



Follow up of Managing Major Projects



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Auditor-General

Follow up of Managing Major Projects

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The Hon. Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Telmo Languiller MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on the audit *Follow up of Managing Major Projects*.

In October 2012, VAGO tabled an audit on the management of major projects by Major Projects Victoria. This audit examines whether the recommendations from 2012 have been implemented.

I found that Major Projects Victoria and the former Department of Business and Innovation had invested time and effort in implementing the recommendations from 2012. Much of this work has involved improving elements of its governance, bringing it in line with basic public sector standards.

However, weaknesses remain relating to the more significant issues that the 2012 audit identified. These include the engagement of contractors and their value for money, risks around fraud and project management.

While this audit does not make recommendations, VAGO will be regularly monitoring the progress of the implementation of the outstanding 2012 recommendations.

Yours faithfully



John Doyle MBA FCPA
Auditor-General

5 August 2015

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Auditor-General's comments



John Doyle
Auditor-General

In February 2015 I released my first audit following up on audit recommendations from 2012–13. This inaugural report was the basis for further follow-up audits to verify the information agencies provided.

This report, focusing on Major Projects Victoria (MPV), is the second in a series of follow-up reports that I intend to release this financial year. It provides Parliament and the community with information about the improvements that MPV may have made in relation to my recommendations.

The 2012 audit *Managing Major Projects* identified a range of weaknesses that culminated in our conclusion that MPV lacked organisational integrity and accountability. I made 22 recommendations to improve MPV's operations.

MPV has done little worth commending to address my recommendations and their underlying issues. The bulk of its effort has been focused on improving its administrative practices and associated governance. While important, this has simply got MPV to the standard at which it should always have been.

Regrettably, little meaningful action has occurred to address the core weaknesses.

In 2012, sufficient weaknesses were identified to warrant the recommendation for a fraud risk assessment, however, the assessment undertaken was inadequate. It appears to be a review that was done to address a recommendation, rather than a serious effort to understand and address the risks of fraud.

MPV is an organisation that relies on sound project management. An effectively applied framework is the foundation of its work. In 2012, critical weaknesses were identified. Some have been addressed but weaknesses remain. Given MPV's preference for highly paid contractors, its project management practices should be of the highest standard. They are not.

MPV's engagement of contractors continues to be problematic. MPV continues to fail to adequately assess whether it can find qualified, skilled staff within the Victorian public sector. Instead, it appears intent on engaging contractors—in what are essentially employee roles—with remuneration levels that MPV has failed to adequately justify.

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Given the diminishing number of major projects that MPV has to manage, there are significant questions about the value it provides to Victoria. I am not satisfied that MPV has fundamentally improved its performance.

A handwritten signature in black ink, appearing to read "John Doyle". The signature is fluid and cursive, with the first name "John" and last name "Doyle" clearly distinguishable.

John Doyle MBA FCPA
Auditor-General

August 2015

Audit summary

Major Projects Victoria (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, the Auditor-General tabled an audit on *Managing Major Projects* which found that MPV was not managing infrastructure projects effectively, efficiently or economically. The audit made 22 recommendations of which 21 were directed at MPV and the former Department of Business and Innovation, and one was directed to the Department of Treasury and Finance (DTF).

At the time, the audit raised a number of fundamental issues related to the lack of basic governance, major deficiencies with the management of internal contracts, inadequate project management, a lack of relevant and appropriate performance measures and no relevant data to assess how it is performing.

This audit follows up on whether MPV and the Department of Economic Development, Jobs, Transport & Resources (DEDJTR)—which now manages the responsibilities of the former Department of Business and Innovation and the former Department of State Development, Business and Innovation (DSDBI)—have addressed the 21 recommendations made in the 2012 audit. The DTF recommendation has not been assessed in this audit.

Conclusions

Since 2012, MPV has undertaken work to address a significant number of our recommendations. Both MPV, and the department it sits within, have addressed 15 of 21 recommendations. This focused effort has been driven by an oversight framework that included a committee to monitor the implementation of the recommendations.

Much of this effort has had the effect of bringing MPV up to the standard that Parliament and the community would expect of any public sector entity. This is particularly so in relation to MPV's administrative and governance arrangements.

Despite that effort, there are a number of key recommendations that have not been addressed—including fundamental issues around how MPV engages and uses contractors, and the value they provide. The evidence collected around practices for engaging contractors indicates that MPV has disregarded the recommendations made in the 2012 report. This is particularly evident in its decision to engage contractors only weeks after the 2012 report was completed—despite the audit raising significant concerns around the use of contractors.

Weaknesses remain around MPV's project management practices, which represents a fundamental part of its business operations. Actions to address the risk of fraud within MPV have been inadequate, and weaknesses also remain around external performance reporting. These continued gaps undermine confidence in MPV's transparency and the value obtained by this use of public funds.

