their internet and email services, including their websites. Without proper plans, agencies may have difficulty in recovering these activities on a timely basis.

2.324 With the increasing reliance on on-line systems to provide services to the public, we consider that development of comprehensive disaster recovery plans by agencies for these services is critical.

Anti-virus procedures

2.325 Computer viruses, which are often transmitted via the internet, can cause major damage and interruption to an agency's network and systems. Formal procedures for the protection of organisational systems from the impact of viruses are critical to the successful running of agency IT operations. Anti-virus software is one of the mechanisms used to ensure viruses are detected and eliminated before infecting internal systems. This software should be enabled on all key servers and desktop computers within an agency, as well as used to scan all files transferred from the internet (e.g. via email).

2.326 Due to the continual emergence of new viruses, the mere acquisition of anti-virus software is not enough to protect agency systems. Processes should also be in place to ensure that anti-virus software is updated on a regular basis (preferably daily), to ensure newly created viruses can be detected and dealt with immediately. While various automated and manual mechanisms exist to give this assurance, better-controlled systems include those that are automated and receive updates frequently from anti-virus software providers.

2.327 All agencies subject to our review had implemented anti-virus software. However, we identified specific weaknesses in anti-virus strategies at 3 of the agencies. These included:

- the lack of automated updating of anti-virus software in one agency, and inadequate frequency of updates in another;
- specific incidents of servers with no anti-virus software installed at one agency; and
- a failure in one agency to scan internet email attachments prior to release to users.

Outsourced arrangements

2.328 Two of the agencies reviewed had outsourced the hosting of their websites to external organisations. While the management of content on the websites was conducted by in-house staff, the security and operation of the IT environment within which the website was hosted, was performed by these external organisations.

2.329 While we expected that outsourcing contracts and associated arrangements should address the risks and security controls and procedures for information systems, there were few security requirements incorporated within the contracts entered into by the agencies.

2.330 All agencies must ensure that security is appropriately addressed within contracts or agreements with external providers. At a minimum, contracts should include specific reference to defining security responsibilities, specifying the means of maintaining the integrity and confidentiality of information, defining minimum physical protection over computer facilities and providing the right for independent audit of the third party operations.

Network architecture

2.331 An organisation's computer network architecture relates to the layout and design of its communications system, which is broadly made up of servers, desktop computers, a network operating system and communications links. The network architecture implemented within agencies is critical to implementing effective security and mitigating the risks present from the internet. Key controls in relation to architecture include the appropriate placement of firewalls and internet accessible servers, as well as restricting access to internal, trusted networks.

2.332 Overall, we found that the high-level network architecture of the agencies subject to our review was appropriate with regard to their internet activities. Minor security enhancements were identified within all of the agencies.

2.333 We recommend that agencies formally evaluate their network architecture from a security perspective upon implementation and as part of any significant changes in network infrastructure or design.

Wireless networking

2.334 Wireless networks allow users to connect to a network through a wireless (radio) connection. These networks can reduce the time and cost of connecting new users to the network and provide flexibility as to where a user can access internal systems. While the networks provide greater flexibility, they can also present substantial security risks to agencies, as intruders may not need to physically connect to an organisation's computer network to gain access to internal systems. Also, various security vulnerabilities are known to exist within some existing wireless technologies.

2.335 Wireless networks were at various stages of implementation at 2 of the agencies reviewed. **We identified several weaknesses in the intended configuration and architecture of both those wireless networks which, if implemented, would increase the risk of unauthorised access to the agencies' internal networks and systems.**

2.336 All agencies should perform a formal risk assessment prior to establishing wireless infrastructure as part of their computer networks, and seek expert advice in relation to the adequacy of this security. Mechanisms to secure these networks include ensuring all security options within the wireless technologies are installed and enabled, as well as implementing additional layers of security and encryption over wireless connections.

Firewall management

2.337 A firewall is a system designed to prevent unauthorised access into, or out of, a private computer network. In the context of the internet, firewalls are generally used as the primary mechanism to separate an internal network from the internet. As the first line of defence, proper management and configuration of these devices are essential.

2.338 In addition to appropriately configuring firewalls to assist in preventing unauthorised access, agencies should develop policies and procedures for the administration of the devices, including procedures for:

- changing firewall access rules;
- upgrading firewall software;
- logging and monitoring of activity; and
- backup and recovery of the firewall.

2.339 We found that all of the agencies reviewed had firewalls implemented within their IT environments. However, we identified a mix of practices in relation to firewall management. In particular, 2 of the agencies reviewed had not yet developed formal procedures for the management of their firewall but undertook a more informal approach in their operation and control. This lack of formalisation increases the risk of the firewall not adequately protecting the agency from internet threats.

2.340 We also identified potential for improvement within the configuration of firewalls sampled within 3 of the agencies reviewed.

Web applications

2.341 Agencies should implement processes to ensure that management of website content and applications are controlled and secure.

2.342 These control processes should include:

- version control over website content and applications;
- security implemented over software programs used to change and update website content or databases;
- formally documented system development, testing and migration procedures;
- implementation of secure coding practices within web applications;
- regular backup of website and system data;
- appropriate logging and monitoring of web activity; and
- use of appropriate encryption techniques, if accepting confidential information over the internet, including customer details and credit card payments.

2.343 Within the sample of web applications examined at the agencies operating transactional websites, we generally found that there were adequate procedures over their management and support. Where these systems included the transfer of confidential information, including credit cards over the internet, we found that appropriate protection in the form of data encryption techniques were used.

Logging and monitoring

2.344 The implementation of appropriate logging and monitoring processes for agencies is critical in ensuring that security events are identified and detected in a timely manner. Without such practices, should a security event or breach occur, it might not be possible to adequately detect this activity. This is even more critical for systems connected to the internet such as web and email servers.

2.345 All 4 agencies subject to review had not developed appropriate strategies to monitor security activity over web applications and other key systems. While logging and monitoring of activity were generally conducted, this was undertaken on an adhoc rather than a regular and planned basis.

Security over internet devices and servers

2.346 All critical servers and devices within an agency should be tightly controlled and secured prior to being implemented. This is particularly critical for those that allow access from the internet or provide an internet security function. Without this protection, systems may operate with vulnerabilities that could allow an attacker to gain control of the device and thereby access sensitive or confidential information.

2.347 “Hardening” from an IT security perspective refers to the configuring of a system to operate in a more secure state. Most vendors provide specific guidelines on “hardening” their systems. Typical procedures involved in this process include:

- restricting the software and services running on a system to only those that are required;
- regularly installing vendor security patches and updates to all the components of the system such as the operating system and web application;
- ensuring that software programs that allow users to perform sensitive or powerful system functions are not installed on the system;
- ensuring passwords to these systems are strong and changed regularly; and
- restricting access and use of user accounts that grant high levels of access to the entire system.

2.348 A detailed technical examination of a sample of web servers, email servers and other internet and network devices was conducted at each agency included in our review. **We identified a range of weaknesses in the configuration and security of the sampled servers and devices within all of these agencies. Some of these vulnerabilities were considered a high risk to the security over those systems. Many of these security weaknesses were a result of the agency not appropriately “hardening” the systems prior to implementation and/or not allocating the level of resources required to update security patches and test security on a regular basis.**

RESPONSE provided by Acting Secretary, Department of Infrastructure (Multimedia Victoria)

Multimedia Victoria (MMV) currently has the responsibility for Information Technology and Telecommunications (IT&T) policy across the inner-budget sector and has promulgated policies in recent years addressing areas within the scope of your review.

The Victorian public sector has taken a leading role in providing many of its services on line, via the internet, and, as such, has exposed its IT&T systems and data to not only local but international threats. It is, therefore, timely that your Office undertook the review and although the scope of the review was restricted to 4 agencies its conclusions will be a valuable reminder and security datum for all agencies.

The scope of your review is directly addressed by 2 of the IT&T policies, i.e. the Information Security Policy (IT&T-14) and the internet Policy (IT&T-22). IT&T-14 is based on International and Australian Information Security Standards, while IT&T-22 is based on best practice at the time of promulgation. In addition to these policies, MMV commissioned and distributed to all agencies a supplementary publication titled “IT Network and Application Security Best Practice Statements”.

RESPONSE provided by Acting Secretary, Department of Infrastructure
(Multimedia Victoria) - continued

In view of your findings, and the preliminary results from other partially completed security review currently being conducted by MMV, it is an appropriate time to reinforce and raise IT&T security awareness across the public sector. When the final results of the testing program are available in June 2003, MMV will consider the introduction of an awareness program for executives and senior employees of the public sector.

STATE LIBRARY REDEVELOPMENT

2.349 For many years, the State Library of Victoria shared a site in the central business district of Melbourne bounded by Swanston, Latrobe, Russell and Little Lonsdale Streets with the Museum Board of Victoria.

