



Annual Report

2014–15

Volume 2

Key Audit Themes



FOREWORD

In 2014–15, VAGO's program of financial and performance audits covered hundreds of Victorian public sector agencies. Each audit led to recommendations for improvement, specific to the context of that agency.

While the findings of every audit are unique, there are also times when our audits reveal challenges and shortcomings common to many different agencies and to many different kinds of services and operations.

Audits are designed to be tools for improvement. Traditionally, it is only the agency subject to the audit that benefits from the insights offered and recommendations made. In our experience, it is rare that an agency will consider the findings of an audit of another agency, despite VAGO's reports being publicly available.

This is a missed opportunity to learn from the experience of others. If an issue is common to other public sector agencies, then it is likely to also present a challenge to your own organisation.

To make these common findings more accessible to all agencies, we have analysed our 2014–15 audit reports and developed a summary of the most frequent and significant audit findings—our 'key audit themes'. Some are familiar—oversight and monitoring, responding to recommendations, financial sustainability. Some have changed some over time, shifting as the focus of my audit program changes to accommodate emerging priorities. Other themes are new, emerging this year for the first time.

Not every audit finding across the year is included in the annual themes. For example, although our audits found areas for improvement in organisational governance, information technology and conflicts of interest, these findings were not widespread and are therefore not reflected in the 2014–15 themes.

Although we have developed key audit themes annually since 2009, this is the first year that we have included them in the annual report to Parliament, as a reflection of the outcomes of our program of work.

Also new is the inclusion of self-assessment questions for each theme, developed from the criteria applied to agencies during the audit process.

We invite all public sector agencies to assess their own operations against the seven audit themes from VAGO's 2014–15 program and use this resource to improve their efficiency, effectiveness and accountability.

By sharing the lessons from audits widely across the Victorian public sector, we hope to maximise the value the community gains from the state's investment in the office.



Peter Frost
Acting Auditor-General

October 2015



KEY AUDIT THEMES



Agencies need to understand and manage risks that could impact on their performance or on the communities they serve.

Risks to technology security

Financial risks

Risks to the community

04

MANAGING RISKS TO THE PUBLIC SECTOR AND COMMUNITY

If performance reports don't contain the right information, are hard to understand or cannot be relied upon, then the public sector cannot be held to account for its performance.

Reliable and transparent financial reports

Reliable and accurate performance reports

Performance measurement: measuring the right things

Meaningful and transparent performance reports

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MEASURING AND REPORTING PERFORMANCE

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PROCUREMENT AND CONTRACT MANAGEMENT

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TIMELY ACTION ON RECOMMENDATIONS AND REVIEWS

Value for money in procurement

Probity in procurement

Managing contractor performance

Governance of outsourced services

Every opportunity should be taken to strengthen probity, optimise value for money and maintain good governance over outsourced services.

Although agencies accept the majority of recommendations made by audits and inquiries, this does not necessarily translate to action.

Addressing issues from internal and external reviews

Acting on financial audit findings

Acting on performance audit recommendations

INTRODUCTION

What are key audit themes?

Since 2008, we have analysed our audit reports to identify recurring findings. The most common and significant findings become our 'key audit themes'. These themes cover areas likely to be broadly relevant to agencies within the Victorian public sector.

How do we develop the key audit themes?

We followed a rigorous process to identify the key themes of our 2014–15 reports. A panel of auditors analysed each report and recorded 419 distinct findings. These were classified into 32 common findings, and grouped under broad categories. Based on the most frequent and significant common findings we identified seven of these categories as our key audit themes. The analysis was reviewed by audit teams and subjected to independent quality review by a senior auditor.

What are the limitations to the key audit themes?

Our key audit themes are not a complete reflection of the significant issues facing the Victorian public sector. They are based on the audits conducted within a financial year and as such, they reflect what we chose to audit. Not every issue facing the public sector will be addressed by VAGO every year.

Common findings are more likely to be areas for improvement than affirmations of positive practice. This is because our audit program focuses on areas that need improvement and put the public sector at risk.

Sometimes, however, our audits do identify better practices in public service delivery. These positive examples are included here as guidance for agencies.

Who should use this analysis and how?