MPV's failure to address key recommendations suggests that its actions to date have been focused on 'easy wins' rather than dealing with the substantive issues.

Findings

Governance

MPV has recruited contractors at significant expense, without understanding its skill requirements and without testing the availability of qualified Victorian public sector staff. This is contrary to, and shows disregard for, the recommendations that MPV agreed to in 2012. MPV's remuneration for its nine senior staff and contractors accounts for over a quarter of its overall annual cost.

DSDBI's fraud risk assessment of MPV was inadequate due to the scope of the review and its methodology. As a consequence it did not address the key fraud risks within MPV. MPV is now committing to revisit this recommendation, however, its lack of action does not provide assurance that it has appropriate systems in place to mitigate fraud.

MPV is still without a long-term plan. Given that it is an organisation largely reactive to government infrastructure policy, MPV is exposed to a range of strategic risks and challenges. It needs to plan for these and is exposed without such a plan.

Project management

MPV has not yet developed sound processes to collect industry information and to use the lessons learned internally to develop new and improved processes. This is a fundamental shortcoming in MPV's operation, given its core work is to provide project management services.

Since 2012, MPV has reviewed its project management guidance, and released an update in February 2015. MPV has created a governance guideline for projects without clients or end users, improved its project reporting and strengthened controls of its financial management system. These improvements reflect practices that should have been in place in 2012.

Reporting performance

MPV's project management has been strengthened by better data for Budget Paper 3 and internal reporting. It has introduced an electronic system and associated processes to monitor and report on projects. MPV's Budget Paper 3 measures have also improved.

Monitoring recommendations

DSDBI's audit committee monitored the implementation of the recommendations from the 2012 audit, given their significance. It also undertook an internal audit of MPV's implementation of the recommendations and had planned a further three internal audits of MPV.

The department's audit committee has processes in place to assess progress in implementing recommendations from other external reports. However, it is not assessing the impact these actions are having. As a consequence, neither the department nor the audit committee can be assured that the effort being put into addressing the issues underlying the recommendations is effective.

Audit method and cost

The audit was conducted under section 15 of the *Audit Act 1994*, and was performed in accordance with the Australian Auditing and Assurance Standards. Pursuant to section 20(3) of the *Audit Act 1994*, unless otherwise indicated any persons named in this report are not the subject of adverse comment or opinion.

Total cost of the audit was \$110 000.

Submissions and comments received

We have professionally engaged with Major Projects Victoria and the Department of Economic Development, Jobs, Transport & Resources throughout the course of the audit. In accordance with section 16(3) of the *Audit Act 1994* we provided a copy of this report to those agencies and requested their submissions or comments.

We have considered those views in reaching our audit conclusions and have represented them to the extent relevant and warranted. Their full section 16(3) submissions and comments are included in Appendix A.

1 Managing major projects

1.1 Introduction

Investing in and delivering infrastructure is a core function of government. Infrastructure investment is made to achieve economic, social and environmental outcomes—it provides the Victorian community with, among other things, roads, public transport, sporting stadiums, art galleries and hospitals. Victoria's infrastructure investment is significant, with Victoria projected to spend \$5.2 billion on infrastructure in the 2015–16 financial year.

Major Projects Victoria (MPV) was established to provide project delivery and development services across the Victorian public sector (VPS) for what are considered complex, technically challenging or unique projects of state significance.

In October 2012, VAGO tabled an audit, *Managing Major Projects*. The audit examined how effective, efficient and economical MPV was in 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 2012 audit concluded that MPV was not able to demonstrate that it operated and managed infrastructure projects 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. These aspects were particularly highlighted by:

- poor processes to engage and manage contractors and associated internal contracts
- records management practices that did not meet the requirements of *the Public Records Act 1973*
- the project management framework and better practice were not routinely applied, which resulted in poor project planning and the potential of poor outcomes and increased costs
- unreliable data collection processes and incorrectly reported performance, failing to meet public sector accountability standards.

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

Following the 2012 audit, there were machinery-of-government changes and MPV was merged into the former Department of State Development, Business and Innovation (DSDBI) before further machinery-of-government changes merged it into the Department of Economic Development, Jobs, Transport & Resources (DEDJTR).

Figure 1A summarises the 21 recommendations from the 2012 audit that were directed to MPV and the former Department of Business and Innovation—now DEDJTR—and provides an overview on whether they have implemented the recommendations.