2.350 In 1985, a proposal to upgrade existing facilities on the site was announced to create additional space for both the State Library and the Museum. Architectural consultants, a project coordinator and quantity surveyor were appointed to undertake work on the redevelopment proposal.

2.351 In 1988, the proposal was abandoned with a decision to redevelop the site solely for the State Library of Victoria (the Museum would be moved to a different location). In August 1988, a master plan for the new State Library redevelopment project was prepared which aimed to deliver larger public service areas and greatly enhanced library facilities. These facilities would include technologically advanced information services, more display spaces for the library's collections and temporary exhibitions, and improved working conditions for library staff. In line with this revised plan, construction commenced in 1991 at a total budgeted cost of \$187 million.

2.352 The project consists of 3 phases, namely:

- Phase 1 – refurbishment of the La Trobe Building, the North Link and Palmer Hall, construction of La Trobe Infill Building, and the North West and North East Courtyards;
- Phase 2 – refurbishment of Monash Hall, Stawell L2 South, Dome Building, construction of South West Courtyard, South Link Building and South East Courtyard. Other works were to include an upgrade of the Swanston Street forecourt, reconfiguration of the Swanston Street entry foyer and changes to the La Trobe building level 2A and entry lobby; and
- Phase 3 – refurbishment of McCoy Hall, McArthur Gallery, Swinburne Hall and Northwest Wing. This phase is still to be completed.

2.353 My Office examined Phase 1 as part of our April 1997 *Special Report No. 48 – Major Civic Projects*. That examination found that:

- The project had experienced substantial delays due, in part, to unknown conditions on the site and the age of the buildings. Extensions of time had become an ongoing characteristic of the project; and
- It was uncertain whether the remaining scope of works could be completed within the initial budget.

2.354 This audit brings our assessment of the project up to date.

Oversight of project

2.355 The Office of Major Projects (within the Department of Infrastructure) manages the project on behalf of Arts Victoria (the Government's central arts agency) and the Library Board of Victoria.

2.356 A difficult feature of managing the redevelopment has been that the Library, Museum and the National Gallery of Victoria have occupied the site and continued to operate during redevelopment works. At times, this situation has required the temporary relocation of parts of the Library's operations off-site or elsewhere within the buildings.

2.357 A project control group, appointed by the Minister for Major Projects, has responsibility for oversight of the redevelopment. This group comprises representatives from Arts Victoria, the Library Board of Victoria and the Office of Major Projects. The project control group is responsible for:

- advising the Minister on the adequacy of the proposed brief, the redevelopment program and budget;
- reviewing the design at strategic points during the redevelopment;
- examining major proposed changes to scope; and
- ensuring all necessary approvals are in place prior to any direction to proceed with implementation.

2.358 Our review found that the oversight arrangements over the redevelopment provide for effective monitoring of the project.

Adequacy of tendering arrangements

Appointment of architect, project co-ordinator and quantity surveyor

2.359 Our introductory paragraph mentioned that an architect, project coordinator and quantity surveyor were appointed in 1986 for the initial redevelopment proposal involving both the State Library and Museum Board of Victoria.

2.360 The same parties were appointed for the new State Library redevelopment project. **These appointments were made without further tender, on the basis of the experience and detailed knowledge gained by the parties from their work on the earlier project.** We consider that, in the circumstances, this approach was defensible.

Selection of construction contractors

2.361 Each phase of the redevelopment incorporates a number of construction stages. For each construction stage, tenders are invited from 6 firms identified by the project coordinator as having the capability and experience to undertake the required works. The project coordinator assesses the tenders and provides a "preferred tenderer" recommendation to the Office of Major Projects.

2.362 The tenders are assessed mainly on price, although human resources, site experience and conformity with the tender document are also considered.

2.363 **The prevailing legislative framework does not require the Office of Major Projects to seek public expressions of interest for major construction projects. Nevertheless, it is our view that a public invitation for expressions of interest is desirable from the perspective of ensuring that the greatest possible range of potential tenderers is identified for each stage of construction.**

2.364 The Victorian Government Purchasing Board within the Department of Treasury and Finance has developed guidelines to assist public sector agencies in the conduct of tender processes, including the evaluation of tenders. In particular, the guidelines recommend that tenders be evaluated using a weighted analysis technique, whereby each measurable criterion is assigned a weighting in the form of points and/or percentages. The tender receiving the highest weighted score is prima-facie the most attractive offer. Consideration is then given to cost, which is not weighted. Using this technique, evaluators have to assess whether a higher point score justifies paying a higher price, which necessarily involves a value for money judgment.

2.365 Our review concluded that the tender assessment process for construction contracts did not comply with an important aspect of the Victorian Government Purchasing Board guidelines. Individual scores were not assigned to each of the evaluation criteria, nor were overall scores established for each tender. Instead, the primary focus of tender selection was the price quoted in the tender.

2.366 **We recommend that any remaining tender processes be managed in a manner consistent with the published guidelines.**

Latest time and cost projections

2.367 The redevelopment of the State Library was estimated to cost \$187 million in 1991. It was due to be completed by 2001. In 1998 the Government provided a further \$3.7 million for the restoration of skylights in the McCoy Hall and McArthur Gallery, bringing approved funding at that time to \$190.7 million.

2.368 As at March 2003, \$140.4 million had been expended on the project.

2.369 **The Office of Major Projects now expects the project to be completed in 2005-06 at a cost of \$226.6 million, around 4 years after the initial forecast completion date and around \$36 million greater than the earlier cost estimate.**

2.370 That Office attributes the extension of the project completion date to 2005-06 and expected additional costs of \$36 million to:

- the discovery of asbestos in the domed reading room and annulus – unforeseen cost of \$14 million (works now completed);

- budget overruns caused by the extended occupation of buildings by the National Gallery of Victoria and Museum as well as issues arising from the environment within the industry - \$14.3 million; and
- additional works to cater for new technology and compliance with building regulations – \$7.7 million.

2.371 The State Library of Victoria has advised us it has, through Arts Victoria, requested additional funding of \$36 million from the Government to enable the redevelopment to be completed in line with the current plan. The Government is currently considering this request.

RESPONSE provided by Executive Director, Department of Infrastructure

While the Department generally accepts the thrust of your report I would like to make the following comments in respect to some of your detail findings.

Selection of construction contractors

While your general proposition in respect to expressions of interest is reasonable and is adopted by Major Projects Victoria where appropriate, it is not probable that this process would identify contractors not already well known in the construction industry that could undertake major projects of the scale of the State Library.

In respect to the tender assessment process, it is accepted that an overall rating against pre-determined criteria is appropriate for many projects and is utilised by Major Projects Victoria. However, where projects are well documented and where pre-selected and competent contractors are requested to tender, the use of price as the principal criterion can provide the fairest outcome to tenderers who are required to expend considerable funds in preparing tenders.

CONTROL OVER DRUGS AND POISONS IN PUBLIC SECTOR AGENCIES

2.372 The Department of Human Services has responsibility for funding and delivering high quality and efficient health care services and for protecting and improving the health of Victorians. Consistent with these overall responsibilities, the Department's Drugs and Poisons Unit plays a key role in overseeing the safe and effective distribution of legally available drugs and potentially hazardous poisons.

2.373 The key legislation and regulations governing the management of certain drugs and poisons in Victoria are the:

- Drugs, Poisons and Controlled Substances Act 1981; and
- Drugs, Poisons and Controlled Substances Regulations 1995.

2.374 The legislation and regulations aim to facilitate and enhance the orderly sale, supply, prescription, administration, dispensing and use of drugs, poisons and controlled substances by health professionals, other authorised, licensed or permitted persons, and the general public. Part II of the Act refers to the Poisons Code, which categorises the control and use of drugs, poisons and other controlled substances into a number of schedules. Table 2R shows the types of drugs and poisons that are covered by the legislation in relation to the schedules most relevant to this audit, schedules 4, 8 and 9.

**TABLE 2R
DRUGS, POISONS AND CONTROLLED SUBSTANCES**

| <i>Poisons Code</i> | <i>Description</i> | <i>Examples</i> |
|---------------------|----------------------------|--|
| Schedule 4 | Prescription only medicine | Antibiotics, antidepressants, benzodiazepines, corticosteroids, dextropropoxyphene, neuroleptics, cardiovascular drugs, and non-steroidal anti-inflammatory drugs. |
| Schedule 8 | Controlled drugs | Amphetamines, cocaine, dextromoramide, dextromoramide, methylphenidate, methadone, oxycodone, morphine, pethidine, and pentazocine. |
| Schedule 9 | Prohibited substances | Substances, which may be abused or misused. The manufacture, possession, sale or use of which should be prohibited by law except when required for medical or scientific research. |

Source: Poisons Code; and Summary of Requirements for Nurses; Department of Human Services, May 1999

2.375 Over recent years, the Drugs and Poisons Unit has progressively adopted an approach of co-regulation with agencies responsible for managing drugs and poisons. This approach has placed greater emphasis on self-assessment by these agencies of compliance with legislation and regulations in preference to physical inspections by the Unit of the level of compliance.