- Management can use the themes as a checklist of considerations when developing and implementing programs and projects.
- Boards and audit committees can seek assurance from management that the risks identified by the themes are being managed and that controls are in place to address them.
- Internal auditors can use the themes to inform their own annual program of audits.
- Private or not-for-profit organisations working on behalf of the public sector can use the themes to inform their risk assessments and improve the way they design and deliver government services.

To help you to use the themes, we have included self-assessment questions with each theme.

This year's themes

The 2014–15 key audit themes are:

1. Oversight, monitoring and accountability
2. Planning for efficient and effective public sector services
3. Managing risks to financial sustainability
4. Managing risks to the public sector and community
5. Procurement and contract management
6. Measuring and reporting performance
7. Timely action on recommendations and reviews.

Some of this year's themes are familiar—issues of oversight and monitoring, responding to reviews and known issues, performance measurement and reporting, and financial sustainability have all featured in previous publications of our common findings. As the figure to the right shows, some themes have evolved from the previous year, such as in the areas of planning and risk management, where we are seeing more specific findings. Some themes previously identified—e.g. governance and workforce management—have not featured as strongly in this year's audit findings, so are not included in this report. This year, however, we have seen a new theme emerge, concerning the value and integrity of procurement and contract management.

Helping you use the key audit themes

We offer presentations on how our key audit themes may inform your work. We can tailor our themes to suit different sectors, or offer more detail on a particular theme. If your organisation would like VAGO to present, please email susanna.young@audit.vic.gov.au

Relationship between 2013–14 and 2014–15 Key Audit Themes



01

OVERSIGHT, MONITORING AND ACCOUNTABILITY

More than two thirds of our 2014–15 reports found agencies failed to check up on activities they were responsible for under legislation, policy or governance arrangements. These oversight gaps appeared in a wide range of contexts, from central departments responsible for whole-of-government plans, to individual agency management responsible for internal controls. These failures in oversight contributed to significant shortcomings in governance and performance.

OVERSIGHT BY DEPARTMENTS

Departments have a responsibility to advise their minister on how portfolio entities are fulfilling their responsibilities under legislation. Departments must also support the achievement of the aims of particular parts of legislation administered by their minister. Sometimes this will include taking responsibility for delivering a significant strategy or implementing a plan.

This means departments need to guide, monitor and sometimes intervene in the activities of the portfolio agencies, to make sure they comply with legislation and deliver government objectives.

Continuing a theme first identified in 2009, we often found that departments did not adequately oversee their portfolio agencies. At times, this meant that government could not be sure legislation was complied with, or that taxpayer funds were spent effectively. Without this clear sight, the accountability of the public sector to Parliament and the community is fundamentally undermined.

'The oversight of school financial practices is essential to provide the government with assurance that its schools are complying with its legislative duty to provide free instruction...If the autonomous schools model is to be successful, the Department of Education and Training (DET) needs to exercise its own oversight role by providing clear guidance to schools and hold them to account for their efficient, effective and economic operation, as well as their educational performance.'

Additional School Costs for Families

GUIDANCE AND SUPPORT FROM DEPARTMENTS

Monitoring compliance is not the only element of good oversight. Clear and accessible guidance helps agencies understand how to best meet expectations and obligations. Where responsible departments provided guidance and support, we often observed better performance from portfolio agencies than where support was lacking.

'The Department of Education and Training (DET) has developed a comprehensive and well-researched framework to support early-years transitions. This has led to a greater uniformity of approach and contributed to improved early-years transition outcomes. It does not, however, provide the same levels of support and guidance to schools to transition students from primary to secondary school.'

Education Transitions

'Department of Environment and Primary Industries (DEPI) has not effectively overseen the trust's management of the reserve. It has not worked proactively with the trustees to assist them to resolve significant governance and management issues when these matters have been brought to its attention in recent years. As there has been no regime established for trustees to report to DEPI and in turn to the minister on their management of the reserve, there is no accountability for the trust's performance.'

Management and Oversight of the Caulfield Racecourse Reserve

OVERSIGHT AND MONITORING BY AGENCY MANAGEMENT

Senior management within agencies are responsible for monitoring staff compliance with internal policies. Internal policies are not just 'red tape'—they are critical controls to ensure that staff and the community remain safe, that integrity is maintained, that operations are efficient, and that laws and standards are followed. In several audits we found that staff were not following important internal policies, and that management had not effectively monitored or enforced compliance.