Figure 1A
Status of recommendations

Number	Summary of recommendation	MPV	DEDJTR
1.	Seek legal advice on contractor employment and delegation issues	✘	N/A
2.	Review staff skills prior to engaging contractors and seek advice from the Department of Premier and Cabinet	✘	N/A
3.	Review contract management practices	✓	N/A
4.	Establish a performance management framework for contractors	✓	N/A
5.	Undertake a fraud risk assessment	✘	N/A
6.	Review recruitment practices	✓	N/A
7.	Establish conflict of interest processes	✓	N/A
8.	Review records management practices	✓	N/A
9.	Review the completeness of key records	✓	N/A
10.	Review business planning	✘	N/A
12.	Capture industry information	✘	N/A
13.	Develop oversight processes for the project management framework	✓	N/A
14.	Feed learnings into improved practices	✘	N/A
15.	Improve governance arrangements for projects without external clients	✓	N/A
16.	Improve management information	✓	N/A
17.	Define original approved budget	✓	N/A
18.	Strengthen financial system controls	✓	N/A
19.	Improve data quality and reliability issues	✓	N/A
20.i	Indicators should represent actual performance	N/A	✓
20.ii	Internal indicators should assess performance	N/A	✓
20.iii	Data collection processes and systems	N/A	✓
20.iv	Responsibility for assessing performance	N/A	✓
20.v	Established quality assurance mechanisms	N/A	✓
21.	Review indicators in the corporate plan	N/A	✓
22.	Establish quality assurance mechanisms over MPV data	N/A	✓

Source: Victorian Auditor-General's Office.

1.2 Governance

The 2012 audit found that MPV was not being effectively governed. It was broadly performing its property development and project management roles. However, there were significant issues with complying with key pieces of legislation, including the Standing Directions made under the *Financial Management Act 1994* and the *Public Records Act 1973*.

There were also major deficiencies with the way MPV managed internal contracts—there were missing contracts, variations made without adequate reason or assessment of performance, and questionable recruitment practices. Administrative deficiencies such as these diminish accountability and transparency as well as increasing the risk of error and fraud.

The audit made 10 recommendations focused on clarifying the role of MPV and establishing key components of good governance, such as conflict of interest, recordkeeping and effective contract management processes.

1.2.1 Employment status

The 2012 audit found that MPV had a number of contractors who had similar benefits to those typically available to employees, such as annual leave and executive bonuses. In addition, contractors had financial delegations and were authorising payments for MPV, contrary to the Standing Directions of the Minister for Finance.

Figure 1B Recommendation 1

Major Projects Victoria should obtain legal advice as to the employment status of its contractors and the provision of financial authorisations to them.

Since our audit, MPV has obtained legal advice on these two issues. Its legal advice on the employment status of its contractors indicates that it was unlikely that contractors would be considered employees if they used a proposed standard form contract.

MPV's legal advice was limited to the use of its proposed standard form contract, rather than an assessment of its contractors against a list of factors that determine someone's employment status. The importance of not just relying on the contract, but taking into account these other factors when determining employment status was included in MPV's legal advice.

MPV has failed to go beyond relying on its legal advice and properly assuring itself about the status of its contractors. As such, it has not addressed the underlying issue identified in the 2012 audit. Consequently, risks remain around the employment status of MPV's contractors.

1.2.2 Skills and capabilities

The 2012 audit found that MPV used a mix of VPS staff and contractors to deliver its projects. However, there was no documentation to demonstrate a need for engaging contractors, nor any assessment of the existing capability to fill those roles from within the VPS. The audit found that in most situations MPV considered only the use of contractors.

Figure 1C Recommendation 2

Major Projects Victoria should review the skills and capabilities required to carry out its functions and, if necessary, obtain advice from the Department of Premier and Cabinet about the ability for it to create additional public sector executive officer positions within Major Projects Victoria.

MPV's actions since the 2012 audit have not addressed these issues and indeed, are contrary to, and disregard, the recommendation it accepted.

In the same month that the initial audit was completed, October 2012, MPV engaged a recruitment consultant to run a recruitment process for three Group Directors, two general Project Directors and one Project Director for the Melbourne Market Relocation Project.

Before it started the recruitment process, MPV had prepared position descriptions. However, it did not assess whether the skills needed existed within the VPS already and it did not test the VPS market before going to contract. MPV also did not obtain advice from the Department of Premier and Cabinet about creating additional executive officer positions. Additional executive positions would enable MPV to fill vacancies from within the VPS and also make clear that these were employee roles, avoiding uncertainty about employment status and the ability to delegate certain functions.

In November 2012, MPV hired a recruitment consultant to undertake a Salary Benchmarking Survey which was intended to establish whether the salary range being offered for the MPV roles was consistent with similar roles in the broader project management and construction industry.

The benchmarking exercise had methodology weaknesses. It used 'career conversations' with individuals in the construction and project management industry to determine what salary MPV's contractors should receive. These conversations relied on individuals to disclose their salaries, rather than seeking evidence. In addition, it matched positions in other organisations against MPV's positions, but, it is unclear how they were matched.