2.376 A key aspect of this co-regulation approach is the requirement for agencies to submit a Poisons Control Plan to the Unit. These plans outline the means by which each agency aims to comply with various aspects of the regulations, namely:

- purchase of drugs and poisons;
- storage and security of drugs and poisons;
- administration of drugs and poisons by nurses and persons other than nurses;
- supply of medication to patients;
- maintaining records associated with drugs and poisons management; and
- waste disposal and destruction processes for poisons.

2.377 Following review of the adequacy of a Poisons Control Plan submitted by an agency, the Unit will issue a license or permit, which allows the agency to purchase or obtain certain scheduled drugs and poisons. Each license or permit is valid for 12 months with new licenses or permits issued for each subsequent year by payment of an annual registration fee. Only changes to the initial Poisons Control Plan are required to be submitted to the Drugs and Poisons Unit.

Objective and scope of this review

2.378 The broad objective of our review was to examine the effectiveness of controls associated with the possession, supply, storage and administration of drugs and poisons in the public health sector to ensure compliance with relevant legislative requirements.

2.379 The review was restricted to assessing the effectiveness of controls relating to prescription drugs, drugs of dependence and prohibited substances, outlined in schedules 4, 8 and 9 of the Poisons Code, as referred to in the *Drugs, Poisons and Controlled Substances Act* 1981, within the public health sector.

2.380 Practices within a selection of public hospitals, mental health facilities and supported residential homes, as outlined in Table 2S, were reviewed to assess the effectiveness of controls over drugs and poisons within these agencies and the level of compliance with requirements of the legislation and regulations.

**TABLE 2S
AGENCIES SUBJECT TO REVIEW**

| |
|---|
| Ballarat Health Service |
| Barwon Health Service |
| Bayside Health (Alfred Hospital) |
| Northern Health |
| Peninsula Health |
| Malmsbury Juvenile Justice Centre |
| Melbourne Health (Royal Melbourne Hospital) |
| Victorian Institute of Forensic Mental Health |

2.381 Specifically, the scope of the review included examination of:

- the frameworks established to manage the risks associated with the possession, supply, storage and administration of drugs and poisons; and
- the controls and processes implemented by agencies to ensure compliance with legislative requirements and agency policies and procedures.

Framework for managing drugs and poisons in agencies

2.382 An effective framework for managing drugs and poisons is essential for agencies to ensure compliance with relevant legislative requirements and to appropriately control all aspects of the administration of drugs and poisons.

2.383 Given the critical nature of drug and poison management within the health sector and other relevant agencies, such a framework could be expected to incorporate, at a minimum:

- a Poisons Control Plan as required by the Department of Human Services;
- accompanying policies and processes relevant to the specific operations of each agency, including clear allocation of roles and responsibilities for all aspects of the drug and poison management function;
- assessment of the risks associated with the possession, supply, storage and administration of drugs and poisons and associated strategies to mitigate identified risks;
- procedures to ensure that all staff have appropriate training and expertise related to the administration of drugs; and
- defined monitoring and reporting processes to oversee the application of established policies and procedures and to identify any departures from these requirements.

2.384 Our review identified the following findings in relation to these minimum requirements for an effective management framework.

Poison control plan

- All agencies reviewed had in place a poisons control plan approved by the Department of Human Services. All agencies reviewed this plan on an annual basis.

Policies and procedures

- All agencies had implemented formal policy and procedure manuals relating to the handling of drugs and poisons. These manuals generally incorporated policies regarding the prescribing of drugs and the responsibilities of staff administering medication.
- The responsibility for all aspects of drug and poisons management was clearly defined within policy and procedural documentation.

Assessment of risks

- Agencies generally conducted regular assessments of risks associated with the administration of drugs and poisons.
- Most agencies had developed a risk management strategy for all activities which incorporated risks associated with drugs and poisons. One agency without a risk management strategy was in the process of developing an appropriate strategy in conjunction with the Victorian Managed Insurance Authority.

Training of staff

- While all agencies provide formal training to staff, the extent of this training varied with certain agencies having devoted substantial resources to specialised training programs while others placed greater reliance on staff to keep up-to-date with the requirements of legislation, regulations and current practices;
- In all agencies, new staff are made aware of policies and procedures relating to drug and poisons during induction training.

Monitoring and reporting processes

- Most agencies had established formal committees (such as a Drug and Therapeutics Committee or a Clinical Risk Management Committee) with overall responsibility for managing and overseeing all drug-related activities, including the safe, appropriate and efficient use of medicines and for ensuring risk management strategies were in place.
- These committees have formal terms of reference, generally meet monthly or bi-monthly, and have a good cross representation of medical, clinical, nursing, pharmacy and finance staff.
- Deficiencies were identified in one agency in that it had no formal committee to monitor and manage risks including those associated with drug administration.
- The quality of incident identification and reporting, a key component for effective oversight of drugs and poisons management, varied significantly between agencies. In particular:
 - A clear definition of what constitutes an incident has not been developed. The absence of guidance in this area could adversely impact on the consistency, relevance and reliability of information reported to management. For example, certain agencies regard only actual medication errors (such as an incorrect drug prescribed or incorrect dosage given) as incidents while other agencies adopted a wider definition to also include instances where potential errors nearly occurred even though these were averted by staff;
 - While comprehensive systems were in place to capture data in certain agencies, other agencies were still in the process of analysing their information needs and developing the necessary systems. Accordingly, the quality and level of incident reporting to management varied between agencies;

- Discussions with agency staff identified that, in several agencies, management recognised the risk of incidents occurring, actively encouraged incident reporting by staff and adopted practices to prevent recurrences of specific incidents. By contrast, staff in other agencies had limited awareness of incident reporting procedures or the subsequent action taken by management to address these issues.
- A number of agencies had implemented extensive monitoring procedures for drug usage and expenditure and, as a result, had identified trends and implemented measures that had subsequently resulted in lower usage of certain drugs and reduced expenditure.
- To date, agency management had made limited use of their internal audit function to independently review drug and poison administration.

2.385 Overall, most agencies reviewed had established appropriate frameworks for the management of drugs and poisons. However, as indicated from the findings outlined above, scope exists in several agencies for further enhancement to these frameworks. In particular, all agencies should:

- ensure that risk management strategies are kept up-to-date and incorporate specific assessments and related strategies that may arise from the administration of drugs and poisons;
- review current staff training plans to ensure that they are suitable for maintaining the knowledge and expertise of staff in the administration of medication;
- ensure that management or relevant committees of the agency are allocated clear responsibility for regular and ongoing drug and poison management;
- upgrade the quality of incident reporting and management follow-up through the development of appropriate definitions and systems and through establishment of management processes to promote the reporting of incidents and the implementation of appropriate strategies to prevent recurrence; and
- consider greater use of internal audit to provide additional assurance to senior management on the adequacy of drug and poison handling by staff.

Control environment and compliance with legislative requirements

2.386 The existence of, and compliance with, detailed controls and processes for all aspects of drugs and poisons are of critical importance in ensuring the safe and effective distribution of legally available drugs and potentially hazardous poisons in the community. Failure to establish an effective control system increases exposure to a range of risks including:

- inappropriate access to drugs and poisons;
- potential misuse of drugs if not securely stored;
- drug provision to unauthorised persons;

- inaccurate recording of drug supply and possession;
- administering the wrong medication and or dosage; and
- errors in the recording of drug provisions (purchasing and dispensing) in administrative records.

2.387 Any of these actions could seriously affect the health of members of the community. Lack of effective control mechanisms would also contravene the key legislative and regulatory requirements for drug and poison administration, as summarised in Table 2T.