'We looked at travel and accommodation spending by universities, which totalled \$137 million in 2014. While there are frameworks in place to control this expenditure, these were not comprehensive, and our testing showed the policies and procedures were not routinely adhered to. These results are troubling and should concern those who govern universities.'

Universities: 2014 Audit Snapshot

'Lack of enforcement—2013–14 financial audits show that about 65 per cent of our (ICT control) audit findings are due to laxity or lack of enforcement by management.'


Lack of monitoring controls—there is an opportunity for management to implement controls that periodically monitor the ICT environment and its security.'

Information and Communications Technology Controls Report 2013–14

'The Department of Health and Human Services (DHHS) requires all health services and Ambulance Victoria (AV) to have a current occupational violence policy. However, it does not monitor whether health services or AV are fulfilling this requirement... Site visits and staff feedback indicate limited oversight of, and accountability for, making sure these policies are being adhered to across the organisation.'

Occupational Violence Against Healthcare Workers

SELF-ASSESSMENT QUESTIONS

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1. Does my department have oversight mechanisms in place to monitor portfolio agencies' compliance with relevant legislation?
 2. Do we monitor progress of other areas/agencies against the actions and goals in our major plans and strategies?
 3. How does my department/agency know the guidance and support we provide to portfolio agencies/staff is meeting the needs of those agencies/staff?
 4. Do we check up on compliance with our internal policies and frameworks?

02

PLANNING FOR EFFICIENT AND EFFECTIVE PUBLIC SECTOR SERVICES

Good planning is fundamental to achieving public sector goals and delivering services efficiently and effectively. Good planning helps agencies decide where to direct their operational resources and how to prioritise their services.

USING STRATEGIC PLANS TO EFFECTIVELY ACHIEVE OBJECTIVES

Strategic planning is about working out a way to achieve something, and then determining a detailed approach. Strategic plans provide a 'road map' to achieving long-term goals.

We found that agencies did not always develop plans to achieve their goals, including both legislative objectives and goals set by government in policy and frameworks. Without plans it was not clear how these objectives would be achieved. In some cases, the lack of planning had clearly undermined progress.

'The Catchment and Land Protection Act 1994 prescribes an integrated, long-term approach to catchment management in Victoria. However, the existing statewide approach is fragmented and short term in focus, with no expectations regarding the quality of land and water resources needed to meet the Act's objectives... There is no long-term overarching strategy to support an integrated approach to catchment management in Victoria.'

Effectiveness of Catchment Management Authorities

'There is currently no overarching strategy or leadership for mental health and the justice system that focuses on improving outcomes for people with a mental illness. Where plans do exist, they are limited to agencies' own areas of responsibility, or only address parts of the justice system.'

Mental Health Strategies for the Justice System

Encouragingly—other audits found examples of good strategic planning to support the achievement of government goals.

'VicRoads has the most comprehensive strategy for managing the environmental impacts of the road system, and this is a model of what should exist on a portfolio-wide basis. The strategy has specific goals and actions for reducing greenhouse gas emissions, improving air quality and minimising traffic noise impacts. VicRoads also regularly reports on progress and can demonstrate that it is improving the environmental performance of the road network.'

Managing the Environmental Impacts of Transport



UNDERSTANDING NEEDS AND PLANNING FOR EFFICIENT SERVICE DELIVERY

Delivering services in the right way, to the right people and within available resources takes sound operational planning. We found some agencies had a sophisticated understanding of service need, demand drivers and risks and used this knowledge to plan their operations within tightened financial circumstances.

'Victoria Legal Aid (VLA) has a structured planning framework...informed by a sound understanding of service demand and gaps, organisational risks and financial sustainability...VLA has demonstrated a thorough understanding of the drivers that influence the supply and demand for its services. It undertakes regular environmental scanning, which focuses on the impact that drivers may have across VLA and on specific program areas. In addition, VLA monitors the monthly impact of its internal policy changes that influence the amount of legal services that it is able to supply.'

Access to Legal Aid

We also found several opportunities for agencies to strengthen their operational planning for service delivery, by analysing data on how services are used, identifying opportunities to reduce duplication or share resources and gaining a better understanding of the needs of service users. Departments could support strong operational planning by collecting and sharing information on good practices by agencies within their portfolios.