In February 2013, after MPV had advertised the positions and undertaken interviews, the recruitment consultant produced a report titled *Review of Major Projects Victoria Senior Structure*. The review's aim was to recommend a senior structure for MPV and also to 'fulfil the Minister's commitment to implement all of the Auditor-General's recommendations'.

The report does not meet any of the Auditor-General's 2012 recommendations. Instead it recommends that MPV use contractors—a continuation of the issues identified in the original audit. This report comments on the skills required for MPV—something that should have been considered before October 2012 when the recruitment process began.

MPV's workforce strategy notes that its 'highly skilled senior contract project staff... bring important private sector experience to the public sector together with vital project continuity'. It is unclear from the resourcing strategy what 'important' private sector experience is, or what is meant by 'vital' project continuity.

From this recruitment round, MPV appointed one VPS staff member—already within the VPS—and engaged four contractors. A fifth contractor was also engaged in a separate recruitment process conducted in February 2013. However, as with the previous recruitment round, MPV did not assess whether the skills needed existed within the VPS already and it did not test the VPS market before going to contract. While DSDBI drafted a letter to the Department of Premier and Cabinet to increase its number of executive officer positions, this letter was never sent.

Cost of MPV's senior staff

MPV's staffing costs are high. Its choice to engage contractors has had a significant cost impact on the organisation. MPV's decision to engage five contractors without assessing the skills and capabilities of staff in the VPS raises questions around value for money. MPV has contracts in place with its five main contractors that range from two years, with an optional further two, to five years. This length of contract is similar to those of VPS executive officers.

MPV pays five contractors a 'retainer' each month. This is a fixed amount, ranging from \$23 000 to \$33 000, which is paid regardless of the hours worked by the contractor. In effect, this payment method also means that contractors are paid for periods of annual leave and sick leave. This contract payment method lacks transparency. MPV does not know how many hours its contractors work each month. Contractors complete a monthly self-attestation on performance, which is signed off by the executive director.

Figure 1D shows the annual remuneration for MPV's executive officers and senior contractors which totals to around \$2.8 million, or more than a quarter of MPV's total \$10 million annual cost. This is significant given MPV is delivering few projects. MPV had four Executive Officer 2 (EO2) positions prior to May 2015, at a cost of almost \$1.14 million. In addition, its five contractors cost in excess \$1.6 million for the period of May 2014 to April 2015.

In comparison, in April 2015, a large Victorian government department responsible for building large, complex infrastructure advertised for a project director. It sought this position within the VPS, with a salary range of \$141 969 to \$193 078. This is significantly less than the remuneration provided to MPV's project directors.

Figure 1D
Remuneration of MPV executive staff and senior contractors

VPS/Contractor	Position	Total remuneration package
VPS (EO2)	Executive Director	
VPS (EO2)	Governance and Business Services Director	
VPS (EO2)	Group Director	
VPS (EO2)	Project Director ^(a)	
VPS total		\$1 137 666
Contractor 1	Group Director	
Contractor 2	Group Director	
Contractor 3	Group Director	
Contractor 4	Project Director	
Contractor 5	Project Director	
Contractor total		\$1 647 949
Overall total		\$2 785 615

(a) This VPS staff member resigned April 2015.

Source: Victorian Auditor-General's Office.

Employment status

The 2012 audit found there was uncertainty about whether MPV's contractors were in fact employees because the contractors were:

- heavily integrated within MPV, using its premises and equipment to conduct their business
- a part of MPV's senior management team
- economically dependent upon MPV.

Many of these issues still exist with MPV's current contractors. MPV's 2014–15 Workforce Strategy lists its five long-term contractors as part of the 'MPV Core Staff' rather than as contractors. Contract terms highlighted above indicate that the five contractors are regarded as staff rather than contractors.

Two contractors currently hold senior management roles within MPV, and a third contractor recently held a senior management role.

MPV advised that contractors are regularly available and accessible at its premises or offsite office at Melbourne Park—further suggesting contractors are heavily integrated into MPV and using its premises to conduct their business. MPV's advice that contractors are regularly available also raises issues about contractors being economically dependent on MPV—another factor that blurs the lines between contractor and employee.

1.2.3 Contract and contractor management

MPV's contract management practices were found to be significantly deficient in 2012. There were a number of weaknesses with internal contracts including:

- five missing contracts
- little documentation to support contract variations
- little or no documentation to support extensions to the length of contracts and revised payment terms.

Figure 1E
Recommendations 3 and 4

3. Major Projects Victoria should review its contract management practices and implement practices that are consistent, at a minimum, with the processes and policies that the Victorian Government Purchasing Board has established.
4. Major Projects Victoria should establish and implement a performance management framework for internal contractors so that payments and variations are linked to acceptable performance.

MPV is now meeting the basic requirements of all public sector agencies for contract management. Contractor files are kept on MPV's record management system. It also has guidance that outlines performance discussions are to be held with contractors every six months. There was evidence that these discussions were held and records kept. Between 2012 and the time of this audit, MPV had not made any contract extensions or variations.