**TABLE 2T
REGULATORY COMPLIANCE REQUIREMENTS FOR DRUG AND
POISON ADMINISTRATION**

| <i>Area</i> | <i>Summary of key regulatory requirements</i> |
|-------------|---|
| Possession | <p>Only authorised persons are able to be in possession of poisons or controlled substances. Authorised persons include any registered medical practitioner, pharmacist or dentist.</p> <p>A nurse is authorised to possess and administer those poisons that are necessary for administration to a patient under the care of that nurse in accordance with the instructions and upon the authorisation of a medical practitioner.</p> |
| Storage | <p>Schedule 4 drugs and poisons must be stored in a lockable storage facility.</p> <p>Schedule 8 and 9 drugs and poisons must be held in a lockable secure facility (i.e. a safe) to prevent unauthorised access. The safe must be constructed of metal, be securely attached to the wall and able to resist attack by unauthorised persons.</p> <p>Authorised persons must take all reasonable steps to ensure that the storage facility for Schedule 4 poisons, Schedule 8 poisons or Schedule 9 poisons remains locked and secured to prevent access by an unauthorised person at all times, except when it is necessary to open it to carry out an essential operation in connection with the poisons stored in it.</p> |

TABLE 2T
REGULATORY COMPLIANCE REQUIREMENTS FOR DRUG AND
POISON ADMINISTRATION - *continued*

| <i>Area</i> | <i>Summary of key regulatory requirements</i> |
|------------------------------|---|
| Supply | <p>Only a registered medical practitioner, pharmacist, or dentist is authorised to write prescriptions for Schedule 4, 8 and 9 poisons.</p> <p>A registered medical practitioner, or dentist, may issue oral instructions to a pharmacist to supply Schedule 4, 8 or 9 poisons in emergency situations but must as soon as practicable write a prescription that is in confirmation of the oral instructions.</p> <p>Prescriptions must be legible and include details such as name and address of patient, directions for precise dosage or use and frequency, and maximum number of times the prescription may be supplied.</p> |
| Administration and recording | <p>Agencies are required to maintain records.</p> <p>Records relating to Schedule 8 or 9 poisons must be sorted by poison and show a true and accurate balance of each poison in his or her possession after each transaction.</p> <p>Records relating to Schedule 8 or Schedule 9 poisons cannot be altered, obliterated, deleted or removed.</p> <p>Agencies are required to investigate, without delay, any discrepancies found in the records kept.</p> <p>Drugs and poisons should only be administered to the person named on the prescription.</p> |

Source: Drugs, Poisons and Controlled Substances Regulations 1995.

2.388 Overall, management of the agencies reviewed had developed policies and processes to control the administration of drugs and poisons in line with legislative requirements. Such controls and processes included the segregation of duties between the various aspects of purchasing, prescribing, and recording the usage of drugs and the secure storage of drugs and poisons.

2.389 However, **our testing identified a number of instances, as outlined below, of agency non-compliance with established policies and processes and the requirements of legislation (including regulations).**

Possession of drugs and poisons

- Agencies were found to comply with the requirements for possession of drugs and poisons as required under regulations.

Storage of drugs and poisons

- The pharmacy department within agencies generally had superior safe and secure storage of drugs and poisons in comparison with storage facilities once substances had been issued to individual wards or units.
- Drugs and poisons are not always kept in a locked facility, as required by regulations, in emergency departments or intensive care units. Agencies advised that this was due to the need for fast access to medication within these facilities.

- Instances of non-compliance by certain agencies with established procedures and regulatory requirements for storage including:
 - six examples of Schedule 4 medications not stored in a lockable storage facility at all times. By way of illustration, drugs are at times kept in unlocked cabinets, drawers, shelves and trolleys;
 - one example of Schedule 8 medication in a drug or treatment room with unrestricted access;
 - in one agency, Schedule 4 medication was held in an unlocked drug trolley in a ward because the lock was broken. Despite the general public having access to this ward, no action had been taken to repair the trolley for over 6 months

Supply of drugs and poisons

- In general, prescriptions for the issue of drugs were legible.
- Medication held at the time of their admission was generally placed in a secure storage facility until the patient was discharged and was not used during patient's stay.
- Varying practices have been adopted for nurses handling phone orders from doctors for prescription drugs. While most agencies require the order to be repeated and documented by 2 registered nurses, 2 agencies only require one registered nurse to take the verbal phone order, which increases the risk of the wrong medication or dosage being administered to patients.
- A better practice was identified in one agency, which had implemented an electronic prescribing system for use by the hospital. This system allows from doctors to prescribe patient medication electronically and potentially reduces the risk of errors associated with phone orders by doctors. This system also provides an electronic means of providing GPs with patient prescription as soon as the patient is discharged from the hospital.

Administration and recording of drug and poisons

- While all agencies maintain drug of dependence registers, we identified 3 examples where actual medication held in storage disagreed with to the quantity specified in the register. At one agency, the discrepancy identified was 60 tablets of morphine sulfate 60mg, which was the result of a duplicate entry. The error occurred in January 2003 and had remained undetected until the time of our random inspection in February 2003.
- We identified one example where a patient was almost administered with medication that the patient was allergic too. The allergy had not been clearly documented on the patient's record.
- The pharmacy department of one hospital has obtained an ISO 9000 quality accreditation. As part of the ongoing accreditation process, the department is subject to regular quality audits of its processes.

2.390 As indicated in the preceding paragraphs, **a number of instances of non-compliance with regulations are occurring within agencies. While recognising the difficulty associated with ensuring total compliance, these instances are indicative of the need for agencies to reassess current controls, particularly over the secure storage of drugs in agency wards and units, and of the need to ensure that all staff are aware of the standard procedures in place for the handling, storage and recording of drugs and poisons.**

Overall conclusion

2.391 Overall, our review indicates that agencies have effective controls in place regarding the possession, supply, storage and administration of drugs across the public health sector. However, there is a range of areas, as outlined in preceding paragraphs of this report, where the effectiveness of the management framework and controls over the administration of drugs can be enhanced.

2.392 **Of particular concern was the identification within certain agencies of a number of areas of non-compliance with regulations for the storage and recording of drugs.** While we are not in a position to identify the full extent of non-compliance by these agencies, the occurrence of any deficiencies in the application of controls leads to a greater risk of errors in prescribing or using drugs held by these agencies with serious ramifications for patients.

2.393 As indicated earlier in this section of the report, the Department's Drugs and Poisons Unit currently adopts an approach of self-assessment by agencies of the level of compliance with regulations for drugs and poisons handling.

2.394 Given the findings of this review, **the Unit should consider potential changes to this approach to ensure that all public sector agencies involved in drug administration have consistently implemented controls for ongoing regulatory compliance.** Specific strategies which the Unit should consider include:

- registering and investigation of complaints and non-compliant drug handling practices; and
- quality assurance reviews of agency poison control plans.

2.395 These strategies would positively contribute to the quality of care provided in Victoria's health facilities.

RESPONSE provided by Secretary to the Department of Human Services

As noted in the report, the Drugs and Poisons Unit (DPU) of the Department of Human Services administers the Drugs, Poisons and Controlled Substances Act 1981 and the Drugs, Poisons and Controlled Substances Regulations 1995. This legislation has the objective to facilitate and enhance the orderly sale, supply, prescribing, administration, dispensing and use of drugs, poisons and controlled substances by health professionals, other authorised, licensed or permitted persons, and the general public.

I understand that, prior to the review, officers from the Auditor-General's Office consulted with DPU officers who advised on the administration of the legislation and provided the relevant documentation concerning the issue of a health services permit. The DPU co-regulatory approach with agencies responsible for managing drugs and poisons was explained along with its key aspect, the Poisons Control Plan (PCP). The PCP requires the agency to submit a self-assessment on their capability to establish and maintain compliance with the legislation.

I note that the report is generally positive about the administration of the legislation and is consistent with DPU experience with respect to compliance by health agencies. However the report could be construed as indicating that no physical inspections are conducted. In fact, the DPU continues to physically inspect the agencies when an application is made for a new licence or permit and when a significant change to an existing permit is applied for in order to confirm the accuracy of the Poisons Control Plan submitted and observe if the agency is indeed set up to comply with the legislation. The DPU has also inspected a proportion of health services permit holders annually since the Poisons Control Plan was introduced. For example, in 2002, subsidiary campuses of major hospitals were targeted.

As indicated, DPU has selected annually a proportion of agencies holding permits for a physical inspection with emphasis on quality assurance reviews of their Poisons Control Plans and will continue to do so. Usually this selection has been on a rotating basis. However, it should be noted that physical inspections can only be conducted periodically and are unlikely to identify occasional or isolated problems. Thus, major reliance must be placed on policies and systems in place at the agencies (ie, adherence to their Poisons Control Plan) to ensure ongoing compliance with legislation and other relevant practice standards.

The recommendation included in the report relates to registration and investigation of complaints and non-compliant drug handling practices. This is considered to be a valid comment and it is proposed to adjust Poisons Control Plan requirements to ensure that agencies have clear policies on incident reporting with respect to drugs and a centralised reporting point that will facilitate identification and investigation of trends and serious or potentially serious incidents. It is proposed to incorporate this aspect into physical inspections as well.

Also, action is already under way to amend Poisons Control Plan documentation to ensure greater emphasis is placed on conducting and documenting staff training in drug handling procedures. It is anticipated that such action will improve the compliance of agencies with the legislation and other standards.