'There is no system-wide planning for high-value imaging equipment. The department does not forecast future demand or coordinate the approach to managing demand for computed tomography (CT) and magnetic resonance (MR) imaging services at a time when demand is growing rapidly. Health services' planning for, and management of, imaging equipment over the medium to longer term is poor. Without informed planning at the department and health-service level, there is a risk that patients will not be able to access CT and MR scanners in close proximity to them, in a timely way, and without incurring additional costs.'

*Efficiency and Effectiveness of Hospital Services:
High-value Equipment*

SELF-ASSESSMENT QUESTIONS

1. Are our high-level goals supported by strategies and plans with clear actions and priorities?
2. Do our plans include targets and indicators to help measure our progress?
3. Do our plans comply with applicable legislation and clearly link to the relevant statutory and government policy and objectives?
4. Does our operational planning reflect an understanding of our capacity and the demand for our services? Is this understanding informed by a sound evidence base?
5. Do we refresh our operational plans based on periodic analysis of both good and poor performance across the system?

03

MANAGING RISKS TO FINANCIAL SUSTAINABILITY

To be financially sustainable, agencies must be able to meet their financial obligations when they are due, fund the maintenance and renewal of their assets and to absorb foreseeable changes and risks without significantly changing their current approach to revenue or expenditure.

CHALLENGES TO INCOME

Public sector agencies that primarily rely on the income they earn from operations, rather than government funding, can be vulnerable to financial sustainability risks. The capacity of some agencies to increase prices for their services is limited, either due to regulation controlling those prices or because of the likely community response. For these agencies to be financially sustainable over the long-term the pricing model may need to be changed, another funding source may need to be found or additional government support could be required.

'... A review of state entities that have been rated as high risk for each of the past five years indicates that many may not be able to set their fees and charges at a level that would enable them to generate enough revenue to meet their obligations as they fall due and ensure the long-term maintenance of their assets. In many cases, if these entities were to set their prices at a point that would allow them to do this, the community may not use the services available.'

Portfolio Departments and Associated Entities: Results of the 2013–14 Audits

ABILITY TO MEET FINANCIAL OBLIGATIONS

Liquidity is an indicator of an entity's short-term financial health, measuring its ability to pay existing short term financial obligations as they become due. Although liquidity for the state and general government sector has improved across the past five years, we still found that many agencies would not have enough cash or other liquid assets at balance date to settle all short-term obligations.

'If entities are unable to pay debts they may call on the state to inject funds or to provide a letter of support. A letter of support is provided by the state or a state entity to an individual agency to confirm that financial assistance is available, and to enable management to prepare financial statements on a going concern basis...In 2013–14, 38 agencies, or 14 per cent, of all state-controlled entities received a letter of support.'

Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14

MANAGING CASH

Sound cash management strategies can help an agency maintain its capacity to fund operations and meet obligations in a challenging financial environment. We found examples of agencies that had only enough cash at 30 June 2014 to fund seven days or less of their operations. We also found examples of agencies that had used cash management strategies to improve their position, and lower their financial sustainability risk.

'This improvement has been largely attributed to improved cash on hand at year end, driven primarily by improved cash management strategies employed by hospitals to reduce potential liquidity challenges at year end.'

Public Hospitals: Results of the 2013–14 Audits

SERVICING DEBT

We found that the state's total borrowings had increased, and so too had the interest expenses incurred to service the debt. In contrast, when we examined some individual agencies, such as councils and water entities, we found that most continued to have a low risk of being unable to service their debts, although we identified some exceptions and flagged emerging risks on the horizon for some agencies with substantial debt burdens.

'A total of \$240 million was borrowed by 30 local councils [from the Local Government Funding Vehicle]. These borrowings require interest only repayments until maturity of the debt in five or seven years. This means the total interest paid will be higher than they would have paid had the principal been gradually reduced over the term of the loan. There is also a risk that local councils will not have the funds available to fully repay the loan when the debt matures.'

Local Government: Results of the 2013–14 Audits

MAINTAINING AND RENEWING ASSETS

Our performance audits identified cases where agencies had not effectively planned the management of critical high value assets, such as information and communications technology systems or electronic equipment. Our financial audits looked across the sector more broadly and found mixed results: we compared the rate of spending on assets with the rate they were used, and measured that 'renewal gap' to assess the risk to the overall financial sustainability of the agency.


'...the [local government] sector average capital renewal gap has improved over the five-year period, though there is a decline for regional and large shire councils.'

