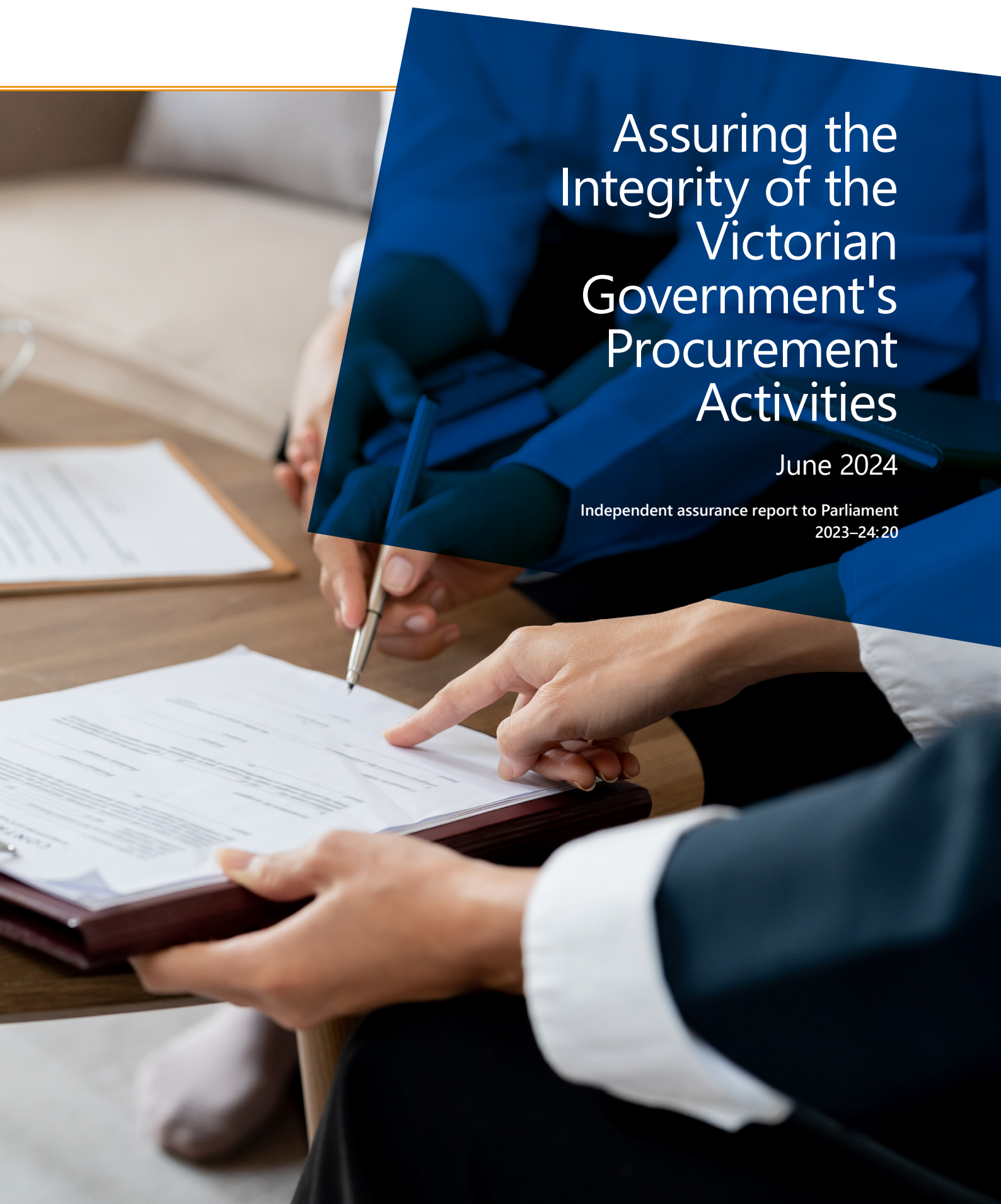


Assuring the Integrity of the Victorian Government's Procurement Activities

June 2024

Independent assurance report to Parliament
2023–24: 20



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Assuring the Integrity of the Victorian Government's Procurement Activities

Independent assurance report to Parliament

Published by order, or under the authority,
of the Parliament of Victoria

June 2024

The Hon Shaun Leane MLC
President
Legislative Council
Parliament House
Melbourne

The Hon Maree Edwards MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of the *Audit Act 1994*, I transmit my report *Assuring the Integrity of the Victorian Government's Procurement Activities*.

Yours faithfully



Andrew Greaves
Auditor-General
20 June 2024

The Victorian Auditor-General's Office (VAGO) acknowledges the Traditional Custodians of the lands and waters throughout Victoria. We pay our respects to Aboriginal and Torres Strait Islander communities, their continuing culture, and to Elders past and present.

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Audit snapshot

What we examined

We examined if departments use suitable controls to prevent, detect and investigate fraud and corruption when procuring goods and services.

We assessed all 10 Victorian Government departments during the planning stage of our audit. We then selected 3 departments for an in-depth analysis – the Department of Education, the Department of Justice and Community Safety and the Department of Jobs, Skills, Industry and Regions.

Why this is important

The government uses public money to procure goods and services.

Parliament and the public need to know this money is spent fairly and transparently.

Each stage of the procurement process is vulnerable to fraud and corruption. If departments do not manage the risk of fraud and corruption they may lose money or not get value for money.

Departments can manage these risks by using controls to prevent, detect and investigate fraud and corruption.

What we concluded

Departments have further work to do to effectively manage the risk of fraud and corruption when procuring goods and services.

While all departments have fraud and corruption controls, they are at different stages in making sure their controls work as intended. And some controls could be better designed.

All departments have processes for investigating fraud and corruption incidents when they have been alerted to them. But only 2 departments use data analytics to flag unusual or suspicious activity to proactively detect risks.

What we recommended

We made 5 recommendations about:

- reviewing and updating fraud and corruption policies and plans
- reviewing and updating procurement, conflict of interest and vendor master files policies and procedures
- reviewing fraud and corruption incidents and other integrity investigations
- introducing regular refresher training
- setting up a data analytics program to proactively identify fraud and corruption risks.

[→ Full recommendations](#)

Key facts

When a department is alerted to a fraud or corruption incident it must notify VAGO.

Between July 2022 and January 2024 we received 212 notifications. Of these, 29 related to procurement:



14

Related to payments and other supplier-related issues



15

Conflict of interest notifications



Resulting in **\$3.3m** estimated loss

Note: The requirement to report incidents applies to losses above \$5,000 in cash or \$50,000 in property. Numbers in this graphic have been rounded.
Source: VAGO.

Our recommendations

We made 5 recommendations to departments to address 2 issues. The relevant agencies have accepted our recommendations in full or in principle.

Key issues and corresponding recommendations

Agency response(s)

Issue: Departments have controls to prevent, detect and investigate fraud and corruption during procurement. But they are at different stages in making sure their controls work as intended

All 10 departments	1	Review their fraud and corruption control policies and plans to make sure they are accurate and up to date. At a minimum, this involves setting timeframes to review and update policies and plans (see Section 1).	Accepted by all departments
	2	Review and update their policies and procedures for procurement, conflicts of interest and maintaining vendor master files. This should involve reviewing and updating: <ul style="list-style-type: none"> policies and procedures when there has been a significant change to the department or how it operates conflict of interest policies to include timeframes for approving conflict of interest declarations conflict of interest forms to include a field to record the role of the declarer and approver (see Section 1). 	Accepted by 8 departments Accepted in principle by Department of Energy, Environment and Climate Action and Department of Families, Fairness and Housing
	3	Set up a regular monitoring program to review fraud and corruption incidents and integrity investigations to identify how they can improve their controls (see Section 2).	Accepted by 9 departments Accepted in principle by Department of Energy, Environment and Climate Action
Department of Justice and Community Safety	4	Introduce a regular training refresher program for all staff that covers fraud and corruption (see Section 1).	Accepted

Issue: Only 2 departments use data analytics to proactively detect fraud and corruption risks

Eight departments (excluding the Department of Jobs, Skills, Industry and Regions and the Department of	5	Set up regular data analytics reviews to assess their procurement activities for fraud and corruption risks. At a minimum, this involves collating and centralising data so they can export and review it (see Section 2).	Accepted by 3 departments Accepted in principle by Department of Energy, Environment and Climate Action, Department of Families, Fairness and
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Key issues and corresponding recommendations

Agency response(s)

Transport and Planning)	Housing, Department of Government Services, Department of Premier and Cabinet and Department of Treasury and Finance
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What we found

This section summarises our key findings. The numbered sections detail our complete findings, including supporting evidence.

When reaching our conclusions, we consulted with the audited agencies and considered their views. The agencies' full responses are in Appendix A.

Why we did this audit Fraud and corruption by Victorian public sector employees can damage the government's reputation and waste public resources.

In 2018–19 the Independent Broad-based Anti-corruption Commission (IBAC) identified procurement as one of the highest-risk areas for fraud and corruption in the public sector.

We did this audit to assess if government departments are actively managing these risks by preventing, detecting and investigating fraud and corruption during the procurement process.

The procurement process Procurement involves the whole process of buying goods or services. The process starts when an organisation identifies that it needs a good or service.

As Figure 1 shows, the process continues through stages to seek quotes, evaluate potential suppliers and award the contract.

Figure 1: Stages of the procurement process



Source: VAGO.

Procurement risks

Fraud and corruption risks can arise at every stage of the procurement process. For example:

When a department is ...	There is a risk that ...
planning a procurement	an employee could split a procurement into 2 contracts to deliberately avoid needing to follow a competitive bidding process.
evaluating and awarding the contract	if a conflict of interest is not declared and known, an employee could be biased towards a potential supplier and skew the evaluation process.
paying an invoice	a supplier could submit a false, inflated or duplicate invoice or an invoice with obvious errors.