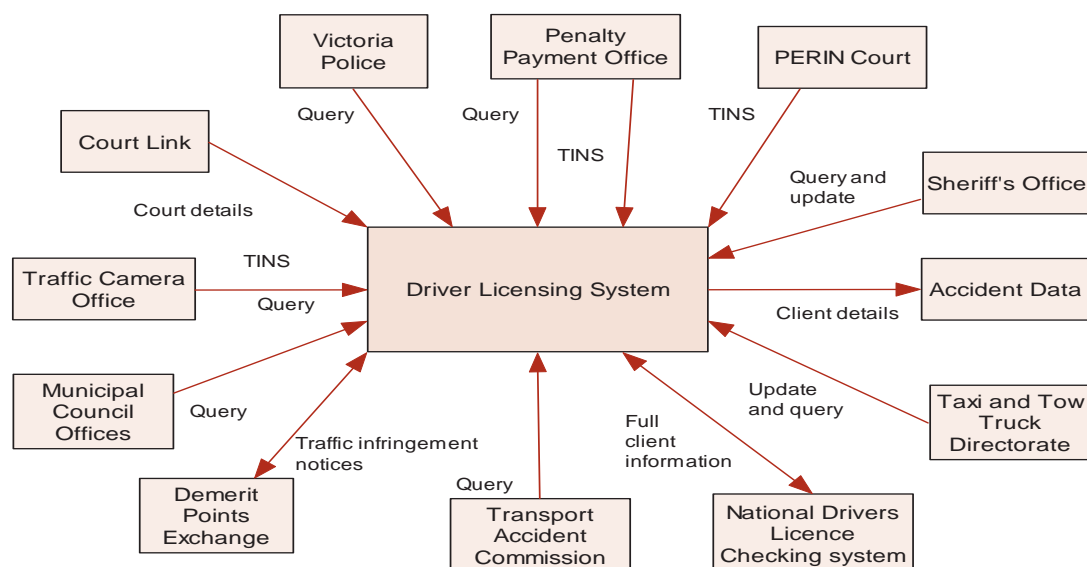
REDEVELOPMENT OF THE DRIVER LICENSING SYSTEM

2.396 In 1995, the Roads Corporation (which operates as VicRoads) initiated the redevelopment of a driver licensing system for Victorian motorists. This major project was to incorporate redevelopment of the licensing and associated cash management and appointment booking systems that had been in use since the early 1980s.

2.397 The aim of the redevelopment project was to improve customer service and facilitate the exchange of information with external agencies, such as Victoria Police, municipal councils and the Transport Accident Commission. VicRoads also envisaged that the new system would provide improved data for road safety research. This information would be used to develop and target publicity and education programs designed to influence road safety attitudes and behaviours of high-risk drivers. The new system would also help enforcement agencies to detect crime and recover unpaid fines.

2.398 The following chart provides an overview of the system's various interfaces with external agencies.

**CHART 2U
SYSTEM INTERFACES WITH EXTERNAL AGENCIES**



Source: VicRoads.

2.399 In 1997, VicRoads estimated that the development of the system would cost around \$20.9 million, with operating costs of \$1.5 million per year, and be completed within 2 years. VicRoads expected the new system would provide benefits in a number of areas, including:

- improved quality of information provided for road safety research leading to a reduced number of road accidents and associated savings of \$15 million;

- collection of \$5 million per annum in unpaid fines; and
- annual savings in information technology costs of between \$1.3 million and \$4.5 million.

Probity of tender process

2.400 In September 1996, VicRoads advertised for potential tenderers to pre-register for the development, installation and maintenance of the system. In December 1996, tender specifications were issued and selected registrants invited to tender for the project. Initially, tenders were to close on 12 February 1997, but VicRoads modified the tender specifications and extended the closing date for tenders to 23 April 1997.

2.401 A preferred tenderer was announced in December 1998. The tender evaluation process was delayed by:

- changes to the initial tender specification;
- additional information sought from tenderers regarding alternative financing options; and
- further proposals sought from tenderers for internationalisation of the system/products developed.

2.402 We found that the probity of the tender process had been satisfactorily maintained.

Final cost of project

2.403 The redevelopment of the driver licensing system was estimated to cost \$20.9 million in February 1999 and was due to be completed by February 2001.

2.404 It was fully implemented in February 2002 at a cost of \$26.5 million, one year after the forecast completion date and \$5.6 million greater than the earlier cost estimate.

2.405 VicRoads attributed the delay in completing the project and the additional costs mainly to the need to change system specifications as a result of the introduction of the GST and a new boat operator's licensing requirement.

Need to undertake post-implementation review

2.406 VicRoads has not undertaken a post-implementation review of the DLS project to assess whether the anticipated benefits of the new system have been achieved. VicRoads believes that it is too early to assess whether the system is providing the expected outcomes, particularly in relation to the anticipated road safety savings.

2.407 However, VicRoads did engage a consultant to review the processes involved in the redevelopment of the system and determine the “lessons to be learned”. VicRoads intends to use the findings from that exercise when implementing future projects. Key findings identified by the consultant included:

- Project specifications were too general;
- The tender evaluation process was lengthy. This time could have been better spent on producing a more detailed project specification; and
- Acceptance testing occurred at the end of the project, but should have occurred throughout development and implementation.

2.408 The consultant’s review also found that the system delivers the major functionality required, is stable and satisfactorily interfaces with other systems.

2.409 We recommend that VicRoads conducts a formal post-implementation review of the new driver licensing system to determine how successful the project has been in achieving the expected outcomes.

RESPONSE provided by Chief Executive, VicRoads

VicRoads agrees with the factual information contained in the report. As far as the specific recommendation regarding a formal post implementation review of DLS is concerned, VicRoads plans to commence such a review shortly. The specific objectives recommended in the audit report will be included in the scope of this review. It is expected that the review will be completed by the end of December 2003.

Part 3

Status of matters raised in previous reports

EDUCATION AND TRAINING

| Report | Subject | Status at date of preparation of this report |
|--|---|---|
| MATTERS RESOLVED OR ACTION COMMENCED | | |
| DEPARTMENT OF EDUCATION AND TRAINING | | |
| Notebook Computers for Teachers | | |
| <i>Public Sector Agencies, June 2002, pp. 57-72.</i> | In the period 1998 to 2001, schools were required to implement learning technology plans, and notebook computers were distributed to teachers as an important initiative to assist schools in achieving the outcomes of those plans. With schools required to develop <i>eLearning</i> plans for the period 2002 to 2005, the focus now needs to move to improving student outcomes from the use of learning technologies. | Secondary schools have completed eLearning Plans. In addition, approximately 60 per cent of primary schools have completed plans even though the plans are highly encouraged but not mandatory. The shift in accountability to improvements in student learning outcomes, using ICT and eLearning, is the major thrust of an eLearning Vision and Strategic Plan 2003-2008, presently under development. A major component of the Strategic Plan is professional development to support teachers in integrating ICT into teaching and learning, thus enabling students to gain the full benefit of ICT in the classroom. |
| UNIVERSITY OF MELBOURNE | | |
| Status of Bio21 | | |
| <i>Ministerial Portfolios, June 2001, pp. 28-36.</i> | Consideration should be given to the level of public accountability by Bio21 Australia Limited, the company established to implement the Bio21 project. | The level of public accountability, in respect of the University's part in the project, has been enhanced through the University's Annual Report. The 2002 Annual Report of the University of Melbourne reported low levels of financial and reputational risk associated with <i>Bio21 Australia Ltd.</i> |
| VICTORIAN UNIVERSITIES | | |
| Operations of university subsidiary entities and joint ventures | | |
| <i>Public Sector Agencies, June 2002, pp. 15-31.</i> | The accountability process would be enhanced if Universities were required to notify the Auditor-General as new subsidiary entities are established. University councils need to have in place appropriate corporate governance principles to assist their oversight of subsidiary entity operations and the interface with such entities. Improved disclosure is required in the annual reports of universities of their involvement in joint venture entities and operations, subsidiary and associated entities, and trusts. | The University Acts Amendment Bill is currently under consideration by Parliament. This legislation will empower the Auditor General to audit companies that are controlled by Victorian universities that are established overseas. The 2002 Annual Reports of Universities are to include a report on the performance of university associates and commercial ventures. The 2002 Annual Reports of universities are also required to include a risk management statement in relation to associates and commercial ventures. |

HUMAN SERVICES

| Report | Subject | Status at date of preparation of this report |
|--------|---------|--|
|--------|---------|--|

MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF HUMAN SERVICES

Post-Acute care planning

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|---|--|---|
| <p><i>Ministerial Portfolios, June 2001, pp. 100-153.</i></p> | <p>The Department should address its inadequate monitoring of the effectiveness of the service delivery models for the provision of post-acute care services, in particular, the non-collection and/or reporting of some important performance indicators.</p> | <p>To date, the Department of Human Services has developed two quality performance indicators that will be implemented and monitored in 2002-03. The indicators will measure timeliness of services and patient and carer satisfaction.</p> |
|---|--|---|

Financial viability of public hospitals

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|--|--|--|
| <p><i>Public Sector Agencies Report February, 2003, pp. 111-120.</i></p> | <p>A growing number of public hospitals were operating under financial difficulties as at 30 June 2002 compared with the prior year.</p> | <p>The Department is undertaking ongoing monitoring of the financial viability of hospitals.</p> |
|--|--|--|