Local Government: Results of the 2013–14 Audits

'Long-term sustainability risks have continued as an issue as nine [technical and further education institutes] TAFEs decreased spending on new assets and asset renewals to a level less than they are consuming.'

Technical and Further Education Institutes: 2014 Audit Snapshot

SELF-ASSESSMENT QUESTIONS

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1. Does my organisation have an appropriate risk management regime in place to assess and monitor financial sustainability risks?
 2. Are the pricing and funding models applicable to my agency resulting in financially sustainable revenue streams?
 3. Is my organisation's debt at sustainable levels?
 4. Does my organisation have a sound basis upon which to adopt the going concern assumption for financial reporting purposes?
 5. Does my organisation efficiently manage its cash flows?
 6. Is my organisation maintaining, replacing and renewing its assets as required?

04

MANAGING RISKS TO THE PUBLIC SECTOR AND COMMUNITY

The Victorian Government Risk Management Framework requires the public sector to understand and manage the risks it is exposed to. Agencies need to understand and manage the operational risks that could impact on their performance. Some agencies also have responsibilities to manage risks to the community.

Audits of selected agencies' risk management policies and procedures generally found that they included all the required elements. There is, however, room for improvement in the way agencies manage particular kinds of risks to their operations and the community.

RISKS TO TECHNOLOGY SECURITY

We found that a number of agencies were not effectively managing risks related to the key information and communications technology systems used to produce financial reports. If information systems are compromised, this can place at risk the confidentiality of personal, sensitive and commercial information. Breaches to systems can interrupt the delivery of services to the community, delay payments to businesses and create opportunities for fraud and corruption.

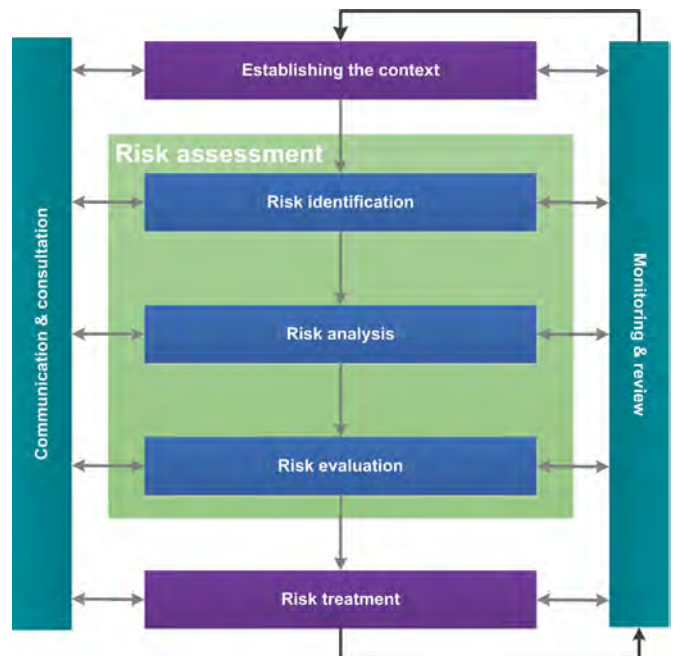
'Information and communication technology (ICT) security audit findings account for the majority of all audit findings reported in the 2013–14 financial year. Further analysis shows that such audit findings are widespread across government, with VAGO reporting ICT security audit findings at most of the audited agencies.'

Information and Communications Technology Controls Report 2013–14

'The StateNet Mobile Radio (SMR) network used by emergency services organisations (ESOs) is an unsecure, analogue network using old technology and does not perform well when compared to the modern Metropolitan Mobile Radio (MMR) network. Of particular concern is the lack of security for police, because sensitive information from the Law Enforcement Assistance Program (LEAP) is being transmitted without any encryption and can be easily monitored by the public.'

Emergency Response ICT Systems

Risk Management Process



Standards Australia, 'Australian/New Zealand Risk Management Standard: AS/NZS ISO 31000: 2009', Figure 3, page 14.

MANAGING RISKS ON MAJOR PROJECTS

We found that some agencies could improve the way they manage specific risks to the financial viability of significant projects and initiatives. Failure to effectively manage financial risks can lead to overspending on major projects or a failure to adapt to new funding environments.