AS 8001:2021, Fraud and corruption control

In this audit we assessed departments' fraud and corruption controls for procurement against requirements in:

- the Australian Standard *AS 8001:2021, Fraud and corruption control* (the Standard)
- the *Standing Directions 2018 Under the Financial Management Act 1994* (the Standing Directions)
- *Guidance supporting the Standing Directions 2018 under the Financial Management Act 1994.*

The Standard outlines the minimum requirements for developing, setting up and maintaining an effective fraud and corruption control system.

Departments do not legally have to follow the Standard. But the Standing Directions recommend that departments make sure their fraud and corruption control policies and frameworks are consistent with the Standard.

Fraud

According to the Standard, fraud is 'dishonest activity causing actual or potential gain or loss to any person or organization including theft of moneys or other property by persons internal and/or external to the organization and/or where deception is used at the time, immediately before or immediately following the activity'.

Corruption

According to the Standard, corruption is 'dishonest activity in which a person associated with an organization (e.g. director, executive, manager, employee or contractor) acts contrary to the interests of the organization and abuses their position of trust in order to achieve personal advantage or advantage for another person or organization'.

Source: The Standard.

Our key findings Our findings fall into 2 key areas:

1	Departments have controls to prevent, detect and investigate fraud and corruption during procurement. But they are at different stages in making sure their controls work as intended.
2	Only 2 departments use data analytics to proactively detect fraud and corruption risks.

Key finding 1: Departments have controls to prevent, detect and investigate fraud and corruption during procurement. But they are at different stages in making sure their controls work as intended

Fraud and corruption controls

The Standard recommends setting up the following controls to prevent, detect and investigate fraud and corruption:

- establish the organisation's fraud and corruption control objectives and values
- develop, implement, communicate and maintain an integrity framework
- develop and implement a fraud and corruption control system
- raise awareness of fraud and corruption control issues
- establish clear accountability structures for escalating and responding to fraud and corruption incidents
- set guidelines on how to recover losses from fraud or corruption.

We found that departments have controls to prevent, detect and investigate fraud and corruption. But they are at different stages in making sure their controls work as intended.

Foundational controls

Departments have controls to prevent, detect and investigate fraud and corruption, including:

- policies and procedures to develop a fraud and corruption control system
- processes to internally report fraud incidents during procurements
- forms and reporting channels to investigate fraud and corruption allegations.

This means departments have the tools to manage and reduce the risk of fraud and corruption during the procurement process.

Applying controls

Departments are at different stages in making sure their controls work as intended.

For example, the 3 departments we looked at in detail have fraud and corruption policies, processes and forms. But the currency of policies and forms differs in practice:

- The Department of Education (DE) has not reviewed its supplier maintenance policy for maintaining its vendor master file in 4 years. This means there is a risk that DE's current process is outdated.
- The Department of Jobs, Skills, Industry and Regions' (DJSIR) conflict of interest declaration forms do not have key fields to confirm that an employee with appropriate authority, such as a manager, has reviewed a conflict and, if required, set up a plan to manage it.
- The Department of Justice and Community Safety (DJCS) has not reviewed its fraud policy in 2 years. DJCS has advised us that this policy is now under review. It intends to publish it in the next quarter.

Vendor master file

A vendor master file is a central database that holds information about an agency's supplier details, including their bank account details, Australian Business Number (ABN) and invoice records.

Areas for improvement

Departments can improve how they apply their controls by:

- making sure their fraud and corruption control policies, processes and forms are up to date
- reviewing and updating forms and procedures to reflect any changes or gaps in their procurement processes
- reviewing and updating their controls after a fraud and corruption incident.

The 3 departments in our in-depth analysis are at different stages in improving their controls. For example:

- DJSIR is currently updating its conflict of interest declaration form to make sure it captures all the necessary information
- DJCS is updating its fraud policy to make sure it is up to date
- DE is planning training reminders for executives to ensure staff training is completed.

Key finding 2: Only 2 departments use data analytics to proactively detect fraud and corruption risks

Proactively detecting fraud and corruption

Proactively detecting potential fraud and corruption can further reduce the likelihood of a department losing money or not getting value for money during a procurement.

The Standard outlines actions an organisation can take to proactively detect fraud. These actions include:

- setting up a data analytics program to analyse transactions, purchase orders and employee information in real time, near real time or retrospectively
- setting up and promoting clear channels for staff and other relevant parties to report suspicious, fraudulent or corrupt conduct.

We found that all departments have processes for investigating and reporting fraud and corruption incidents when they have been alerted to them.

But only 2 departments use data analytics to proactively detect risks during the procurement process.

Proactively detecting risks

Of the 10 departments, only DJSIR and the Department of Transport and Planning (DTP) use data analytics to proactively detect fraud and corruption risks prior to awarding contracts.

DJSIR's data analytics program reviews its procurement data against its other internal data.

For example, the program compares employee data against DJSIR's vendor list datasets to check if there are undeclared conflicts of interest. If it finds an undeclared conflict, DJSIR can escalate and manage it to reduce the risk of bias during a procurement.

DTP uses specialised software to identify and reduce fraud and corruption risks. For example, the software checks DTP's system for duplicate vendors to reduce the risk of DTP paying the same vendor twice. The software also checks vendors' details to make sure they are up to date and legitimate and it also checks vendors' bank details against employees' bank details.

Barriers to proactively detecting risks

Barriers to the 8 other departments using data analytics to proactively detect fraud and corruption risks include:

- some departments have stalled the projects to develop tests and programs due to competing priorities and a lack of resources
 - some departments do not store their procurement data in a format that lets them comprehensively analyse it. For example, they have not collated the data into one system from which it can be easily exported.
-

1.

Preventing fraud and corruption

All departments have controls to prevent, detect and investigate fraud and corruption during the procurement process. Examples of these controls include running fraud and corruption training for new employees and having internal processes to report procurement and integrity matters to senior management.

However, departments are at different stages in making sure their controls work as they intended them to. In particular, not all departments make sure that:

- staff complete and approve conflict of interest declaration forms in a timely way
- more than one person is responsible for making decisions during a procurement.

Most departments run fraud and corruption training for all employees

Recommended training

The Standard recommends that organisations regularly run training for staff on:

- the organisation's risk of fraud and corruption
- how to respond if they detect or suspect fraud and corruption.

IBAC recognises that the procurement process has a higher risk of fraud and corruption because:

- it can involve large sums of public money
- it can be affected by limited oversight and inadequate staff training.

To reduce this risk, IBAC recommends that departments run mandatory:

- regular training for staff on fraud, corruption and conflicts of interest during procurement
- specialist training for staff who have higher-risk roles.

We found that most departments run induction training that covers fraud and corruption.

The 3 departments in our deep-dive analysis (DE, DJCS and DJSIR) run specific mandatory training and keep participation records. DE and DJSIR require existing staff to do refresher training. All 3 departments run specialist training for staff in higher-risk roles.

Mandatory training at induction

Nine out of 10 departments run induction training for new staff that covers some information on fraud and corruption, such as:

- what constitutes fraud and corruption
- how to identify it
- how to report potential incidents.

One department, the Department of Government Services, had not developed this training as at June 2024.

The departments in our deep-dive analysis provide specific fraud and corruption training for new staff as part of their broader integrity training.

These 3 departments all:

- require new staff to participate in this training during induction
- keep participation records.

This helps these departments make sure new employees understand what fraud and corruption is and their responsibilities to prevent and report it.

Refresher training

The Commonwealth Fraud Prevention Centre recommends that government officials complete regular refresher training on fraud and corruption.

Of the 3 departments in our deep-dive analysis:

- DJSIR requires staff to do refresher training every year
- DE requires all staff to do refresher training every 2 years
- DJCS does not require its staff to do refresher training.

By running refresher training, DJSIR and DE regularly remind staff about their responsibilities for preventing, detecting and reporting fraud and corruption.

DJCS told us it intends to start requiring all staff to do mandatory refresher training every 2 years. DJCS has updated this training and, as of May 2024, this is pending approval.

Following up on training

All 3 departments in our deep-dive analysis follow up employees who have not completed the training:

- DJSIR sends email reminders to staff near the end of their performance cycle. It also requires managers to review if the staff they oversee have completed the training.
 - DJCS sends email reminders to staff 7 days before the training due date. If an employee does not complete training by this date, it sends another email one day after it is overdue. Managers are responsible for following up on training to make sure employees complete it.
 - DE sends reminder emails to its executives about staff training. Managers are responsible for following up to make sure employees complete training.
-

Specialist training

In addition to their mandatory fraud and corruption training, DE, DJCS and DJSIR also run additional training for staff in roles that they assess as higher risk.

DE has an integrity capability tool that outlines fraud and corruption, procurement and contract management capabilities for:

- staff working in corporate areas
- people managers
- senior leaders.

The tool covers information for employees at these levels, including expected behaviour and capability goals. It also links to internal and external learning and development resources.

DJCS has recently started running integrity training for non-executive people managers, with a two-streamed program for custodial and non-custodial workforces.

The aim of this training is to help employees:

- manage staff who are not meeting behavioural expectations
- report fraud and corruption.

DJCS also has separate training for new managers and refresher training for frontline and public-facing staff.

DJSIR has specific integrity training for:

- managers and executives
- contractors.

Procurement training

DE's, DJSIR's and DJCS's procurement training covers some content on fraud and corruption, including their expectations for staff to prevent and detect it during the procurement process.

This helps these departments make sure that staff who are involved in procuring goods and services understand their responsibilities to prevent fraud and corruption in this context.