1.2.4 Fraud risk

The 2012 audit found deficiencies with systems and processes. These included missing contracts, contract variations made without documentation and significant issues with the recruitment of ex-employees into contractor roles. In addition, there were unexplained changes to master files.

Figure 1F
Recommendations 5, 6 and 7

5. Major Projects Victoria should undertake an independent fraud risk assessment, particularly around contract management and payment systems, given the weaknesses in controls.
6. Major Projects Victoria should review its recruitment practices involving ex-employees so that, as a minimum, perceived and potential conflicts of interest are managed, and value-for-money obtained.
7. Major Projects Victoria should establish a conflict of interest register and processes, in line with the Department of Business and Innovation's conflict of interest policy, to enable it to identify and manage perceived, potential and actual conflicts of interest.

A fraud risk assessment was commissioned by the former DSDBI. This was inadequate. It included a simple online 'fraud assessment' survey of MPV staff and tested some internal controls. However, it did not comprehensively assess risk across MPV's business and the methodology did not examine procurement—a key part of MPV's business.

The fraud risk assessment also did not examine any other issues found in the 2012 audit, such as master file changes and IT business rules. It was also unclear what level of testing of the internal controls was undertaken. While DEDJTR has committed to revisit this recommendation and undertake a comprehensive fraud risk assessment of MPV, its lack of action to appropriately address this recommendation does not provide assurance that it has appropriate systems and processes in place to mitigate the risk of fraud.

We found that since the 2012 audit, MPV has introduced guidelines for the recruitment of VPS staff. The guidelines provide information on the process involved and include checklists for inclusion in human resources files. Overall the guidelines are comprehensive. MPV has also established a conflict of interest register and a supporting process. There was evidence that where conflicts have arisen, they have been considered by an appropriate officer and a decision has been made and documented. The implementation of these guidelines and the conflict of interest register means that MPV now conforms to the minimum standard expected of all public sector agencies.

1.2.5 Records management

The 2012 audit found that there were significant deficiencies with the way MPV was managing its key records. MPV could not provide key project information, such as project planning documents, construction contracts, project data and consultant reports.

Figure 1G
Recommendations 8 and 9

- | |
|--|
| <ol style="list-style-type: none">8. Major Projects Victoria should review its records management processes and practices against the requirements of the <i>Public Records Act 1973</i> and associated standards and policies, and implement changes as appropriate.9. Major Projects Victoria should review the completeness of its key records, including contracts and project documentation. |
|--|

We found that MPV has now established a records management system, which is a basic requirement of all public sector agencies. After undertaking a review in 2013, MPV produced guidance for records management, which mandates the use of its document management system for all MPV staff. The guidance also mandates a file structure and file naming conventions.

There was mandatory, comprehensive training for all staff in 2013. Since then, there has been one-on-one training for new starters and those that require further assistance. MPV has been undertaking information management audits every six months. The audits monitor usage of the system and the network drive as well as other methods of file management, such as compactus. In addition, MPV was able to locate key documentation when requested, such as internal contracts, performance assessments and conflict of interest forms.

1.2.6 Business planning

In 2012, we found that MPV had developed a four-year strategic business plan but stopped using it after only a year following a change of government. MPV was without a fundamental planning document to aid effective governance. The 2012 audit also found that MPV's stated role did not match its actual role, as it did not deliver 'complex, technically challenging, and unique projects of state significance'.

Figure 1H Recommendation 10

Major Projects Victoria should review its business planning to provide better clarity around its role, the actions it will implement to fulfil its role and the processes it will use to assess achievement of its role.

MPV has not addressed this recommendation. It is still without a long-term strategic plan, relying on its annual planning. This approach is inadequate, given MPV's unique role within DEDJTR and public sector. While MPV is an agency that reacts to government infrastructure policy decisions, there is still a need for it to plan strategically. The very fact that it is reactive means it is exposed to a range of risks and challenges, particularly the risks around the sustainability of its workforce where there is policy uncertainty.

In its 2013–14 and 2014–15 annual plans, MPV stated that it had considered its role and it remains unchanged. However, there is no evidence that MPV has formally reviewed its role or how it assesses the achievement of its role. There is also no evidence that MPV is undertaking any complex or technically challenging major projects, as described in our 2012 report. In fact, since 2012, the number of projects MPV is undertaking has declined and it is undertaking more planning or development projects than in 2012.

1.3 Project management

MPV manages the delivery of infrastructure projects, typically on behalf of other public sector entities. Effective project management is important to ensure that there is a consistent approach. This maximises the likelihood of projects being delivered on time, to cost and within the expected scope. Effective project management also requires robust oversight frameworks and reliable project management information.