'The myki retender is occurring under significant time pressure due in part to previous delays in implementing myki. The virtual absence of any contingency in the retender schedule means the tender outcome may well be resolved after the current contractual term expires. If this occurs, it risks exposing the state to significant additional costs. Public Transport Victoria (PTV) is taking steps to mitigate the risk of this occurring'

Operational Effectiveness of the myki Ticketing System

RISKS TO THE COMMUNITY

Two of our audits revealed concerning shortcomings with the way agencies managed risks to the community. Although day-to-day operations were often well covered by risk management policies and procedures, agencies sometimes failed to adequately provide for circumstances where systems were under unusual pressure, due to natural emergencies, technology failure or peak demand. Although this was not a common finding across our program, the significance of this issue warranted inclusion in our key themes for 2014–15.

'There are insufficient assurance mechanisms in place to be confident that public health services are well prepared to manage the risk of critical infrastructure failure, such as air conditioning and emergency generators, during a heatwave. This is a serious risk given that hospitals care for the state's most vulnerable people, including those susceptible to extreme heat.'

Heatwave Management: Reducing the Risk to Public Health

SELF-ASSESSMENT QUESTIONS

1. How does my agency approach our compliance with the Victorian Government Risk Management Framework?
2. Are our information and communications technology systems secure, with sufficient integrity and capacity to meet our operating needs?
3. When we plan a major project or initiative, do we adequately consider the financial risks faced now and in the future?
4. What are the risks to the community from our activities and how effectively are we monitoring and addressing these?
5. Do our risk management processes prepare us for periods of peak pressure, as well as everyday operations?

The public sector increasingly uses contracts and commercial arrangements to achieve government goals and deliver services to the community. Every opportunity should be taken to strengthen probity, optimise value for money and maintain good governance over outsourced services.

VALUE FOR MONEY IN PROCUREMENT

Achieving value for money is the principal objective of public sector procurement. Although procurement policies and frameworks were often sound, we found that agencies did not always make their expectations clear when setting up contracts and sometimes did not ensure that what was delivered met quality requirements. In some instances we found contracts had not been exposed sufficiently, or even at all, to open market competition to attain the best value for money.

'Since the original management agreement was established in July 1993 no subsequent management agreements have been subject to a competitive tender process... With no market testing for the past 10 years, [Municipal Association of Victoria] MAV cannot reliably demonstrate value for money from its insurance business activities or that the arrangements with its service provider are appropriate for the needs of member councils.'

Effectiveness of Support for Local Government

PROBITY IN PROCUREMENT

The fairness, impartiality and integrity of the procurement process should be considered throughout all phases. We found that most probity requirements were managed well, however, in some cases there were issues with the independence, timing and sufficiency of probity advice and policy.

'The competitive tender process was guided by the appropriate procurement principles and probity requirements, and resulted in a contract that is capable of delivering value for money ...however, the independence of the probity auditor was at risk of being compromised at times, as the auditor also provided probity advice.'

Tendering of Metropolitan Bus Contracts

MANAGING CONTRACTOR PERFORMANCE

Contracts need to be effectively managed to maximise their value. We found that performance reports from contractors were often missing important information, meaning agencies could not form a complete picture of whether contractors were delivering services effectively. At times, agencies relied on contractors' own reports of their performance without verification, even where this information triggered incentive payments. Penalties for under-performance were not always enforced—a missed opportunity for government cost savings.

'Despite [Public Transport Victoria] PTV not being able to adequately assure the reliability of the contractor's performance data, it has paid \$1.4 million in performance-linked incentives and has applied abatements totalling \$325 000, between April 2013 and December 2014.'

Operational Effectiveness of the myki Ticketing System

Where contractor performance was well managed and understood, agencies could reliably demonstrate the value of services delivered.

'The department has developed a statewide monitoring framework that sets out an overarching set of policies, guidelines and tools to support its staff to monitor IFS [Integrated Family Services] provider compliance with standards and contract requirements. Under this framework, IFS providers are subject to a number of quality assurance processes.'

Early Intervention Services for Vulnerable Children and Families

GOVERNANCE OF OUTSOURCED SERVICES

Outsourcing service delivery can reduce costs or gain specialised skills or efficiencies. Outsourcing government services, however, does not outsource the responsibility and accountability for those services. Across government we found that departments did not always seek assurance over the operating effectiveness or internal controls of their outsourced service providers. This is a critical gap in providing assurance over service delivery and meeting the provisions of the *Financial Management Act 1994*.

