

# ***Follow up of Managing Major Projects***

Tabled 5 August 2015

The Auditor-General provides assurance to Parliament on the accountability and performance of the Victorian Public Sector. The Auditor-General conducts financial audits and performance audits, and reports on the results of these audits to Parliament.

On 5 August 2015, the Auditor-General tabled his performance audit report, *Follow up of Managing Major Projects*.

## Follow-up audits

### Phase two of VAGO's follow-up program:

- Verifying self-reported progress implementing recommendations.
- Detailed follow-ups to provide further information about improvements.

### Key areas examined:

- Agencies acted to implement recommendations
- Actions addressed underlying issues
- Audit committees assessed actions for impact

This report is part of the second phase of VAGO's follow-up program. The first phase involved all agencies audited in 2012–13 self-attesting to their progress in implementing recommendations.

In this second phase we selected three audits, based on an assessment of risk and materiality, for detailed follow-up, to verify the information the agencies reported.

The aim was to provide further information to Parliament and the community about improvements that agencies may have made since the initial audit.

We assessed three things:

- First, that agencies had acted to implement the recommendations that they'd agreed to.
- Second, that the actions they undertook addressed the underlying issues that led to the recommendation being made.
- And third, that agency audit committees were assessing the actions for impact, as they are required to do.

## Background

- Major Projects Victoria (MPV) to provide project delivery and development services.
- Complex, technically challenging, unique projects of state significance.
- *Managing Major Projects* audit:
  - examined how effective, efficient and economical MPV was in managing major capital projects
  - examined frameworks to assess and report performance and demonstrate value for money
  - made 22 recommendations.

Major Projects Victoria, or MPV, was established to provide project delivery and development services across the Victorian Public Sector for complex, technically challenging or unique projects of state significance.

In October 2012, VAGO tabled an audit, *Managing Major Projects*, which examined how MPV was managing major capital projects and whether there were frameworks in place to enable MPV to assess and report performance, and demonstrate value for money.

The audit concluded that MPV was not able to demonstrate that it operated effectively, efficiently or economically.

There was poor oversight, and a lack of effective internal controls had contributed to poor governance standards and a lack of organisational integrity and accountability.

The audit made 22 recommendations, 18 aimed at MPV, three at the former Department of Business and Innovation and one at the Department of Treasury and Finance.

## Overview of this audit

### Audit scope

- MPV
- Twenty-one recommendations—one excluded

### We found:

- MPV has progressed in addressing most recommendations, bringing it to the required standard
- the most significant recommendations have not been adequately addressed, continuing concerns from the 2012 audit.

The audit included MPV, which is located within the Department of Economic Development, Jobs, Transport and Resources.

The one recommendation made to the Department of Treasury and Finance, was excluded.

In February 2015, MPV reported that it had implemented all 21 recommendations. However, we found that MPV had addressed only 15 of 21 recommendations, and these actions only brought MPV to the standard expected of all public sector entities.

Inadequately addressed recommendations around contractors, fraud risk assessment and other governance and project management issues, continue our concerns around integrity and accountability.

## Governance and performance

- Contractors recruited contrary to VAGO's 2012 recommendation
- Uncertainty as to whether contractors are employees
- Inadequate fraud risk assessment
- No long-term strategic plan
- Improved performance reporting

**Significant improvement to governance is still required.**

Despite our 2012 recommendation that MPV recruit from within the Victorian Public Sector, MPV advertised for contractors just weeks after the 2012 audit was completed.

Engaging contractors has a significant cost and raises questions around MPV's value for money. MPV has four executive officers and five contractors that cost the organisation around \$2.8 million a year, more than a quarter of its total annual cost.

MPV has five contracts in place that could last as long as five years, despite a lack of certainty around future projects. Contractors are paid monthly retainers ranging from \$23 000 to \$33 000, regardless of the hours worked or leave taken. This is one of the factors that blurs the lines between contractor and employee.

MPV's fraud risk assessment, commissioned by the former Department of State Development, Business and Innovation, was inadequate. It did not comprehensively assess risk across MPV's business, including procurement, which is a key MPV function.

MPV are still without a long-term strategic plan. This is inadequate, given MPV's unique role in the public sector.

MPV has improved its external and internal performance reporting. MPV's Budget Paper 3 measures have been improved, providing a more transparent assessment.

Significant improvement around MPV's governance is still required.



## Project management

- Inadequate processes to collect industry information.
- Limited continuous improvement around project management.
- MPV has:
  - reviewed project management guidance
  - created governance guidelines
  - improved financial management controls and reporting.

**Improved systems to imbed lessons from projects is still required.**

MPV's project management activities have seen varied improvement since 2012.

MPV is without processes to collect industry information.

While it collects the lessons learned internally, it does not have a sound process to translate these into new practices or updated guidelines. Such a process is an element of continuous improvement and MPV's lack thereof is a fundamental shortcoming.

MPV released updated project management guidance in February 2015. It also created governance guidelines for projects without external clients or end users.

MPV also improved the controls around its financial management system, where previously key information was being changed.

Reporting issues have also been addressed, by defining and reporting against key data.

## Audit committee oversight

- Audit committees required to review recommendations for impact
- The Department of State Development, Business and Innovation's audit committee assessed progress
- Special sub-committee established
- No framework to assess impact
- No routine assessment and no assurance

**The Department of Economic Development, Jobs, Transport and Resources needs to develop a framework to support its audit committee to review recommendation impact.**

Audit committees play a key role in the follow-up process. Under the Minister for Finance's standing directions, audit committees are required to monitor the implementation of recommendations. This includes reviewing the impact of actions undertaken.

The Department of State Development, Business and Innovation's audit committee monitored recommendation progress. This included developing a special sub-committee to monitor the implementation of our 2012 recommendations.

The Chair of the Department of State Development, Business and Innovation's Audit and Risk Committee was appointed to provide independent oversight, but attended less than a third of meetings. All other members were departmental staff.

More broadly, there is no review framework in place, meaning there is no consistent review of the impact of external recommendations.

As a consequence, the audit committee cannot hold management to account, or assure itself that actions taken in response to recommendations are effective in addressing the underlying issues.

## Key messages

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**Significant improvement to governance is still required.**

**Improved systems to imbed lessons from projects are still required.**

**The Department of Economic Development, Jobs, Transport and Resources needs to develop a framework to support its audit committee to review recommendation impact.**

The key messages from the audit are that a significant improvement to governance is still required, as are improved systems to imbed the lessons learned from projects.

The Department of Economic Development, Jobs, Transport and Resources needs to develop a framework to support its audit committee to review the impact of recommendations.



## Overall message

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**MPV has taken action to address most recommendations. However, it has not adequately addressed the most significant issues, and concerns around integrity and accountability remain.**

Overall, MPV has taken action to address most recommendations. However, it has not adequately addressed the most significant issues, and so concerns around integrity and accountability remain.

## Contact details

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