In 2012, MPV's project management framework was found to have gaps. There was ineffective oversight and quality assurance processes, which resulted in the framework and better practice principles not being routinely applied. MPV did not have established processes to learn from all projects and use this information to continually improve.

1.3.1 Project management framework

The 2012 audit found that while MPV had generally sound project management guidelines as part of its framework, there were no systems or processes in place to update it. There were also no systems to capture and assess information from industry and compare it against the project management guidelines in place. MPV was not consistently applying its guidelines, so it did not have a sound understanding of the status of projects across the organisation.

Figure 11
Recommendations 12 and 13

- | |
|--|
| <ol style="list-style-type: none">12. Major Projects Victoria should develop a process to routinely capture and assess industry and other information, and update its Project Management Framework as appropriate.13. Major Projects Victoria should develop robust oversight processes so that the Project Management Framework is appropriately applied and key stages approved and reviewed, and there is compliance with required project standards, policies and procedures. |
|--|

These recommendations have not been addressed. While MPV has implemented new project management guidelines, it has not developed adequate processes to routinely capture and assess industry and other information. This is a fundamental shortcoming in MPV's operation, given its core work is to provide project management services.

MPV updated its project management guidance and released it in February 2015. It also participated in a benchmarking study in 2013 commissioned by the New South Wales Land and Housing Corporation. The benchmarking provided little information, other than to confirm that MPV's fees are generally on par with the industry as a whole. MPV is in the process of undertaking further benchmarking, however, this is also focused on fees.

In MPV's response to VAGO's *Responses to 2012–13 Performance Audit Recommendations* follow-up report, tabled in Parliament in February 2015, MPV reported that it ran 'Quarterly Building Excellence Forums'. These forums were intended to capture and assess industry and other information. However, MPV did not run these forums, and as a consequence it does not capture current information to update its project management framework and related processes.

Further, MPV reported that it supports professional memberships as another method of capturing and assessing industry information. Data from the 2014–15 financial year shows that MPV has supported four Certified Practising Accountant (CPA) memberships, seven individual memberships to industry associations and it has three organisational memberships to industry associations. Given the low level of individual take up of memberships to industry specific groups—project management or construction related—it is difficult to see how this information is captured and used by MPV.

Project oversight

MPV has implemented 'time, cost, scope reports' which provide a robust oversight process to ensure the Project Management Framework is being complied with. The reports track the original time, cost and scope of a project against its delivery. Each report is updated and discussed monthly with the project management team. Key members of the governance team attend to provide quality assurance. The report is used for internal reporting, and is provided to the executive director as well as being compiled for Budget Paper 3 reporting.

1.3.2 Project lessons

The 2012 audit found that MPV did not have systems or processes in place to routinely capture information about projects to enable continuous improvement. It also did not routinely or regularly assess projects for this purpose.

Figure 1J
Recommendation 14

14. Major Projects Victoria should establish a project review mechanism so that lessons from each project are identified, assessed, incorporated into practices as appropriate, and communicated.

This recommendation has not been addressed. While MPV is collecting information on lessons learned, there is no process in place to translate these lessons into new practices or to update the project management guidelines. This means that MPV still has no way to update its project management guidance—an essential element of continuous improvement.

MPV engaged consultants to produce a future strategy for lessons learned. Following this, MPV produced a lessons learned database and has been undertaking quarterly staff forums. The aim of these forums is to share the lessons learned from projects managed by MPV. There have been a series of forums focused on key themes such as procurement and governance.

1.3.3 Project accountability

The 2012 audit found that where the Department of Business and Innovation was the client organisation, there was little or no independent oversight, and projects lacked appropriate governance. There was no evident management information that collated information on all projects to give management an overview of performance.

Figure 1K
Recommendations 15 and 16

15. Major Projects Victoria should define and document governance arrangements for projects without external clients or end users so that there is an appropriate level of accountability, direction and oversight of project implementation.
16. Major Projects Victoria should develop management information that provides a reliable, documented overview of project performance across all projects.

MPV has a governance guideline in place for projects without an external client or end user. It specifies a process to appoint independent oversight using a memorandum of understanding and setting up an independent steering committee. There was evidence that the guidelines were followed where applicable, and that steering committees had been formed and were meeting.

MPV has also created a 'time, cost, scope report' that provides management with information on project performance across all MPV projects.

1.3.4 System controls and quality

The 2012 audit found that system controls and quality were lacking because MPV did not define original approved budgets. Changes to original budgets had been made in MPV's database, InSynergy, however, these changes were not evident in reports. There was also a number of manual data collection processes in place.

Figure 1L
Recommendations 17, 18 and 19

17. Major Projects Victoria should define what an original approved budget is and consistently apply it to all projects.
18. Major Projects Victoria should strengthen financial management system controls so that original budgets cannot be altered, and so there is a clear audit trail of changes.
19. Major Projects Victoria should review and address data quality and reliability issues, including assessing how it defines key data, and how it collects, collates and manages the data.