All departments have policies for screening new employees and the 3 deep-dive departments have offboarding processes to prevent unauthorised users accessing their systems and equipment

Employee screening and offboarding

The Standard recommends that organisations have a process to screen new staff before appointing them.

Screening applicants can reduce the risk of fraud and corruption by identifying potential risk factors, such as prior criminal convictions associated with dishonesty.

In the Victorian public sector, departments complete pre-employment screening before a new employee starts working.

It is also important that departments have controls to prevent fraud and corruption when an employee resigns. Offboarding processes help departments:

- protect their systems from unauthorised users
 - prevent departing employees from leaking confidential information via email.
-

Pre-employment screening

All departments have policies that require pre-employment screening when they recruit new staff.

The Victorian Public Sector Commission provides guidance about how to do these checks. It requires departments to do the following checks:

- misconduct screening for all employees, which checks for misconduct within the last 7 years
- misconduct screening for executives, which checks for misconduct within the last 10 years
- a police check.

We found the policies of the 3 deep-dive departments comply with the Victorian Public Sector Commission's requirements.

DE, DJCS and DJSIR also require successful candidates for high-risk positions to declare their private interests before their employment starts.

Staff in high-risk positions include financial delegates, staff in key decision-making roles and staff who approve new processes.

Offboarding employees

Organisations use offboarding processes to remove an employee's access to their systems and records when they leave the organisation.

DE, DJCS and DJSIR have checklists to make sure they complete their offboarding processes.

Their processes all involve revoking the departing employee's access to their systems and requiring them to return the department's property, corporate cards and security passes. DJSIR and DE have automated their offboarding process to make sure it is followed consistently.

Monitoring departing employees' emails

DE told us it does not monitor departing employees' emails due to privacy considerations.

DJSIR told us it does not monitor departing employees' emails unless there are circumstances that trigger it to access and review employee emails under the relevant policies, such as investigating suspected fraud, corruption or misconduct.

DJCS told us it only monitors outbound emails from departing employees when it has identified integrity risks.

DJCS is piloting a routine email monitoring program that scans outbound emails from identified high-risk business areas to private email addresses, whether or not an employee has resigned.

Departments have policies for preventing and managing conflicts of interest, but they need to improve their templates, forms and processes in practice

Controls for reducing fraud, corruption and conflicts of interest

IBAC recommends that public sector agencies use the following controls to reduce the risk of fraud and corruption:

- conduct audits to check the accuracy of invoices and confirm if suppliers have delivered goods and services
 - check financial delegate paperwork is complete before approving spending
 - control subcontracting processes
 - monitor tenders and contracts to detect contract splitting
 - require staff to sign invoices to verify the agency has received the goods and services
 - use payment system controls to detect duplicate invoices
 - run regular training for staff.
-

Conflicts of interest

The Standard defines a conflict of interest as a situation where a person's business, financial, family, political or personal interests could interfere with their judgement while carrying out their duties for an organisation.

The Standard recommends that organisations have a policy and/or procedure for staff and relevant business associates, such as a supplier who provides a quote for tender, to disclose actual, potential or perceived conflicts of interest.

The Standard also recommends that organisations:

- monitor and actively manage declared conflicts of interest to reduce the risk of fraud and corruption
- keep records of:
 - staff's relevant business, financial, family, political or personal interests that could conflict with their duties at work
 - actions they have taken to avoid, eliminate or manage any perceived, potential and/or actual conflicts of interest.

If a department ignores or conceals a conflict, or a conflict influences an employee's decision, it could be seen as misconduct or abuse of public office.

Managing conflicts of interest

All 10 departments have policies that require staff involved in a procurement to declare conflicts of interest.

Their policies require:

- an appropriate authority, such as the procurement's evaluation panel chair or the declarer's line manager, to sign off declaration forms to record they have reviewed them
- the declarer and approver to complete and record a management plan when a conflict has been identified.

We looked at 311 conflict of interest declaration forms across 27 procurements at DE, DJCS and DJSIR. In this sample we found examples where:

- forms were not approved
- forms were not approved in a timely way
- the department did not follow its processes for probity advisor reviews
- a procurement was exempted from using an existing professional advisory service but staff did not complete declaration forms.

Probity in procurement

In the procurement process, probity involves:

- making sure processes, actions and decisions are consistent, accountable, transparent and auditable
- keeping complete records and maintaining an audit trail
- communicating clearly and honestly
- making sure checks and approvals are independent
- keeping information secure and confidential
- identifying and managing actual, perceived and potential conflicts of interest.

Professional advisory service

A professional advisory service is a service provided by an expert, such as an accountant, lawyer or surveyor, to offer guidance and recommendations to an organisation. This advice helps the organisation make informed decisions and mitigate risks.

Declaration forms

Of the 311 conflict of interest declaration forms in our sample, at least 10 per cent of each department's declaration forms had not been signed off for approval by an appropriate authority.

This means we could not verify if an appropriate authority had reviewed them or not.

The departments also did not have management plans for some declared conflicts.

This means we could not assess if the departments had considered the risk of these staff continuing to be involved in a procurement.

At the time of our review, DJCS's, and DJSIR's declaration form templates did not request enough detail from declarers to help them actively manage and mitigate risks.

Figure 2 outlines some of the gaps we found in their declaration forms. It also explains how these gaps could impact the effectiveness of their other conflict of interest controls.

Figure 2: Gaps in DJCS's and DJSIR's declaration forms

Department	Gap	Impact
DJCS	No field for staff or approvers to identify the declarer or approver's role in the procurement process	DJCS cannot verify: <ul style="list-style-type: none"> if the approver had the appropriate authority to approve a declaration how the declarer maintained their independence during the procurement process.
DJSIR	Offline and online versions of the form did not have the same fields	There is a risk that DJSIR did not consistently collect all the information it needs to assess and manage conflicts of interest across all its procurements.

Source: VAGO, based on information from DJCS and DJSIR.

DE, DJCS and DJSIR told us that they are in various stages of updating and introducing new declaration forms:

- DE told us it is finalising a new form.
- DJCS told us it is updating its integrity processes. It digitised and launched its new conflict of interest declaration form in March 2024.
- DJSIR told us it launched a new form in February 2024.

Timeliness targets

DE, DJCS and DJSIR have expectations for when employees must complete conflict of interest declaration forms during the procurement process.

DE and DJCS require employees to complete a declaration form before they evaluate tender submissions.

DJSIR requires staff on the evaluation panel to complete a form before viewing any tender responses.

Of the 311 declaration forms we looked at:

- 136 were not approved
- 66 were approved on the day the declaration was completed
- 93 were approved at least one day after the declaration was completed. Of these:
 - 24 were approved more than 3 months later
 - one was approved 7 months later
- 16 were approved but did not specify when, so we could not verify timeliness.

Approving declarations in a timely way is important because it can reduce the risk of unmitigated conflicts of interest during a procurement.

Probity advisors and auditors

A probity advisor gives a department independent and objective advice on its procurement activities. A department can engage a probity advisor to help it make sure its procurement processes are fair and transparent.

A probity auditor reviews a department's compliance with tender documents, government policies and probity principles at one or more key milestones during a procurement. An auditor also reports on the outcomes of procurements.

DE's, DJCS's and DJSIR's procurement policies require them to use a probity advisor for certain procurements. For example, high-value or more complex procurements.

In the 27 procurements we tested, 21 required a probity advisor or auditor because they were over a specified value or the department deemed them as high risk. Of these 21 procurements, one from DJCS did not have an explanation why an advisor or auditor was not involved.

Of the 46 declaration forms that included probity sign-off:

- 2 were signed off by the advisor or auditor on the day the declaration was completed
- 29 were signed off by the advisor or auditor at least one day after the declaration was completed
- 13 were signed off but did not have a sign-off date
- 2 did not have a declaration date, so we could not verify the timeliness of the reviewer or auditor's sign-off.

We could not verify what departments considered timely for probity advisor or auditor sign-offs because their policies do not specify timeframes.

Procurement exemptions

A department may need to get an exemption from following its procurement process when the good or service it needs can only be provided by a particular supplier, or the good or service is for a limited trial.

For example, if a department needs to procure specialist software to resolve a critical incident that is disrupting an essential service there may be grounds for an exemption from the procurement process.

Procurement exemptions depart from the standard process because they typically do not involve competitive bidding or approval at key stages.

When a procurement gets an exemption from following the standard process, the department needs to rely on its other fraud and corruption controls, including conflict of interest controls, to make sure it still follows a robust process.

Of the 9 procurements we looked at that had exemptions from the standard process, 2 did not have completed conflict of interest declarations for all staff who were involved.

Separation of duties is clear in departments' policies, but this is not always confirmed in practice

Separating duties

Guidance supporting the Standing Directions 2018 under the Financial Management Act 1994 recommends that agencies make sure they delegate decision-making to more than one person during the procurement process.

Separating roles and delegations is particularly important when an agency is:

- sending or receiving money
- signing or administering a contract
- remunerating staff.

This is because these activities have a higher risk of fraud or corruption.

Agencies can minimise this risk by:

- clearly documenting the roles and responsibilities of individuals involved in a procurement
- making sure their policies clearly outline who is the appropriate approver or delegated authority for procurements.

Separating duties

Separating duties is when an agency requires more than one person to complete tasks to make sure no one delegate has control or authority over an end-to-end process.

In procurement, this means that different employees are responsible for the steps required for spending public money.

Gaps in documentation

All 10 departments have policies that require them to separate duties during the procurement process.

We did not find evidence that DE's, DJCS's or DJSIR's employees had inappropriate access or responsibility across the 27 procurements we looked at in detail.

However, there were gaps in DE's, DJCS's and DJSIR's documentation that made it difficult for us to confirm that they consistently maintained appropriate separation of duties beyond the scope of the 27 procurements we looked at.