The *Financial Management Act 1994* and the Standing Directions of the Minister for Finance require an entity's management to maintain an effective internal controls environment. How an agency chooses to do so may require further policy guidance, as our findings show that a number of agencies do not currently obtain any form of assurance over controls operating at outsourced service providers.... As the control environment may not be directly under management's control, there may be a perception that risks and audit findings have been outsourced, which is not the case.'

Information and Communications Technology Controls Report 2013–14

SELF-ASSESSMENT QUESTIONS

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1. Are our procurement policies and procedures in line with government policy and better practice?
 2. How can we be sure that our purchases and contracts represent value for money?
 3. Will all our procurements meet the public sector standards of honesty and integrity, and stand up to public scrutiny?
 4. Have we effectively used the incentives and penalties in our contracts?
 5. Do we verify important performance information provided by contractors?
 6. Do we have the necessary assurance over the functions and controls of outsourced service providers?

Reports on public sector performance cover both financial and non-financial performance. Reporting non-financial performance is particularly important, as it demonstrates whether government has delivered on its commitments and used the funds provided by Parliament efficiently, effectively and for the purposes that were intended. If reports don't contain the right information, if they are hard to understand or cannot be relied upon, then the public sector cannot be held to account for its performance.

RELIABLE AND TRANSPARENT FINANCIAL REPORTS

Victorian public sector agencies are required to publish financial reports that comply with Australian accounting standards and relevant legislation, and that fairly present the financial position of the agency. We found that Victorian public sector financial reporting can confidently be relied upon. In 2014–15, only six out of 547 financial audits found that agency financial reports were not presented fairly and in accordance with standards and legislation.

Notwithstanding the reliable financial reporting produced by most public sector agencies, we provided a qualified opinion on the reliability of the consolidated financial report of the state, known as the Annual Financial Report of the State of Victoria, regarding the way the government had valued public school buildings.

RELIABLE AND TRANSPARENT PERFORMANCE REPORTS

Public reports should fairly represent an agency's actual performance and provide reliable information to support decision-making. We therefore expect agencies to use reliable data and robust calculation methods. Overwhelmingly our audits have shown limitations and weaknesses in the use of data to inform and report on performance. Data captured was not always appropriate for the purposes intended or verified for accuracy. At times, we found minor errors in performance reports that would have been detected if agencies had undertaken routine data audits.

'While our testing found that reported emergency response time performance fairly represented actual performance in most instances, weaknesses in controls... created minor inaccuracies and the risk of greater errors... The minor errors and misreporting that we identified were the result of a number of control weaknesses, in particular poor calculation methods and lack of data auditing.'

Emergency Service Response Times

PERFORMANCE MEASUREMENT: MEASURING THE RIGHT THINGS

Performance measures should demonstrate whether delivered outputs meet the intended outcomes for the community. This means measures must be relevant to the goals of the agency, service or program and cover the key aspects of performance. These expectations are communicated to agencies through government policy and guidance. Both financial and performance audits consistently found that performance measures and targets are not always relevant to the activity they intend to measure and do not align properly with objectives and goals.

'The TAFE sector did not have a framework that mandates a core suite of relevant and appropriate key performance indicators, nor is there sufficient guidance to entities for establishing suitable targets and analysing performance. As a result, the sector's performance reporting remained underdeveloped and inconsistent, lacked clear direction and targets, and therefore did not facilitate comparison of performance across the sector or between years. This means that Parliament and the public are unable to monitor and assess the progress of TAFEs in this new operating environment.'

Technical and Further Education Institutes: Results of the 2013 Audits

MEANINGFUL AND TRANSPARENT PERFORMANCE REPORTS

We found performance reports were often difficult to understand. They did not explain whether performance was good or bad, and why or how performance had changed over time. Simply reporting a number against a target does not provide Parliament or the community with an understanding of whether public services were delivered as intended.

'Budget Papers and annual reports fall well short of providing the information needed to understand departments' effectiveness and efficiency in delivering outputs and intended outcomes for the community...Of most concern is the lack of any meaningful departmental commentary explaining performance. The patchy coverage and inconsistent quality of performance measures and the absence of documented analysis of their meaning and significance mean these documents are of minimal value in explaining departments' performance.'

Public Sector Performance Measurement and Reporting

SELF-ASSESSMENT QUESTIONS

1. How do we verify the accuracy of the information in our performance reports?
2. Does the performance information we use cover all the key activities?
3. Are our indicators relevant to the activity they are intended to measure?
4. Do our indicators align with our goals and strategy?
5. Do our performance reports explain performance transparently?