MPV has created data definitions for original budget as well as other key terms, and reports against these regularly. The data definitions are used for the ‘time, cost, scope reports’, which are then used for MPV’s internal reporting and Budget Paper 3 reporting.

The ‘time, cost, scope reports’ have also addressed data quality and reliability issues. There is a process in place to discuss ‘time, cost, scope reports’ and the governance team provides oversight and quality assurance.

MPV’s financial system has been altered so that the original approved budget for a project is closed and any additions to the budget are shown in a separate column as a revision or transfer. This improves the transparency of MPV’s financial reporting.

1.4 Reporting performance

Performance measures and reporting are crucial to effectively monitor projects and allow management to track performance and address underperformance when required. Performance reporting is also a key element of effective governance and public sector accountability. The VPS has a responsibility to monitor and report on whether it is using public funds effectively and efficiently.

MPV’s performance reporting in 2012—at a project and organisational level—was inadequate and it did not know how it was performing. MPV had reported, through the former Department of Business and Innovation, that it had achieved 100 per cent performance over a 14-year period, even though its actual performance could not be reliably determined.

1.4.1 External and internal indicators

In 2012, MPV’s internal and external indicators were inadequate. The indicators did not relate to MPV’s objectives, they were not relevant or appropriate and were incapable of fairly representing actual performance.

Figure 1M
Recommendations 20 and 21

- | |
|---|
| <p>20. The Department of Business and Innovation should undertake a thorough and robust review of its external and internal indicators related to Major Projects Victoria with the aim of:</p> <ul style="list-style-type: none"> i • developing new Budget Paper 3 measures that better represent actual performance ii • developing new internal indicators that provide Major Projects Victoria and the Department of Business and Innovation with a robust and reliable assessment of Major Projects Victoria’s performance. <p>21. The Department of Business and Innovation should, in light of the weaknesses identified with its internal and external performance indicators, review the major projects indicator in its Corporate Plan 2009–12.</p> |
|---|

Since 2012, MPV has established the Governance and Executive Services Branch which is responsible for internal and external performance reporting. It has also developed an electronic system for capturing data and reporting.

The responsible department and MPV have developed new Budget Paper 3 performance measures twice following the 2012 audit. The most recent iteration of the measures is included in the 2015–16 Budget Paper 3, and shown in Figure 1N.

Figure 1N
Major Projects Victoria Budget Paper 3 measures 2015–16

Major outputs/deliverable	Unit of measure	2015–16 target
Quantity		
Major projects in delivery or development at 1 July by Major Projects Victoria and the Major Projects Division.	Number	15
Quality		
Major Projects Victoria projects, with contracts in place as of 1 July that have had less than 5 per cent variation in contracted costs from 1 July.	Number	4
Major Projects Victoria projects, with contracts in place as of 1 July that have had no material variation in contracted scope from 1 July.	Number	4
Timeliness		
Major Projects Victoria projects, with contracts in place as of 1 July that have had no material variation in contracted time from 1 July.	Number	4

Source: Service Delivery 2015–16, Budget Paper 3.

These new measures are an improvement on the measures MPV used in 2012. Improvements include measurement against contracts rather than agreed plans, and an increased numbers of projects. In 2015–16, MPV and the Major Projects Division of DEDJTR also have included a quantity measure that tracks the number of projects in development or planning phases. These projects have not previously been counted in Budget Paper 3 measures.

Internal indicators

MPV is also using its Budget Paper 3 measures as internal indicators. Each project has a ‘time, cost, scope report’. They are monitored for variations and there are meetings each month to discuss each report. The reports also go to the executive director each month.

The 2012 audit also recommended that the former Department of Business and Innovation review the major project indicators in its corporate plan. DSDBI produced a draft corporate plan and amended the indicators for major projects. However, before it could be released publicly, machinery-of-government changes meant DSDBI no longer existed.

1.4.2 Assessing performance and quality assurance

The 2012 audit found that there were issues with the veracity of reported performance data. The former Department of Business and Innovation had consistently reported that MPV had achieved 100 per cent performance over a 14-year period, even though actual performance could not be reliably determined. There were no processes in place to provide assurance over reported data.

Figure 10
Recommendations 20 and 22

20. The Department of Business and Innovation should undertake a thorough and robust review of its external and internal indicators related to Major Projects Victoria with the aim of:
- iii • developing, documenting and using robust systems and processes to assess performance using Major Projects Victoria's external and internal indicators
 - iv • re-allocating responsibility for assessing performance, given failings with the current functions and responsibilities
 - v • establishing quality assurance mechanisms to oversee the performance assessment process to provide assurance about the process.
22. The Department of Business and Innovation should establish quality assurance mechanisms over Major Projects Victoria to provide it with appropriate assurance around Major Projects Victoria's processes to assess performance.