For example, 303 of the 311 conflict of interest declaration forms we looked at did not identify the approver's role. This means we could not confirm if the approver:

- had another role in the procurement that conflicted with their role as an approver
- had the appropriate authority to approve declaration forms.

For 68 of the 311 declaration forms, the declarer did not identify their job title or their role in the procurement. Of these 68 forms, 5 identified a conflict of interest. This means we could not confirm if these declarers were involved in receiving or approving purchases or had access to financial systems.

It is important that departments clearly document the roles and responsibilities of staff members involved at each stage of a procurement to make sure:

- their duties do not conflict with each other
- no staff member is solely responsible for making decisions across the lifecycle of a procurement.

All departments have policies to screen new suppliers, but their policies do not require staff to review ongoing suppliers

Victorian Government Purchasing Board

The Victorian Government Purchasing Board (VGPB) sets the policies that govern procuring goods and services for all Victorian Government departments.

VGPB has published a set of procurement guides to help departments make sure their procurements are fair, open and transparent.

The guides suggest departments include in their evaluation plan the ways to assess a tender offer against the evaluation criteria. This is important because it allows the procurer to verify that the offer meets requirements and to inform risk assessments.

Validating suppliers

The Standard provides an extensive list of checks an organisation should consider to validate a potential supplier.

This can help the organisation make sure a new supplier is viable and legitimate before it awards them a contract.

If the organisation finds there is a heightened risk of fraud and corruption it should consider not proceeding with the business relationship.

The Standard also recommends that organisations periodically confirm the legitimacy of ongoing suppliers to reduce the risk of them becoming complacent about certain controls.

Validating a supplier

Validating a supplier involves doing checks to make sure they are legitimate. These checks can include:

- searching a company register for the supplier's details
- confirming ABN and bank account information
- searching for pending legal proceedings and judgements to check the supplier can legally do business
- confirming that the supplier's directors or management have not been disqualified from operating.

Screening new suppliers

All 10 departments' procurement policies and processes require them to complete some level of checks before contracting a new supplier.

For example, DJCS's process requires it to research the history and activities of a potential supplier's parent company.

DE's process involves using a professional advisory service to formally assess financial risks before awarding a contract.

DJSIR's process specifies that it can use a supplier's annual report to confirm its employee headcount. This is an effective way to check the supplier has the capacity to complete the department's scope of work. It is also a useful way to check the validity of a potential supplier's tender response when they have identified the capacity of their business.

However, none of the 10 departments' policies require them to periodically check ongoing suppliers.

Guidance in policies

DE's, DJCS's and DJSIR's policies recommend doing reference checks to evaluate potential suppliers, including using weighted evaluation criteria.

However, their policies have limited guidance for staff involved in procurements about:

- what the procurer must consider when deciding how much weight to assign to due diligence checks when completing a value-for-money assessment
- how to use information they receive through due diligence checks to inform the suitability of the offer.

Only DE's policy outlines the level of due diligence checks required when a procurement is high risk or highly complex.

Weighted evaluation criteria

Weighted evaluation criteria are criteria that an evaluation team uses to score tender responses.

Examples of commonly used criteria include the potential supplier's capability, past performance and current work.

An evaluation team can rank criteria based on their importance to their organisation.

For example, an organisation that values a potential supplier's competence may assign a higher weighting, such as 60 per cent, to the competence criteria.

Departments' policies for preventing, detecting and investigating fraud and corruption are not always up to date. But departments communicate employees' responsibilities for preventing and reporting incidents through other channels

Communicating roles and responsibilities

The Standard recommends that organisations clearly communicate employees' roles and responsibilities in detecting and reporting fraud and corruption.

This includes:

- distributing information in a way that is easily accessible to the wider organisation
 - keeping policies and procedures up to date.
-

Communicating with staff

The departments in our deep-dive analysis communicate this information via their intranet and other internally distributed material. For example, they:

- email staff links to:
 - fraud and corruption frameworks
 - channels where they can report suspected fraud and corruption
 - distribute resources, such as internal newsletters, on integrity
 - post information on their intranet about what fraud and corruption risks are.
-

Keeping policies, plans and procedures up to date

The Standard recommends that organisations keep their fraud and corruption control system up to date by:

- regularly reviewing their fraud and corruption policies, plans and procedures
- updating their policies, plans and procedures to reflect recent risk assessments and process changes.

We found that 4 departments had either:

- never reviewed their fraud and corruption policies
- not scheduled to review their policies
- not reviewed their policies within their set timeframes.

At the time of our assessment in September 2023, the Department of Government Services was recently established and had only developed basic fraud and corruption control policies.

Departments have policies for internally reporting on integrity and procurement activities and risks

Reporting requirements

The Standing Directions require departments to report on both their procurement activities and fraud and corruption incidents.

The Standing Directions require:

- departments to include fraud and corruption detection and reporting in their processes for managing fraud, corruption and other losses
- a department's accountable officer, such as its secretary, to:
 - attest in the department's annual report for the relevant financial year its compliance with applicable requirements in the *Financial Management Act 1994*, the Standing Directions and the *Instructions supporting the Standing Directions 2018 under the Financial Management Act 1994*
 - disclose all material compliance deficiencies.

Material compliance deficiency

According to *Guidance supporting the Standing Directions 2018 under the Financial Management Act 1994* a material compliance deficiency is a gap that 'a reasonable person would consider has a material impact on the Agency or the State's reputation, financial position or financial management'.

Source: *Guidance supporting the Standing Directions 2018 under the Financial Management Act 1994*.

Internal reporting policies

All 10 departments have a policy and process for internally reporting fraud and corruption incidents.

Their policies also require staff to externally report incidents to integrity bodies, including VAGO, IBAC and the Victorian Ombudsman, when the Standing Directions require it.

Internal reporting

The departments in our deep-dive analysis adhere to their reporting policies.

They all provide regular integrity-related updates to their audit and risk committees.

This reporting includes:

- information on fraud and corruption incidents
- the number of open investigations or assessments
- the content of these investigations.

Reporting to VGPB

VGPB requires each department to annually attest:

- that its governance framework establishes processes, authorities and accountabilities for the department's procurement function
- that it has an activity plan that shows its upcoming procurements for the year
- that it has an action plan to reduce risks from staff resourcing, approaching the market and managing probity.

VGPB uses this information to confirm that the department complies with VGPB's supply policies and, if the department complies, VGPB gives it accreditation. To maintain VGPB accreditation, departments complete an annual attestation that their policies align with VGPB's policies.

The departments in our deep-dive analysis have completed this attestation for each year that we tested within the scope of this audit.

Departments continue with some procurements despite key documents not being approved

IBAC's corruption red flags

According to IBAC, there is a higher risk of fraud and corruption at certain approval stages in the procurement process:

When a department approves ...	There is a risk that ...
a new procurement	staff may not keep the appropriate paperwork or document decisions.
a new supplier	staff may not submit the appropriate paperwork to support the decision.

To mitigate these risks, IBAC recommends that organisations check financial paperwork is complete before approving a contract with a new supplier.

Approving procurements

Departments need to document approvals at key stages of the procurement process to:

- make decisions transparent
- make sure the approval process follows their procurement policy.

For the 27 procurements we looked at, DE, DJCS and DJSIR had documentation to show that an appropriate authority had approved the procurement.

However, not all the key documents from DJCS and DJSIR were approved. For example:

- market strategies for 3 procurements were not approved and of these, one did not get documented approval until the stage for awarding the contract
- one procurement did not have approval for awarding the contract but the tender evaluation team's report on the outcome of their evaluation was approved
- none of the 8 evaluation plans we looked at were approved.

DE manages its approvals, including approvals of conflict of interest declaration forms, online within its Oracle system.

Departments' policies require them to check supplier details before changing their vendor master file

Verifying changes

The Standard recommends that departments independently verify updates to their vendor master file. This can involve:

- checking suppliers' details compared to tenders and quotes
- searching the Australian Securities and Investments Commission's registers to identify possible links between prospective suppliers and employees
- checking suppliers have appropriate assets or business facilities.

These checks apply to both new and existing suppliers.

To reduce the risk of fraud and corruption from doing business with an illegitimate supplier, the Standard recommends that a department regularly checks a supplier's general details are correct.

To maintain an accurate and complete vendor master file and do thorough checks, departments need:

- clear procedures on how to maintain the file
 - clear accountabilities for who maintains the file
 - up-to-date policies.
-

Maintaining vendor master files

Eight departments have a documented procedure for managing their vendor master file. But these procedures mostly refer to updating bank details.

These departments require either their finance team or the business unit undertaking a procurement to verify changes to their vendor master file before making them. This includes:

- seeking additional documents to confirm a supplier's bank and ABN details
 - calling a supplier to confirm a change.
-

Vendor master file fraud notifications

VAGO received 212 mandatory fraud notifications between July 2022 and January 2024 across all government departments and agencies.

Of the 212 notifications, 5 related to unauthorised changes to a vendor master file. This included:

- one case where an employee substituted their bank account details in place of a supplier's details to receive payments intended for the supplier
- one case where a scammer provided bank account details to a department under the guise of an existing supplier. The department went on to pay invoices to this bank account.

Departments also notified us of 4 cases where bank details in their master file were changed due to a cyber attack.

Departments can reduce the risk of these incidents by proactively monitoring and managing their vendor master file.

Supplier maintenance processes

DE, DJCS and DJSIR get regular reports from their finance teams on changes to their vendor master files.