07

TIMELY ACTION ON RECOMMENDATIONS AND REVIEWS

Public sector agencies accept the majority of recommendations made by audits. Accepting a recommendation, however, does not necessarily translate to action. Without action, accepting a recommendation remains just a good intention.

ADDRESSING ISSUES FROM INTERNAL AND EXTERNAL REVIEWS

Audits do not have a monopoly on good advice on governance, performance and services. Internal reviews are an important tool to help agency management decide where and how their systems and practices need to change. Equally, reviews by other accountability and integrity bodies can be important levers for change.

'Reviews...found Environment Protection Authority's (EPA) oversight of landfills was poor. To address this, EPA implemented a range of reforms, which have significantly improved its regulation and oversight of landfill performance.'

Managing Landfills

Sometimes, despite agencies using their operational processes to identify a significant problem, they still fail to act in a timely way.

'All four councils had some measures in place to manage the risks but the EPA-appointed environmental auditors had identified deficiencies in these measures and recommended further improvements. The councils had all been slow to respond to these recommendations.'

Managing Landfills

ACTING ON FINANCIAL AUDIT FINDINGS

Our annual financial audit cycle identifies controls and processes that are not operating effectively. Poor internal controls diminish an agency's ability to achieve objectives, deliver services and comply with legislation. Poor controls also increase the risk of fraud and errors. We found that many agencies had not addressed control weaknesses raised by the previous year's audit.

'Disappointingly, 61 per cent of our previous year audit findings relating to high and medium risk internal control deficiencies are yet to be rectified.'

Local Government: Results of the 2013–14 Audits

'Prior-period audit findings are not being addressed in a timely manner—a number of weaknesses in ICT general controls raised in prior years have not been completely resolved by entities, despite agreement and commitment by management to resolve them.'

Information and Communications Technology Controls Report 2013–14

ACTING ON PERFORMANCE AUDIT RECOMMENDATIONS

Our survey of agencies' progress in addressing recommendations from our 2012–13 performance audits found that agencies are generally making good progress.

'As of September 2014, agencies report that they had completed or substantially completed 295, or 71 per cent, of recommended actions...This is encouraging and suggests that performance audit recommendations are driving improvements.'

Responses to 2012–13 Performance Audit Recommendations

Although we found good overall progress, some of our individual audits still found important recommendations were yet to be addressed.

'These shortcomings have been identified in previous audits of public transport undertaken by my office. For example, the 2012 audit *Public Transport Performance* found that the former Department of Transport had not adequately measured and managed coordination.'

Coordinating Public Transport

'Key agencies have failed to take sufficient, timely action to address deficiencies identified in VAGO's 2011 *Compliance with Building Permits* audit, and numerous other investigations and inquiries.'

Victoria's Consumer Protection Framework for Building Construction

GETTING STARTED PROMPTLY

Although most agencies were making good progress against performance recommendations, they could improve their performance if they acted sooner.

'Given agencies are often aware of audit issues and recommendations well before report tabling, we would expect the average time to commence work on recommended actions to be less than five months. A quicker response is achievable, as reported by agencies in the emergency services, environment and health service sectors, that report an average commencement time of less than two months.'

Responses to 2012–13 Performance Audit Recommendations

MONITORING ACTION ON RECOMMENDATIONS

Generally we found that agencies and their audit committees were monitoring progress on our recommendations, as required under Standing Directions under the *Financial Management Act 1994*, although there was room to improve management reporting on progress on performance audit recommendations.

'Most of the audited agencies report monitoring processes with sufficient levels and frequency of oversight. We expected agencies to report that the audit committee or board monitors progress against recommendations and this is the case for 85 per cent of the 47 audited agencies.'

Responses to 2012–13 Performance Audit Recommendations

SELF-ASSESSMENT QUESTIONS

1. Have we done enough to address the problems and issues we already know about?
2. Do our actions really address the recommendations made to us?
3. Do we track our actions against internal and external reviews and audits?
4. Do we have a process to identify and address outstanding or slow-moving actions?
5. Are our audit committee and management appropriately involved in monitoring progress against recommendations?
6. How are reports of progress against recommendations verified?

Auditing

in the Public Interest

VAGO

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