These three parts of recommendation 20 have been addressed. Responsibility for performance assessment has been reallocated to MPV's Governance and Executive Services Branch. This branch has created a robust process to assess MPV's performance—including a system to capture the data and an internal quality assurance process. However, these systems should have been in place prior to VAGO's 2012 audit.

DEDJTR also has a quality assurance process for Budget Paper 3 data. In the first quarter of each year, it collects data definitions for each indicator. This includes how the indicator is defined, where the data comes from and the calculation method used. In following quarters, these data definitions are used to remind areas how to collect data and also to allow DEDJTR to provide assurance over Budget Paper 3 data.

1.5 Monitoring recommendations

This criterion assesses whether agencies have allocated resources for regularly monitoring progress against performance audit recommendations, and monitoring their impact.

Agency audit committees are required to monitor audit recommendations and enact planned responses under Standing Direction 2.6(f) under the *Financial Management Act 1994*. This includes requirements for audit committees to:

- recommend how the responsible body should act on advice received from external audits
- monitor actions taken by management to resolve issues raised by external audits

- monitor whether the accepted recommendations of the external auditors are adopted and addressed by management on a timely basis
- review the impact of actions taken by management intended to resolve issues.

This follow-up audit examined the actions taken by the former DSDBI to monitor the actions taken by MPV to implement and address the recommendations on a timely basis, and to review the impact of the actions taken by MPV to resolve issues.

1.5.1 Monitoring implementation of recommendations

Following the 2012 audit, a special subcommittee was formed to monitor the implementation of the recommendations. Discussions with DEDJTR noted that due to their serious nature, it appointed the Chair of the Audit and Risk Committee to provide independent oversight and act as a conduit between the subcommittee and the Audit and Risk Committee.

The subcommittee was comprised of the Chair of the Audit and Risk Committee, two Departmental Deputy Secretaries, two members from Invest Assist, a division of the former DSDBI and the Executive Director of MPV.

The subcommittee met fortnightly from February 2013 to December 2014. Minutes from the meetings show that there was regular reporting on the status of the recommendations. The recommendations were monitored through an implementation plan, which listed the recommendations, their status and evidence of their completion.

While the Chair of the Audit and Risk Committee was a member of the subcommittee, minutes from the subcommittee show that he attended less than a third of all meetings. All other members were departmental staff.

1.5.2 Internal audit work

In September 2013, the former DSDBI commissioned an internal audit to review MPV's implementation of VAGO's audit recommendations. The report was completed in December 2013 and found that MPV had implemented 11 recommendations, with eight in progress and three complete but not yet implemented.

A further internal audit of two recommendations was undertaken in 2014–15, relating to records management and lessons learned. The audit found that there were further opportunities for MPV to leverage its lessons learned.

Prior to machinery-of-government changes, DSDBI's internal audit program shows there were three upcoming internal audits in MPV, a financial controls 'health check' and two audits to review key recommendations from the 2012 audit.

At this stage, it is unclear whether the new DEDJTR's internal audit program will include any audits of MPV.

1.5.3 Monitoring the impact of VAGO's recommendations

Agencies should have systems and processes in place to support audit committees to monitor the progress of the implementation of accepted recommendations and to assess their impact.

DEDJTR's audit committee—which is responsible for overseeing MPV—is not performing its function of assessing the impact of actions to address external recommendations. This is in part because of the lack of supporting frameworks within DEDJTR and also because of an apparent lack of awareness of the Standing Direction 2.6(f) requirement to review the impact of actions intended to resolve issues.

As a consequence, MPV and the audit committee cannot be assured that the effort being put into addressing the issues underlying the recommendations are effective. This needs to be addressed.

Appendix A.

Audit Act 1994 section 16— submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994*, a copy of this report was provided to Major Projects Victoria and the Department of Economic Development, Jobs, Transport & Resources.

The submissions and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

RESPONSE provided by the Acting Secretary, Department of Economic Development, Jobs, Transport & Resources



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Mr John Doyle
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Dear Mr Doyle *John*

Thank you for your letter dated 17 July 2015 and your audit report '*Follow up of Managing Major Projects*' in relation to Major Projects Victoria (MPV).

Since the 2012 audit report '*Managing Major Projects*', MPV and the Department have worked to implement its recommendations.

Your report notes that work has been undertaken to address a significant number of these recommendations in the report.

We note your finding that further work is required to implement all of your original recommendations, and this will be completed in 2015.

Thank you for your report.

Yours sincerely

Justin Hanney
Acting Secretary

27/7/15



Auditor-General's reports tabled during 2015–16

Report title	Date tabled
Follow up of Collections Management in Cultural Agencies (2015–16:1)	August 2015

Further information

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