Rural hospital information technology alliances

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|--|---|--|
| <p><i>Ministerial Portfolios, June 2001, pp. 90-9.</i></p> | <p>The Government needs to ensure that the Information, Information Technology and Telecommunications Strategy for Public Hospitals is fully implemented.</p> | <p>A 4 year "Whole of Health" <i>Information & Information, Communication and Technology Strategy Plan</i> has been developed for Victoria. Implementation of the Strategy will commence in 2003-04.</p> |
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Visiting medical officer appointments at rural public hospitals

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|--|--|---|
| <p><i>Public Sector Agencies June 2002, pp. 81-90.</i></p> | <p>Notwithstanding two earlier Reports to the Parliament highlighting the need for improved controls over processing of claims by visiting medical officers (VMOs), significant deficiencies still exist in hospitals' payments processes. Further, hospitals do not monitor VMO outputs for unusual trends/patterns, due to restrictions within hospital information systems.</p> | <p>The Department has advised that it will take steps to strengthen the capacity of hospital chief executive officers to introduce changed systems and practices where practical and cost-beneficial. In addition, the Department advised that it will initiate independent reviews of the adequacy of the controls in place, which will be reported to hospital Boards for action to be taken.</p> |
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HUMAN SERVICES – *continued*

| Report | Subject | Status at date of preparation of this report |
|--------|---------|--|
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF HUMAN SERVICES - *continued*

Housing rental arrears

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|---|---|--|
| <i>Public Sector Agencies, November 2001, pp. 52-4.</i> | The Department should closely monitor the level of rental arrears and bad debts written-off and implement strategies to ensure that further increases in these items are minimised. | <p>An analysis to better understand the underlying influences of the level of rent arrears has been completed by the Department, which resulted in a comprehensive rent arrears action plan being developed.</p> <p>The Department (Office of Housing) is progressively implementing Government initiatives aimed at improving its rental account management practices. From 1 March 2003 all new eligible tenancies have, as a condition of sign-up, been required to authorise rental payments through direct debit from Centrelink, as a means of protecting tenants from the risk of rental arrears.</p> |
|---|---|--|

INFRASTRUCTURE

| Report | Subject | Status at date of preparation of this report |
|--------|---------|--|
|--------|---------|--|

MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF INFRASTRUCTURE

Contracting of public transport services

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|---|---|---|
| <p><i>Ministerial Portfolios, May 1997, p. 121.</i></p> | <p>The Department of Infrastructure has not performed a post-implementation review of the contracting-out of the Melbourne to Warrnambool and Melbourne to Cobram public transport services and, accordingly, there is a possibility that the experiences gained from these arrangements may not be factored into future privatisation proposals.</p> | <p>Contracts relating to the public transport services were reviewed by the Department as part of the process of developing a service proposal for replacement contracts. In 2002 a tender process for the Warrnambool and Shepparton services was terminated following the review of all public transport franchises. The contracts with West Coast Railway and Hoys have been extended to 30 June 2004 and 30 September 2003 respectively. Both agreements are under review and work is underway to extend the agreements until 2006. It is proposed that from 2006 the services will be offered for tender as a franchise with V/Line Passenger rail and coach services.</p> |
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City Link: Surplus Land

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| <p><i>Public Sector Agencies, June 2002, p. 126.</i></p> | <p>The City Link project was completed in December 2000. However leases between the State and Transurban over the various sections of the Link Road are yet to be finalised and therefore the process of disposing of surplus land acquired to facilitate the construction of the Link has not progressed significantly.</p> | <p>The Link Road leases between the State and Transurban have been finalised. Decisions have been made on the final responsibility of all the surplus land and a process is underway to transfer the land to the relevant entities.</p> |
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Progress with the Federation Square Development

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| <p><i>Public Sector Agencies, June 2002, pp. 101-14.</i></p> | <p>Significant increases have occurred in the costs estimated for the development of Federation Square since the original estimate of \$110 million in March 1996.</p> | <p>Further comment on the Federation Square Development is provided in this report.</p> |
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INNOVATION, INDUSTRY AND REGIONAL
DEVELOPMENT

| Report | Subject | Status at date of preparation of this report |
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT

Regional Infrastructure Development Fund

Ministerial Portfolios, June 2001, pp. 330-42.

Major work is required by the Department in terms of improving its prioritisation of projects, providing timely and complete information to applicants on the outcome of the assessment process, and establishing a performance measurement framework to assess the effectiveness of the regional infrastructure development initiative.

Further comment on the Regional Infrastructure Development Fund is provided in this report.

National Synchrotron Facility

Public Sector Agencies, June 2002, pp. 153-67.

At the time of the June 2002 Report, the following matters were in progress:

- preparation of a Memorandum of Understanding between Monash University and the Government setting out arrangements for the leasing of the land upon which the Synchrotron is to be built and other arrangements.
- preparation of a business plan and other necessary requirements to undertake construction and operation of the facility;
- development by the Department of collaborative structures and business planning processes to progress the facility project;
- completion of a tender process for the engagement of consultants to provide financial and related advisory services.

At the date of the report, the Government had announced that it would provide up to \$100 million for the facility.

The Department and Monash University are currently preparing a lease on agreed land requirements, payments and other related issues.

All necessary requirements for the construction of the facility are being finalised and a design and construct tender is currently in progress. The design of the facility operating model continues in consultation with the Commonwealth government and other stakeholders.

Collaboration with the scientific community is managed within the National Scientific Advisory Committee that includes a wide geographic representation. Extensive consultation with the Commonwealth, its agencies, and with State governments is continuing.

The tender process and the consultancy engagement for financial and related services has been completed.

The Victorian Government has now committed \$157 million to cover the construction cost of the facility. The additional funds have been provided following enhancements to the scale and design of the facility and to better cover contingencies.

JUSTICE

| Report | Subject | Status at date of preparation of this report |
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF JUSTICE

Infants Investment Trust Accounts

Ministerial Portfolios, May 1998, pp. 150-1.

Enhancements to the Infants Investment Trust Accounts system should be implemented at the County Court and the Victims of Crime Assistance Tribunal to enable the regular production and issue of transaction statements to trust fund beneficiaries.

A consultant's report on the Court's administration of funds (both County Court and Victims of Crime Assistance Tribunal) held on behalf of persons, has been finalised and has recommended that the administration of a number of funds, including the Infants Investment Trust Accounts, be transferred to the Office of the Supreme Court Master. The Department advised that this transfer will be aimed at providing a high level of accountability and risk minimisation, a high level of efficiency, and the provision of a comprehensive range of services to parents and guardians, as well as the provision of choice as to service provider to beneficiaries. Implementation of the transfer will require legislative amendment to the Acts under which the courts operate.

Need for enhanced public accountability covering non-judicial functions of Victorian courts

Ministerial Portfolios, May 1999, pp. 208-16.

No performance audits have been undertaken by the Auditor-General of administrative functions within judicial bodies since June 1996 because of legal advice obtained by the Department of Justice. This situation is totally unsatisfactory in terms of the public accountability implications to the Parliament and the community. Urgent action by way of legislative change is necessary to address the position.

The Auditor-General has initiated discussions through the Courts Consultative Council with a view to developing arrangements for audits to take place without compromising judicial independence.

Estate Agents Guarantee Fund

Ministerial Portfolios, June 2001, pp. 229-39.

In order to improve the level of accountability over trust fund moneys, separate annual financial reports should be produced for each of the major trust funds administered by the Department, including the Estate Agents Guarantee Fund. Given the substantial net assets held in the Fund, the Parliament could consider amendments to the Act in order to broaden the criteria for grant payments made from the Fund.

Key financial information on revenue, expenditure, assets, and liabilities of trust funds is now included in the Consumer Affairs Victoria annual reports that are tabled in Parliament. Changes to the criteria for grant payments made from the Fund have been the subject of ongoing discussions between Departments. The Department advised that further examination of this issue is planned.

JUSTICE – continued

| Report | Subject | Status at date of preparation of this report |
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MATTERS RESOLVED OR ACTION COMMENCED

VICTORIA LEGAL AID

Funding changes

Ministerial Portfolios, May 1999, pp. 186-207.

Victoria Legal Aid (VLA) should undertake an assessment of the need for legal aid within the Victorian community to assist it in allocating scarce legal aid funding in the most effective and equitable manner, and to determine the impact of changes to legal aid guidelines on the provision of legal aid services in Victoria.

Victoria Legal Aid has not undertaken a funding review. However VLA advised that it regularly monitors demand and need for its services.

Additional funding will be committed in the 2003-04 budget which will benefit Community Legal Centres, establish a new VLA Wimmera-Mallee Regional Office in Horsham, and provide an increase in fees to legal practitioners in summary criminal cases and a modest increase in the number of new grants of legal assistance in summary crime.