Each department has different controls to prevent vendor master file fraud. But we found remaining risks at each department:

- DE has a supplier maintenance policy for maintaining its vendor master file. But it has not reviewed this policy for 4 years. This means there is a risk that DE's current process is outdated.
 - DJCS manually checks its suppliers' details. This is in line with its process. But manual checks introduce the risk of human error or the reviewer unintentionally overlooking key details.
 - DJSIR relies on the individual business unit undertaking a procurement to confirm a new supplier's payment details. This is in line with its process. But it means the department cannot oversee the checks to make sure they are comprehensive and regular.
-

2.

Detecting and responding to fraud and corruption

All departments have processes for investigating and reporting fraud and corruption incidents when they have been alerted to them by individuals.

Most departments test their procurement data to look for procurement and financial errors. However, only 2 departments use data analytics tests that specifically focus on proactively detecting fraud and corruption risks.

Only 2 departments use data analytics to proactively detect fraud and corruption risks

Proactively detecting risks

The Standard recommends that departments proactively identify and detect fraud and corruption. This can include:

- using data analytics to assess data, such as:
 - comparing employee information with supplier details or gift, benefits and hospitality data
 - flagging irregular transactions
 - identifying early warning signs
 - analysing management accounting reports.
-

Using data analytics to detect risks

Eight departments advise that they do not proactively use data analytics to detect fraud and corruption risks prior to awarding contracts. Of these 8 departments, 3 aimed to set up a data analytics program to test their fraud and corruption vulnerabilities but have not yet set these up due to competing priorities and a lack of resources.

Of the departments in our deep-dive analysis, DE and DJCS test their procurement data. But these tests are not designed to specifically identify fraud and corruption risks in their procurements.

For example, DE uses computer-assisted auditing tools under its continuous control monitoring program. The program uses an automated system to check invoices each day before the department pays suppliers. The department uses the program to detect errors in its procurement and payment activities. But the program does not identify early warning signs of fraud and corruption risks.

DJCS does not have a data analytics program to proactively detect fraud and corruption. However, it does quarterly variance testing for financial reporting purposes. But these tests also do not identify early warning signs of fraud and corruption risks.

Variance testing

Variance testing involves detecting odd instances or outliers in a dataset. For example, comparing transactions across multiple financial years and identifying irregular payments or payments that are consistently under a threshold that would have otherwise required additional financial approval.

Good-practice examples

DJSIR and DTP are the only departments that use data analytics to proactively detect fraud and corruption during the procurement process.

DJSIR uses data analytics to compare:

- employee data against other datasets, such as vendors, ABNs and grants
- gifts, benefits and hospitality data against procurement data.

DJSIR also does spot checks and tests depending on its reporting needs. These checks and its use of data analytics help it further investigate fraud and corruption incidents and risks.

In 2019 DTP started a pilot data analytics program to proactively detect fraud and corruption risks. Since then, DTP have acquired a specialised analytic software to identify red flags in its processes and reduce the risk of fraud and corruption.

This pilot program considers risks outside the procurement process, such as duplicate invoices. But it also monitors areas that are vulnerable to fraud and corruption, such as updates to DTP's vendor master file and employee and supplier relationships.

DTP's data analytics testing includes:

- checking active supplier details against cancelled ABNs
- matching vendor addresses to employee addresses.

Most departments have procedures to investigate and respond to incidents

Fraud and corruption investigations

The Standard recommends that departments have:

- a procedure for investigating and responding to a fraud or corruption incident
- an action plan to investigate all incidents.

The Standard also recommends that departments use appropriately skilled, experienced, independent investigators to:

- reduce the risk of conflicts of interest
- make sure they get objective advice.

Examples of independent investigators include:

- an external law enforcement agency
- a specialist fraud and corruption resource within the organisation
- an internal manager or other senior person.

The Standard emphasises that it is important for departments to prepare and maintain adequate records for all investigations.

Investigation process and manuals

All departments have a high-level process for managing and reporting fraud and corruption incidents. Their processes:

- outline the steps to complete an investigation
- require the department to refer incidents to an appropriate integrity agency or Victoria Police after it has assessed the seriousness of the event.

In addition to this:

- 4 departments have specific templates and manuals for investigations
- 2 departments have documented forms, manuals or guides for their investigations
- one department is currently updating its investigation manual
- one department has forms and a process for conducting IBAC and public interest disclosure assessments.

Four departments' policies say the department can choose an external party to do an investigation. But only one of these policies specifically requires the investigator to be experienced and independent.

DE's, DJCS's and DJSIR's investigation processes

DE, DJCS and DJSIR have processes and action plans to investigate and respond to alleged fraud and corruption incidents.

We looked at 18 cases of procurement fraud or corruption at these 3 departments from 2022 to 2024. We found that they followed their processes and action plans in practice.

Of these incidents:

- all were assessed by internal investigators
- DE and DJCS had 11 cases in which they determined that no formal investigations were needed. This is in line with their process to assess if an incident needs a formal investigation
- DJSIR referred 4 of its 7 incidents to its internal workplace relations business unit
- all 3 departments documented case notes, evidence and outcomes in their case management systems.

DE's and DJCS's incidents were reported by individuals.

DJSIR was alerted to 4 of its 7 incidents by its data analytics program or routine compliance checks by its integrity team. The remaining 3 were reported by individuals.

This highlights the benefits of proactively assessing risks.

All departments have policies that require them to follow the Standing Directions' requirement to report incidents to VAGO and other bodies

Reporting fraud and corruption incidents

The Standing Directions require agencies to report suspected significant or systemic fraud, corruption and other loss to:

- VAGO
- their responsible minister
- their audit and risk committee
- their portfolio department, for example, a school reporting to DE.

The Standing Directions also require the department to take remedial action as soon as practicable.

This requirement applies to losses above \$5,000 in cash or \$50,000 in property.

All 10 departments' fraud and corruption policies require them to report incidents to VAGO and other responsible bodies.

All 3 departments in our deep-dive analysis also internally report on fraud and corruption incidents, including reporting to their audit and risk committees.

Reporting incidents to VAGO

We reviewed DE's, DJCS's and DJSIR's fraud and corruption registers and VAGO's mandatory notifications register between July 2022 and January 2024.

We also asked for and received clarification from these departments on all mandatory fraud notifications sent to VAGO, not just notifications related to procurement.

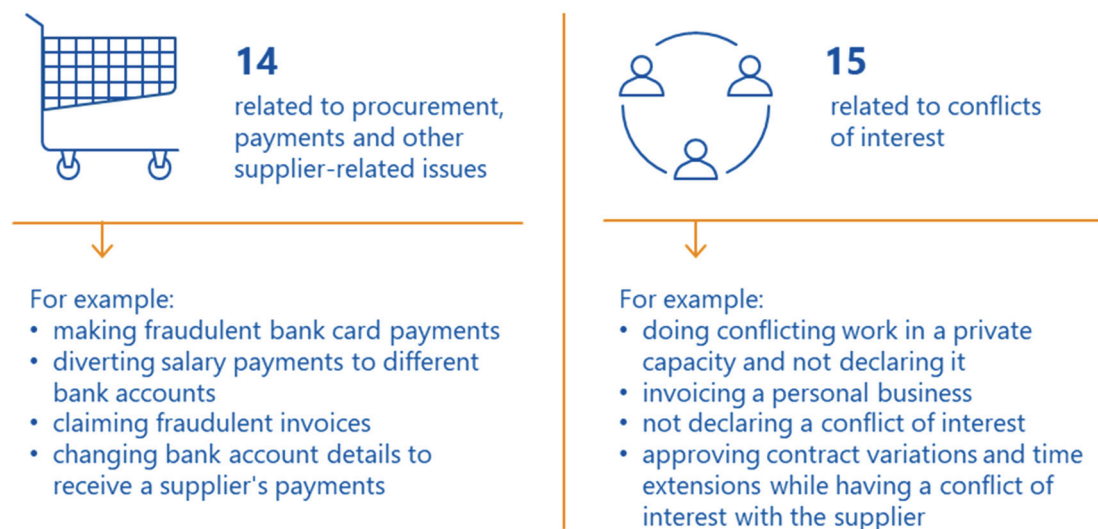
All 3 departments confirmed the number of notifications they made to VAGO between July 2022 and January 2024. The departments' records match VAGO's records.

This demonstrates that DE, DJCS and DJSIR comply with the Standing Directions' requirement to report fraud and corruption incidents to VAGO.

Figure 3 shows the number, type and estimated loss for procurement-related mandatory fraud notifications made to VAGO by government departments and agencies between 2022 and 2024.

Figure 3: Mandatory fraud notifications VAGO received between July 2022 and January 2024

Between July 2022 and January 2024 VAGO received 212 fraud notifications. Of these notifications, 29 related to procurement, resulting in \$3.3m estimated loss:



Note: Numbers in this graphic have been rounded. Of the 212 notifications, 183 did not relate to procurement, fraudulent bank detail changes, fraudulent suppliers or conflicts of interest. These notifications include incidents such as arson, medical certificate fraud and falsifying funding requests.
Source: VAGO.

Departments do not consistently review and update their controls after an incident

Reviewing existing controls

The Standard recommends that organisations assess their controls after a fraud or corruption incident to consider if they need to update them.

Eight departments' fraud and corruption policies state they will consider learnings from incidents to review and update their controls.

It was not clear if DE, DJCS and DJSIR review controls after every fraud and corruption incident because only some incidents led to updates.

An update may not be required each time an incident occurs. But consistently reviewing controls after an incident can help departments prevent future fraud and corruption incidents.

Updating existing controls

DE, DJCS and DJSIR have updated their controls after some fraud and corruption incidents.

For example:

- DE changed its financial policies and processes after identifying a fraud event at a school
- DJCS and DJSIR expanded their integrity training to business units after identifying fraud events.

Updating controls can protect departments from future fraud and corruption risks because it reduces the likelihood of a similar incident happening again.