In addition, VLA has implemented a number of the key recommendations of a review by the Parliamentary Law Reform Committee including:

- Improved Multilingual access to legal information and services;
- Video conferencing;
- Continuing Legal Education;
- Improved Pro-Bono Services;
- Establishment of the Shepparton Regional Office; and
- Additional duty lawyer services in regional locations.

Victims Referral and Assistance Service

Ministerial portfolios, June, 2002, pp. 171-90.

At the date of preparation of this report, the Government was still considering the recommendations emanating from the Review into the provision of services for victims of crime. Given that various business issues are emerging within the Service, including issues associated with information systems and service provider arrangements, it will be important that future directions of victims of crime assistance are clarified.

The Government has accepted the recommendations of the review into services for victims of crime. A Victim Services Taskforce has been established and is implementing the recommendations.

A number of projects are currently in progress. The most significant in terms of clarifying future directions is research to develop a Best Practice Model and Demand Management Strategy. This research, which is nearing finalisation, is intended to address the issues raised by the Auditor-General and enhance the services to victims.

Registry of Births, Deaths and Marriages

Ministerial Portfolios, June 2002, pp. 221-30.

The Registry has not formally tracked, investigated and reported on all instances of actual or suspected fraud in combating identity fraud. The Registry needs to join the on-line certificate validation service, which it had targeted to join in March 2001.

The Registry formally joined the Certificate Validation Service (CVS) in June 2002. To this date the CVS has identified 29 fraudulent or invalid certificates that have been presented to subscribers.

JUSTICE – continued

| Report | Subject | Status at date of preparation of this report |
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MATTERS RESOLVED OR ACTION COMMENCED

VICTORIA POLICE

“New Century, New Force” recruitment initiative

Ministerial Portfolios, June 2002, pp. 192-220.

Victoria Police needs to establish procedures to collect, analyse and evaluate the effectiveness of its recruitment and training program in reducing crime and report this information back to Government.

Victoria Police needs to establish an overall human resource management plan, which is linked to its corporate plan and addresses its overall resource needs by functions and activities.

Victoria Police has advised that there is great difficulty in establishing any direct correlation between police numbers and crime rates due to an extensive number of other factors, both internal and environmental, which also have an affect on the number of crimes committed and reported. However, the Victoria Police 5 Year Strategic Plan includes strategies to measure return on investment.

Victoria Police is currently developing a human resource management plan in line with the Victoria Police 5 Year Strategic Plan. This plan will be underpinned by a strategic workforce plan that uses an integrated workforce-planning model to strategically forecast organisation workforce requirements.

PREMIER AND CABINET

| <i>Report</i> | <i>Subject</i> | <i>Status at date of preparation of this report</i> |
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF PREMIER AND CABINET

Advertising and marketing by Government Departments

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| <i>Public Sector Agencies, June 2002, pp. 303-17.</i> | Conventions or guidelines for government advertising should be finalised and adopted as soon as possible by the Government. | The Government adopted guidelines for advertising and communications in September 2002. |
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SUSTAINABILITY AND ENVIRONMENT

| Report | Subject | Status at date of preparation of this report |
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF SUSTAINABILITY AND ENVIRONMENT

Reporting framework for committees of management and trustees

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| <p><i>Ministerial Portfolios, May 1997, pp. 158-62.</i></p> | <p>There is a need for the Department to review the current reporting framework relating to committees of management and trustees, to provide a proper accountability process. The receipt and review of limited financial information once every 3 years, together with the absence of an appropriate departmental program to inspect Crown land reserves, does not ensure that the Department is aware, on a timely basis, of potential problems arising in committees of management.</p> | <p>Committee of Management Responsibilities and Good Practice guidelines, which incorporate requirements associated with financial reporting and risk management, have been produced for distribution to Committees of Management.</p> |
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Forest management

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| <p><i>Ministerial Portfolios, May 1997, p. 156.</i></p> | <p>In relation to a number of forest management areas, the Department is incurring costs to allow operators to remove native trees and wood products, with limited financial benefits accruing back to the State.</p> | <p>As part of the Government's "Our Forests Our Future" policy statement, it was announced that the Government will, in consultation with the timber industry, phase in market-based sawlog pricing and allocation. Any prior reviews of logging royalties or pricing will be used to inform the future policy considerations of Government on sawlog pricing.</p> |
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Water industry reform

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| <p><i>Ministerial Portfolios, May 1996, p. 222, May 1998, p. 175.</i></p> | <p>While the water reform process envisaged the issue of licence agreements between the Government and water authorities, and the establishment of an independent regulator, these aspects of the reform process have not been implemented.</p> | <p>The Government has introduced legislation into Parliament to establish the Essential Services Commission (ESC) as the independent economic regulator of the Victorian water industry from 1 January 2004. The first pricing decision to be made by the ESC will take effect from 1 July 2005. The Water Legislation (Essential Services Commission and Other Amendments) Bill 2003 provides the legislative framework for independent economic regulation of the Victorian water industry by the ESC and provides for Statements of Obligations for water authorities to be issued by the Minister. The Statements of Obligations will set out the obligations of water authorities in relation to such matters as governance, quality and performance standards, asset management, dam safety and community service obligations.</p> |
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SUSTAINABILITY AND ENVIRONMENT - *continued*

| Report | Subject | Status at date of preparation of this report |
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF SUSTAINABILITY AND ENVIRONMENT - *continued*

Water quality

Ministerial Portfolios, May 1998, pp. 177-9. May 1999, pp. 227-33.

In 1996-97, only 57 per cent of the population supplied by non-metropolitan water authorities received water that met the guidelines for micro-biological quality. Of particular concern was that one-third of water that was treated did not meet the guidelines. As at 30 June 1998, 60 per cent of country Victorians were in receipt of water that met the guidelines for micro-biological quality.

Regional Victoria micro-biological performance

In 2001-02, 81 per cent of the population served by regional urban water authorities received water that met the current microbiological guidelines. This was a considerable improvement over 2000-01 when only 59 per cent of the population received the same quality water. This continues the overall upward trend for the percentage of population receiving water meeting microbiological guidelines since the major water quality improvements began in 1997-98.

Drinking Water Quality Regulatory Framework

The Government has introduced the Safe Drinking Water Bill 2003 into Parliament to put in place a new regulatory framework for drinking water quality. A key feature of the Bill is the establishment of a new Drinking Water Quality Regulator to ensure proper monitoring of drinking water standards and authorities' risk management practices. It is intended that the new legislation come into force on 1 July 2004.

Water storage management

Ministerial Portfolios, June 2000, p. 239.

Given the importance of dam safety and the significant consequences of dam failure, consideration should be given to the establishment of a single independent body to oversee dam safety within Victoria.

Consistent statewide dam safety obligations for Victorian water authorities have been developed and will be implemented through Statements of Obligations to be issued by the Minister. Statements of Obligations are being introduced as part of the package of measures to be implemented to establish the Essential Services Commission as the economic regulator of the water industry. Compliance with the obligations will be monitored by the Department of Sustainability and Environment.

The total package of measures for private and public dams is aimed at ensuring that Victoria has in place a dam safety regulatory regime consistent with industry good practice.

SUSTAINABILITY AND ENVIRONMENT - *continued*

| Report | Subject | Status at date of preparation of this report |
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF SUSTAINABILITY AND ENVIRONMENT - *continued*

Automation of the land titles register

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| <p><i>Ministerial Portfolios, June 2002, pp. 292-300.</i></p> | <p>The Department needs to conduct post implementation reviews to ensure early identification and resolution of any shortcomings in project expectations and deliverables. In addition, the Department needs to continue to closely monitor:</p> <ul style="list-style-type: none"> • project costs to ensure completion of the project within time and budget; • contracted facilities management services which extend to March 2004; and • completion of the data conversion and system development components of the project. | <p>Post implementation reviews of the Titles Automation Project (relating to project management and project outcomes) were completed in June and October 2002 respectively. The post implementation reviews concluded that project deliverables were met and the project had been successfully implemented. They also identified a number of opportunities to maximise the benefits of automation which are being progressively implemented.</p> <p>Land Registry is continuing to monitor residual project costs related to data conversion and software enhancements with no cost overruns expected. All significant facilities management costs are fixed to the end of the current contract and the Department advised that IT systems continue to perform at or above contract specifications.</p> |
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Victorian Forest Industry Structural Adjustment Package

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| <p><i>Ministerial Portfolios, June 2002, pp. 233-47.</i></p> | <p>The Department needs to review and revise sustainable yield calculations when making Voluntary Licence Reduction Program payments, under the \$80 million <i>Our Forests, Our Future</i> policy.</p> | <p>“<i>Our Forests Our Future</i>” draws on a thorough review outlined in a specialist report for the development of estimates of sawlog resource. In addition, in <i>Our Forests Our Future</i>, the Government commits to continue to refine the current resource estimates and give high priority to the completion of the State Forest Resource Inventory. A comprehensive system of annual monitoring and reporting of the extent of harvesting and its impact on sawlog resource estimates will also be developed. The Government will not take undue risks in setting new timber supply levels while data is being further refined and upgraded.</p> |
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SUSTAINABILITY AND ENVIRONMENT - *continued*

| Report | Subject | Status at date of preparation of this report |
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF SUSTAINABILITY AND ENVIRONMENT - *continued*

Survey Information at Land Victoria

Ministerial Portfolios, June 2002, pp. 248-91.