Appendices

[Appendix A: Submissions and comments](#)

[Appendix B: Abbreviations, acronyms and glossary](#)

[Appendix C: Audit scope and method](#)

Appendix A:

Submissions and comments

We have consulted with all 10 Victorian Government departments and we considered their views when reaching our audit conclusions. As required by the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses received

Agency	Page
Department of Education	A-2
Department of Justice and Community Safety	A-5
Department of Jobs, Skills, Industry and Regions	A-8
Department of Energy, Environment and Climate Action	A-12
Department of Families, Fairness and Housing	A-15
Department of Government Services	A-18
Department of Health	A-21
Department of Premier and Cabinet	A-24
Department of Treasury and Finance	A-27
Department of Transport and Planning	A-30



Department of Education

Secretary

2 Treasury Place
East Melbourne Victoria 3002
Telephone +61 3 9637 2000

COR24139514

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office

Dear Mr Greaves

Proposed report: Assuring the integrity of the Victorian Government's procurement activities

Thank you for your letter of 14 May 2024 and the opportunity to comment on the proposed report for this audit.

The department is committed to having strong controls for procurement processes and has implemented robust controls to prevent and detect fraud and corruption when procuring goods and services. It is pleasing to note that the report acknowledges the department's positive practices to minimise fraud and corruption risks. The department has reviewed the proposed report and has attached an action plan to address the relevant recommendations in the report.

Should your office wish to discuss the department's response, they can contact Shamiso Mtenje, A/Executive Director, Assurance, Knowledge and Executive Services on [REDACTED] or [REDACTED].

Yours sincerely



Jenny Atta
Secretary
28 / 05 / 2024

Encl: DE's final action plan.

Your details will be dealt with in accordance with the *Public Records Act 1973* and the *Privacy and Data Protection Act 2014*. Should you have any queries or wish to gain access to your personal information held by this department please contact our Privacy Officer at the above address



Official Sensitive

DE action plan: Assuring the Integrity of the Victorian Government's Procurement Activities

#	Recommendations: That DE:	Response	#	The Department will:	By:
1	Review their fraud and corruption control policies and plans to make sure they are accurate and up to date. At a minimum, this involves setting timeframes to review and update policies and plans.	Accept	1	continue to ensure fraud and corruption policies remain accurate and up to date and that the timeframes for review of effectiveness and currency are appropriate.	N/A - Implemented
2	Review and update their policies and procedures for procurement, conflicts of interest and maintaining vendor master files. This should involve reviewing and updating: <ul style="list-style-type: none"> • policies and procedures when there has been a significant change to the department or how it operates • conflicts of interest policies to include timeframes for approving conflict of interest declarations • conflicts of interest forms to include a field to record the role of the declarer and approver. 	Accept	1	review and update the conflict of interest policy and procedures in line with the recommendations of this report, including: <ul style="list-style-type: none"> • setting timeframes for approving conflict of interest declarations and updates to the conflict of interest declaration form to include the role of the declarer and approver • outlining that the conflict of interest policy will be reviewed for effectiveness every 3 years and when there is a significant change to the department or how it operates. 	30 September 2024
			2	update Procurement conflict of interest forms to include role of the approver and declarer in the procurement. Any declared conflicts are captured in eduPay and the form will be updated to state this explicitly. Procurement policy and procedure documents have been updated as at April 2024.	30 September 2024
			3	review and update the Vendor maintenance policy and procedures/guidelines as part of the ongoing Oracle Cloud implementation due to be completed by mid-2025. This will include reviewing roles and responsibilities of the supplier maintenance function and identifying which roles the procedures best align to enhance operational efficiency and data integrity.	30 June 2025

Official Sensitive

3	Set up a regular monitoring program to review fraud and corruption incidents and integrity investigations to identify how they can improve their controls.	Accept	1	<p>continue to review fraud and corruption incidents and integrity investigations where appropriate, to improve controls to mitigate fraud and corruption risks.</p> <p>The department does have a process in place to consider that learnings from fraud and corruption incidents are identified and actioned, and as such, this action will be considered as implemented.</p>	N/A - Implemented
5	Set up regular data analytics reviews to assess their procurement activities for fraud and corruption risks. At a minimum, this involves collating and centralising data so they can export and review it.	Accept	1	<p>assess if DJSIR and DTP best practice analytics can be adopted (noting the different operating and resourcing models); and will assess viability of any other potential to adopt advanced data analytics tools for proactive fraud and corruption detection of payments. Any viable tests identified from the assessment will be implemented.</p> <p>The department already has a central system for procurement and payment data.</p>	30 June 2025



Department of Justice and Community Safety

Secretary

121 Exhibition Street
Melbourne Victoria 3000
Telephone: 0429 324 742
www.justice.vic.gov.au

Our ref: 24052968

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Via email: [REDACTED]

Proposed report: Assuring the integrity of the Victorian Government's procurement activities

Dear Mr Greaves

Thank you for your letter of 14 May 2024 providing the proposed report on Assuring the integrity of the Victorian Government's procurement activities.

The department is committed to upholding the highest standards of integrity, including actively managing each stage of its procurement activities to prevent corruption and fraud, and to complying with the relevant *Standing Directions 2018*. This commitment is evidenced in the department's vision, strategic direction and continuous work program to strengthen procurement, integrity and related financial processes and controls.

The department's action plan to address your recommendations is attached. As you have acknowledged in your report, work is already under way to implement several of these actions including a review of the fraud and corruption policy and introducing mandated refresher training on fraud and corruption for all staff.

If you have any questions or require further information, please contact Julianne Brennan, Executive Director, Governance and Assurance on [REDACTED] or via email to [REDACTED]

Yours sincerely

Kate Houghton, PSM
Secretary

30/05/2024

Encl. DJCS action plan



DJCS action plan

Assuring the integrity of the Victorian Government's procurement activities

#	VAGO recommends that DJCS:	Response	#	The department will:	By:
1	Review their fraud and corruption control policies and plans to make sure they are accurate and up to date. At a minimum, this involves setting timeframes to review and update policies and plans.	Accept	1	The department is currently reviewing its Fraud, Corruption and Other Losses policy to ensure it is up to date and reflects enhanced processes. This review will be finalised in conjunction with the launch of the new digital form.	01/07/24
2	Review and update their policies and procedures for procurement, conflicts of interest and maintaining vendor master files. This should involve reviewing and updating their: <ul style="list-style-type: none"> policies and procedures when there has been a significant change to the department or how it operates conflicts of interest policies to include timeframes for approving conflict of interest declarations conflict of interest forms to include a field to record the role of the declarer and approver. 	Accept	2.1	Review and update its procurement policies and processes to strengthen fraud and corruption controls.	30/09/24
			2.2	Introduce a review process for procurement policies and procedures that triggers when significant changes to the department or how it operates occur, such as changes to organisational structure of machinery of government changes.	30/09/24
			2.3	The department has recently implemented actions to address elements of this recommendation that relate to the conflict of interest policy and process. At the next review, the policy will be updated to reference a review period of every 2 years, or when there has been a significant change to the department or how it operates.	31/03/25
			2.4	Review and update its process for maintaining vendor master files.	30/09/24



#	VAGO recommends that DJCS:	Response	#	The department will:	By:
3	Set up a regular monitoring program to review fraud and corruption incidents and integrity investigations to identify how they can improve their controls.	Accept	3	Develop parameters to assess control effectiveness and consider potential improvements.	31/12/24
4	Introduce a regular training refresher program for all staff that covers fraud and corruption.	Accept	4	The department has mandatory fraud and corruption training and will introduce the requirement for refresher training every 2 years.	31/12/24
5	Set up regular data analytics reviews to assess their procurement activities for fraud and corruption risks. At a minimum, this involves collating and centralising data so they can export and review it.	Accept	5	Establish a process for the regular interrogation of procurement related data, including: <ul style="list-style-type: none"> • establishing a central repository for relevant procurement related data (database) • developing procurement fraud and corruption related metrics • implementing a regular reporting regime for fraud and corruption risks. 	28/02/25

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Department of Jobs, Skills, Industry and Regions

GPO Box 4509
Melbourne, Victoria 3001 Australia
Telephone: +61 3 9651 9999

Ref: CSEC-2-24-24205

Mr Andrew Greaves
Auditor General
Victorian Auditor General's Office
Level 31, 35 Collins Street
MELBOURNE VICTORIA 3000

Dear Mr Greaves

**PROPOSED REPORT: ASSURING THE INTEGRITY OF THE VICTORIAN
GOVERNMENT'S PROCUREMENT ACTIVITIES PERFORMANCE AUDIT
ENGAGEMENT**

Thank you for your letter of 14 May 2024 regarding the proposed report on Assuring the Integrity of the Victorian Government's Procurement Activities performance engagement.

The Department of Jobs, Skills, Industry and Regions (the department) accepts VAGO's recommendations and will continue to foster best practices for strengthening its controls pertaining to integrity in the department's procurement activities.

Enclosed with this correspondence are actions the department will take in response to each relevant recommendation (including completion dates), and an amendment to the proposed report to reflect certain departmental monitoring activities more fulsomely, that I understand has been agreed with your engagement team.

If your team requires any further information, please contact Karan Gill, Chief Audit Officer on [REDACTED] or [REDACTED].

Yours sincerely



Tim Ada
Secretary

28/05/2024



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Department of Jobs, Skills, Industry and Regions action plan to address recommendations from the 'Assuring the integrity of the Victorian Government's procurement activities' performance audit engagement

No.	VAGO recommendation	Acceptance	Agreed management actions	Target completion date
1	Review their fraud and corruption control policies and plans to make sure they are accurate and up to date. At a minimum, this involves setting timeframes to review and update policies and plans.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	DJSIR will update the Fraud Policy and Fraud Plan to ensure currency and accuracy. Consistent with the department's Fraud and Corruption Control Policy (Fraud Policy) the Fraud Policy and the Fraud and Corruption Control Plan (Fraud Plan) are reviewed and updated annually.	31 December 2024
2	Review and update their policies and procedures for procurement, conflicts of interest and maintaining vendor master files. This should involve reviewing and updating: <ul style="list-style-type: none"> a) policies and procedures when there has been a significant change to the department or how it operates b) conflict of interest policies to include timeframes for approving conflict of interest declarations c) conflict of interest forms to include a field to record the role of the declarer and approver. 	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	a) DJSIR will update the procurement, conflicts of interest and maintaining vendor master files policies and procedures to include a statement that it will be reviewed if/when there are significant changes to the department or how it operates. b) DJSIR will update the Conflict of Interest policy to include timeframes for approving conflict of interest declarations. c) DJSIR will update the declaration form to also require the role of the approver in relation to the declarer be captured. Noting that from February 2024, the role of the declarer is captured when the form is exported as a PDF document.	a) 31 July 2024 b) 31 July 2024 c) 31 October 2024

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No.	VAGO recommendation	Acceptance	Agreed management actions	Target completion date
3	Set up a regular monitoring program to review fraud and corruption incidents and integrity investigations to identify how they can improve their controls.	<div><input checked="" type="checkbox"/> Yes</div> <div><input type="checkbox"/> No</div> <div><input type="checkbox"/> In part</div> <div><input type="checkbox"/> In principle</div>	<div>a) Terms of Reference and the purpose statement of the DJISIR Integrity in Procurement Forum, will be updated to include a standing item on learnings from procurement related fraud and corruption incidents and integrity investigations from the next meeting onwards. The forum meets biannually with the next meeting is scheduled for September 2024</div> <div>b) DJISIR will implement a regular monitoring program to review fraud and corruption incidents and integrity investigations, which will be documented in DJISIR's Fraud Plan.</div>	<div>a) 30 September 2024</div> <div>b) 31 December 2024</div>

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Department of Jobs, Skills, Industry and Regions: Feedback – VAGO: Proposed Report

Assuring the integrity of the Victorian Government's procurement activities

No.	Page ref. 1	VAGO statement	DJSIR comment	VAGO Audit response	Proposed action	DJSIR comments
2	9	<p>Monitoring departing employees' emails</p> <p>DE told us it does not monitor departing employees' emails due to privacy considerations. DJSIR told us it does not monitor employees' emails unless there is a specific circumstance that requires it to, such as an investigation by a law enforcement agency. DJSIR told us it only monitors outbound emails from departing employees when it has identified integrity risks</p>	<p>The difference in wording for DJSIR ("does not monitor employees' emails") vs. DE and DJS ("departing employees' emails"/"emails from departing employees") implies the scope of the statement is broader.</p> <p>Can we clarify the parameters i.e., whether this relates to monitoring all employee emails or departing employees only?</p>	Accepted. This relates to departing employees only. Amendments made to the Proposed report.	<p>Proposed report reads:</p> <p>DJSIR told us it does not monitor departing employees' emails unless there is a specific circumstance that requires it to, such as an investigation by a law enforcement agency.</p>	<p>DJSIR and VAGO agreed to re-word the sentence in the proposed action column to:</p> <p>DJSIR told us it does not monitor departing employees' emails unless there are circumstances that trigger it to access and review employee emails under the relevant policies, such as investigating suspected fraud, corruption or misconduct.</p>

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Department of Energy, Environment
and Climate Action

PO Box 500, East Melbourne,
Victoria 8002 Australia

SEC-240500326

Andrew Greaves
Auditor-General
VAGO
Level 31 / 35 Collins Street Melbourne Victoria 3000
[REDACTED]

Dear Auditor-General

**PROPOSED REPORT - ASSURING THE INTEGRITY OF THE VICTORIAN GOVERNMENT'S
PROCUREMENT ACTIVITIES**

Thank you for your letter of 14 May 2024, providing the Department of Energy, Environment and Climate Action (DEECA) with an opportunity to comment on the proposed performance audit report - *Assuring the Integrity of the Victorian Government's Procurement Activities*.

I acknowledge and thank your office for the work in conducting this audit and for providing a response to DEECA's earlier request for clarification on some matters.

DEECA's management action plan for responding to the recommendations in the report is enclosed. The plan includes acceptance in full or in principle of all recommendations, the actions DEECA proposes to take, and expected completion dates.

DEECA is well positioned to respond to the recommendations of this audit. In particular, DEECA has procedures in place to monitor fraud, corruption and integrity incidents and implement remedial actions and control improvements.

Should you or your office wish to discuss anything further, please contact Vish Pydiah, Chief Procurement Officer, Finance, Infrastructure and Procurement Services, DEECA on 0418 139 492 or email [REDACTED]

Yours sincerely

[REDACTED]

John Bradley
Secretary



Official - Sensitive

DEECA Management Action Plan

DEECA Management Actions

No	VAGO recommendations	Acceptance	Agreed management action	Target completion date
1	Review their fraud and corruption control policies and plans to make sure they are accurate and up to date. At a minimum, this involves setting timeframes to review and update policies and plans.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	DEECA will continue to review its existing fraud and corruption control policies and plans as per established timeframes.	30 June 2025
2	Review and update their policies and procedures for procurement, conflicts of interest and maintaining vendor master files. This should involve reviewing and updating: <ul style="list-style-type: none"> • policies and procedures when there has been a significant change to the department or how it operates • conflict of interest policies to include timeframes for approving conflict of interest declarations • conflict of interest forms to include a field to record the role of the declarer and approver. 	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle	DEECA will update policies and procedures for procurement and vendor master file process as per established timeframes. DEECA will include relevant timeframes for conflict-of-interest declarations related to procurement activities in its guidance. DEECA's Conflict of interest form already has a field to record the role of the declarer and approver.	31 March 2025

No	VAGO recommendations	Acceptance	Agreed management action	Target completion date
3	Set up a regular monitoring program to review fraud and corruption incidents and integrity investigations to identify how they can improve their controls.	<div><input type="checkbox"/> Yes</div> <div><input type="checkbox"/> No</div> <div><input type="checkbox"/> In part</div> <div><input checked="" type="checkbox"/> In principle</div>	<p>DEECA has already set up a regular monitoring program to review fraud and corruption incidents and integrity investigations to identify control improvements.</p> <p>DEECA will review its program to identify improvement opportunities in light of this audit as part of its scheduled integrity program evaluation in 2024-25.</p>	30 November 2024
4	NA to DEECA			
5	Set up regular data analytics reviews to assess their procurement activities for fraud and corruption risks. At a minimum, this involves collating and centralising data so they can export and review it.	<div><input type="checkbox"/> Yes</div> <div><input type="checkbox"/> No</div> <div><input type="checkbox"/> In part</div> <div><input checked="" type="checkbox"/> In principle</div>	<p>DEECA already uses data analytics reviews to assess risks.</p> <p>DEECA will review current process for analysing data in relation to procurement activities to identify improvements for early detection of unusual and suspicious activity.</p>	31 March 2025

2 Assuring the integrity of the Victorian Government's procurement activities
DEECA Management Actions

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Secretary

Department of Families, Fairness and Housing

50 Lonsdale Street
Melbourne Victoria 3000
Telephone: 1300 475 170
GPO Box 1774
Melbourne Victoria 3001
www.dffh.vic.gov.au

VAGO ref: 34850 24
DFFH ref: BAC EOB-361

Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

Via email:

[REDACTED]
cc: [REDACTED] and [REDACTED]

Dear Mr Greaves

VAGO audit provisional draft report: *Assuring the integrity of the Victorian Government's procurement activities*

Thank you for your letter dated 14 May 2024, and for providing the Department of Families, Fairness and Housing (the department) with an opportunity to review and respond to the proposed report for the *Assuring the integrity of the Victorian Government's procurement activities* assurance audit.

The department notes the findings and recommendations specified in that proposed report and accepts all recommendations applicable to the department in full or in principle. The details of the department's proposed actions in relation to each of the recommendations, and when those will be completed, is included in the Agency Action Plan.

Yours sincerely

[REDACTED]

Peta McCammon
Secretary

27/05/2024



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Department of Families, Fairness and Housing action plan to address recommendations from Assuring the integrity of the Victorian Government's procurement activities

No.	VAGO recommendation	Acceptance	Agreed management actions	Target completion date
1	Review their fraud and corruption control policies and plans to make sure they are accurate and up to date. At a minimum, this involves setting timeframes to review and update policies and plans.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	The DFFH Fraud, and Corruption and Other Losses policy is reviewed and updated every 2 years. The 2024 review is underway. DFFH will also ensure that any updates are in alignment with its Procurement Assurance Procedure.	31 October 2024
2	Review and update their policies and procedures for procurement, conflicts of interest and maintaining vendor master files. This should involve reviewing and updating: <ul style="list-style-type: none">• policies and procedures when there has been a significant change to the department or how it operates• conflict of interest policies to include timeframes for approving conflict of interest declarations• conflict of interest forms to include a field to record the role of the declarer and approver.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle	DFFH will undertake periodic reviews (at least annually) of its procurement framework to ensure controls and practices are appropriate. As of May 2024, the Victorian Public Sector Commission is working on a new conflict of interest (COI) model policy for the Victorian Public Sector. DFFH will review and update its COI policy and related COI form once the Commission has published its guidance. DFFH will implement VAGO's recommendations, in conjunction with the new model policy. Because the policy is practiced through technology (an online form), resourcing for technology updates will influence timing for implementing changes to policy and procedure.	31 December 2025

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3	Set up a regular monitoring program to review fraud and corruption incidents and integrity investigations to identify how they can improve their controls.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	DFFH reviews its internal controls at the conclusion of an investigation into fraud and corruption incidents, with a view to preventing future incidents. A schedule is also in place to undertake 1-2 deep dives annually into areas of higher risk and to refresh the DFFH integrity risk profile at least once every two years.	Currently in place
4	Set up regular data analytics reviews to assess their procurement activities for fraud and corruption risks. At a minimum, this involves collating and centralising data so they can export and review it.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle	DFFH agree in-principle, subject to funding and resource availability. The department intends to conduct an assessment of options for a fraud and corruption risk analytics program.	30 June 2025

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Department of Government Services

Level 5
1 Macarthur Street
East Melbourne Victoria 3002
Telephone: (03) 9651 5111
dgs.vic.gov.au

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31
35 Collins Street
Melbourne VIC 3000

By email: [REDACTED]

Dear Auditor-General

PROPOSED REPORT – PERFORMANCE AUDIT: ASSURING THE INTEGRITY OF THE VICTORIAN GOVERNMENT'S PROCUREMENT ACTIVITIES

Thank you for your letter dated 14 May 2024, providing the Department of Government Services (DGS) with an opportunity to comment on the proposed performance audit report regarding Assuring the Integrity of the Victorian Government's procurement activities.