Land Victoria, in co-operation with the Surveyor-General and the Surveyors Board of Victoria should consult with cadastral surveyors and develop a strategic plan for the maintenance and upgrading of the survey control network, including the replacement of damaged marks and the establishment of new marks in strategic areas.

The Department's legislative review process should be broadened to cover matters in the *Survey Co-ordination Act 1958*.

Land Victoria should undertake a physical review of survey marks over an established timeframe to determine the accuracy of the information contained in the Survey Marks Enquiry Service (SMES).

As surveyors are not meeting their responsibility to provide feedback to Land Victoria on the condition of survey marks, we consider that Land Victoria should take action to ensure that surveyors provide this feedback.

In June 2002 the then Minister for Environment and Conservation announced a three pronged reform strategy:

- a wide ranging review of Survey and Spatial Information in Victoria including necessary changes to the administrative and legislative framework;
- funding of \$100,000 to be made available to carry out priority maintenance of the Survey Control Network; and
- a risk analysis of the Survey Control Network to be carried out by the Department's internal auditor.

The Review of Survey and Spatial Information was completed in March 2003 and the Department is considering the report's recommendations.

In respect of the Survey Control Network a contractor was appointed in March 2003 to review the condition and improve some 1380 survey marks. This work is expected to be completed in June 2003. Some are expected to be reviewed and have their accuracy levels improved. Internal Audit has been engaged to ensure that the priority maintenance strategy is reasonable and that the work is carried out according to contract.

Planning for risk analysis of the Survey Control Network is under way with the project expected to commence in mid 2003. The intention is to develop an agreed strategic approach to future maintenance of the survey control network, based on a cost/benefit approach which balances modern day technology and future use of the network over time. This study will lead to consideration of SMES and its level of accuracy. The Surveyor General will be asked to consider the role of surveyors in providing Land Victoria with feedback on the condition of survey marks as they go about their work.

TREASURY AND FINANCE

| Report | Subject | Status at date of preparation of this report |
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF TREASURY AND FINANCE

Disclosure of consultancy payments in Agency Annual Reports

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| <p><i>Ministerial Portfolios, May 1996, p. 335.</i></p> | <p>There is a need for clarification within the Government’s supply guidelines of the classification of consultancy and contractor services, in order to improve the disclosure of consultancy payments in public sector agency’s annual reports to the Parliament.</p> | <p>The Department is still examining options for reporting of consultants and contractors, and to improve the consistency of reporting across public sector agencies.</p> |
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Motor vehicle fleet management

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| <p><i>Ministerial Portfolios, May 2001, pp. 400-03.</i></p> | <p>The Department had not determined the on-going costs associated with providing fleet management services and, therefore, was not in a position to determine whether it should continue to provide such services in the future.</p> | <p>A Cabinet decision has been made to establish new fleet financing and fleet management arrangements as soon as practicable.</p> <p>The Department is currently undertaking a review to determine the most appropriate and cost effective fleet financing and management arrangements. This review is due to be presented to the Minister for Finance by 30 June 2003.</p> |
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State Revenue Office (SRO) Management of Stamp Duty Collections

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| <p><i>Ministerial Portfolios, June 2002, pp. 327-40.</i></p> | <p>There is a need to enhance the strategic framework over stamp duty collections by developing stand alone, risk-mapped plans for major revenue lines; and by including all stamp duty related strategies in SRO’s formal strategy documents.</p> | <p>The SRO has developed a Compliance Strategy, which sets out the compliance philosophy, elements, objectives and indicators of the SRO.</p> <p>A three year Operational Compliance Plan has also been developed, which flows from the strategy paper, and takes into account specific needs of revenue lines and risk management issues. Profiles that identify risks have also been developed for each revenue line.</p> |
| <p><i>Ministerial Portfolios, June 2002, pp. 327-40.</i></p> | <p>Document Return System (DRS) agents should provide independent assurance to the SRO of their compliance with conditions of their authority and the adequacy of their internal controls of stamp duty calculation, collection and remittance. In addition, SRO should undertake targeted investigations of agents.</p> | <p>The SRO has instituted a program requiring all DRS agents to sign terms and conditions that include a clause covering the provision of independent assurance to the SRO as to their compliance with the conditions of their authority and the adequacy of their internal controls.</p> <p>A DRS agent audit program has been implemented which includes visits to agent sites.</p> |

TREASURY AND FINANCE - *continued*

| Report | Subject | Status at date of preparation of this report |
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF TREASURY AND FINANCE - *continued*

State Revenue Office (SRO) information technology systems

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| <i>Ministerial Portfolios, May 2001, pp. 404-10.</i> | Progress made in the testing and final implementation stages of the SRO information technology development project will ultimately determine the success of the SRO in implementing effective revenue collection systems. Any delays may also impact on both the direct costs of the project and the extent of internal resources utilised by the SRO on the project. | Implementation of the final phase of the project is continuing. As part of this phase, the SRO identified a number of issues to system functionality. It is currently developing strategies to resolve these issues. |
| <i>Ministerial Portfolios, May 2001, pp. 404-10.</i> | The SRO did not allow credit card payments by taxpayers. Given current trends towards e-commerce and the increasing usage by consumers of credit cards, the appropriateness of this policy may require review. | The SRO has introduced credit card payment options for Land Tax Clearance Certificates and for the payment of some types of Land Tax. These options are targeted towards individual customers rather than businesses. A number of e-business initiatives have been introduced or enhanced such as Payroll Tax Annual Adjustments and eObjections for Land Tax. A number of other initiatives are currently being planned. |

VICTORIAN COMMUNITIES
(INCLUDING LOCAL GOVERNMENT)

| Report | Subject | Status at date of preparation of this report |
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MATTERS RESOLVED OR ACTION COMMENCED

LOCAL GOVERNMENT

Business ventures and community support arrangements

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| <i>Public Sector Agencies, June 2002, pp. 127-35.</i> | <p>Councils should establish policies that address the provision of loans and/or loan guarantees.</p> <p>Reports to council from council management should contain analyses relevant to decision-making on the nature and extent of council involvement with associated entities.</p> <p>Councils should formalise their relationships with associated entities through an agreement that incorporates adequate performance monitoring and reporting mechanisms.</p> <p>Councils need to ensure the effective implementation of risk management and governance arrangements with associated entities.</p> | <p>The Department previously undertook to bring the audit recommendations to the attention of all Councils. This has now been done.</p> |
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Municipal business undertakings

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| <i>Public Sector Agencies, June 2002, pp. 136-48.</i> | <p>There is a need for improved governance arrangements over activities undertaken by business units within Councils.</p> | <p>The Department has advised that is continuing to work with the local government sector to improve corporate governance arrangements.</p> |
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Property management practices at Latrobe Council

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| <i>Public Sector Agencies, June 2002, pp. 149-52.</i> | <p>La Trobe City Council needs to review and where necessary amend its processes to ensure compliance with legislative requirements relating to land sales.</p> | <p>The Council has developed and endorsed a property management strategy for land sales.</p> |
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Performance reporting

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| <i>Ministerial portfolios, June 2001, pp. 175-82.</i> | <p>Further reinforcement and clarification is required to ensure that a consistent, coherent and effective framework is in place for local government performance reporting.</p> | <p>The <i>Local Government (Update) Bill</i>, which was first introduced to the Parliament in May 2002, includes a number of provisions that are intended to address this issue.</p> <p>The Bill is to be re-introduced in the Spring 2003 session.</p> |
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VICTORIAN COMMUNITIES
(INCLUDING LOCAL GOVERNMENT) – *continued*

| <i>Report</i> | <i>Subject</i> | <i>Status at date of preparation of this report</i> |
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MATTERS RESOLVED OR ACTION COMMENCED

LOCAL GOVERNMENT - *continued*

City of Geelong's involvement with Geelong business and trade centre

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| <i>Public Sector Agencies, November 2001, pp. 57-74.</i> | The Council should finalise its review of existing arrangements with external entities and establish whether or not such arrangements are in accordance with its current corporate objectives and whether adequate representation, performance monitoring, reporting and risk minimisation strategies are in place. | The City of Greater Geelong has completed a review of Council's relationships with all incorporated entities, with the view to ensuring that adequate representation, performance monitoring, reporting and risk minimisation strategies are in place. |
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AUDITOR GENERAL
VICTORIA

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