DGS is committed to ensuring its fraud and corruption and control policies when procuring goods and services reflect best practice. Since the initial assessments by VAGO as part of this performance audit, I am pleased to advise that DGS has developed and implemented its own policies and procedures, which are up to date.

Part of this includes a shared corporate procurement model with an overarching Procurement Strategy that sets out the procurement objectives and activities of DGS and its role to provide corporate procurement services to client departments.

The DGS Action Plan outlining how the department will seek to implement the responses enclosed with this letter. DGS accepts, in full or in principle, all recommendations.

Should your office require further information in relation to DGS's response, they may contact Vasko Nastevski, Chief Procurement Officer, DGS via [REDACTED]

Yours sincerely

[REDACTED]

Jo de Morton
Secretary

28 / 05 /2024
Encl. DGS Action Plan

Your details will be dealt with in accordance with the *Public Records Act 1973* and the *Privacy and Data Protection Act 2014*. Should you have any queries or wish to gain access to your personal information held by this department please contact our Privacy Officer at the above address.



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Department of Government Services action plan to address recommendations from Assuring the integrity of the Victorian Government's procurement activities

No.	VAGO recommendation	Acceptance	Agreed management actions	Target completion date
1	Review their fraud and corruption control policies and plans to make sure they are accurate and up to date. At a minimum, this involves setting timeframes to review and update policies and plans.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	As a newly established department in 2023 following machinery of government changes, the DGS fraud and corruption control policies and plans have been recently developed and are up to date. DGS has a process in place to review all of its fraud and corruption control policies regularly to make sure they are accurate and up to date.	30 June 2025
2	Review and update their policies and procedures for procurement, conflicts of interest and maintaining vendor master files. This should involve reviewing and updating: <ul style="list-style-type: none"> • policies and procedures when there has been a significant change to the department or how it operates • conflict of interest policies to include timeframes for approving conflict of interest declarations • conflict of interest forms to include a field to record the role of the declarer and approver. 	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	As a newly established department in 2023 following machinery of government changes, DGS has recently developed its policies and procedures for procurement, conflicts of interest and maintaining vendor master files. DGS will regularly review all of its policies and procedures to reflect best practice.	30 June 2025

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3	Set up a regular monitoring program to review fraud and corruption incidents and integrity investigations to identify how they can improve their controls.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	<p>The DGS fraud and corruption control policies and procedures are aligned with AS8001:2021 Fraud and Corruption Control Standards, which recommend an assessment is undertaken of controls after a fraud or corruption incident to consider if any updates are required. DGS will continue to be informed by these Standards.</p> <p>DGS People and Governance engages with business areas in circumstances where an integrity matter results in an employee misconduct investigation if misconduct arose from deficiencies in business processes or practices, to ensure policy and practice gaps are addressed.</p>	30 June 2025
4	Set up regular data analytics reviews to assess their procurement activities for fraud and corruption risks. At a minimum, this involves collating and centralising data so they can export and review it.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle	<p>DGS has established a corporate shared service model for procurement where data from procurement activity undertaken by DGS, the Department of Treasury and Finance (DTF) and the Department of Premier and Cabinet (DPC) is already captured centrally. DGS analyses the data and uses it to inform a quarterly procurement assurance program that is reported to the Procurement Governance Committee. DGS will consider whether there is opportunity to augment its existing data collection processes that is cost-effective, efficient and benefits efforts to review procurement activities for fraud and corruption risks.</p>	30 June 2025

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Secretary

Department of Health

50 Lonsdale Street
Melbourne Victoria 3000
Telephone: 1300 650 172
GPO Box 4057
Melbourne Victoria 3001
www.health.vic.gov.au
DX 210081

VAGO file no: 34850 24
DH file no: BAC-CO-46461

Andrew Greaves
Auditor-General
Victorian Auditor-General's Officer

Via e-mail: [REDACTED]

Copy:

[REDACTED]

Dear Mr Greaves

VAGO audit proposed report: *Assuring the integrity of the Victorian Government's procurement activities*

Thank you for your letter of 14 May 2024, and for providing the Department of Health (the department) with an opportunity to review and respond to the proposed report for the *Assuring the integrity of the Victorian Government's procurement activities* audit.

The department notes the report's findings and recommendations and accepts all recommendations applicable to the department. Details of the department's proposed actions in response to each of the recommendations and timeframes for completion are included in the enclosed 'Agency action plan'.

In particular, the department notes the recent implementation of its forensic data analytics function which strengthens our monitoring capability and signals our commitment to and investment in proactively working to prevent, detect and investigate fraud and corruption when procuring goods and services.

Yours sincerely

[REDACTED]

Secretary
24/05/2024

Encl.



Department of Health action plan to address recommendations from Assuring the integrity of the Victorian Government's procurement activities

No.	VAGO recommendation	Acceptance	Agreed management actions	Target completion date
1	Review their fraud and corruption control policies and plans to make sure they are accurate and up to date. At a minimum, this involves setting timeframes to review and update policies and plans.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	DH will review its Fraud, Corruption and Other Losses Policy and associated guidance to ensure it is up to date. Reviews will occur every two years, or after a major change to the department's operations or a significant fraud / corruption event.	31 December 2024
2	Review and update their policies and procedures for procurement, conflicts of interest and maintaining vendor master files. This should involve reviewing and updating: <ul style="list-style-type: none"> • policies and procedures when there has been a significant change to the department or how it operates • conflict of interest policies to include timeframes for approving conflict of interest declarations • conflict of interest forms to include a field to record the role of the declarer and approver. 	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	DH regularly reviews its procurement policies and procedures, these are reflected in the DH Procurement Strategy. The DH Procurement Strategy will be reviewed and updated to reflect the recent change to the department's structure, then reviewed annually. Elements of the procurement policies and procedures are also reviewed and updated periodically, in response to major changes to the department's operations and / or any significant fraud/corruption events that may occur or to address recommendations from internal / external reviews. DH will review its conflict of interest policy to include timeframes for approving conflict of interest declarations. DH will confirm the role of approver and requestor are clear in the existing conflict of interest tool. DH maintains a vendor master file, that is managed by its Common Corporate Support Branch who will review the associated procedure.	31 December 2024

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3	Set up a regular monitoring program to review fraud and corruption incidents and integrity investigations to identify how they can improve their controls.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	DH monitors and reviews relating to fraud and corruption incidents each quarter with the Audit, Risk and Resilience team and with control owners to identify improvements to the control environment. DH will formalise this monitoring program through inclusion in its Fraud, Corruption and Other Losses Policy (this will be undertaken as part of the review committed against Recommendation 1).	31 December 2024
4	Set up regular data analytics reviews to assess their procurement activities for fraud and corruption risks. At a minimum, this involves collating and centralising data so they can export and review it.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	DH has developed and is implementing a Forensic Data Analytics (FDA) function, that includes an analytics-based review process, focused on conflicts of interest between the DH vendor master file and DH employee master file. DH anticipates FDA outcomes will be reported to the Audit and Risk Management Committee and Executive Board bi-annually.	30 June 2024

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Department of
Premier and Cabinet

1 Treasury Place
Melbourne, Victoria 3002 Australia
Telephone: 03 9651 5111
dpc.vic.gov.au

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

BSEC-240500430

By email: enquiries@audit.vic.gov.au

Dear Mr Greaves

Thank you for your letter dated 14 May 2024, providing the Department of Premier and Cabinet (DPC) with an opportunity to comment on the proposed performance audit report regarding Assuring the Integrity of the Victorian Government's procurement activities.

DPC appreciates the audit findings and has developed an action plan to respond to the recommendations made in the report. Please find responses to the recommendations that relate to DPC enclosed with this letter.

Should you require further information in relation to DPC's response, please contact Vasko Nastevski, Chief Procurement Officer, via [REDACTED]

Yours sincerely

[REDACTED]

Jeremi Moule
Secretary

30 / 5 / 2024

Your details will be dealt with in accordance with the *Public Records Act 1973* and the *Privacy and Data Protection Act 2014*. Should you have any queries or wish to gain access to your personal information held by this department please contact our Privacy Officer at the above address.



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Department of Premier and Cabinet action plan to address recommendations from *Assuring the integrity of the Victorian Government's procurement activities*

No.	VAGO recommendation	Acceptance	Agreed management actions	Target completion date
1	Review their fraud and corruption control policies and plans to make sure they are accurate and up to date. At a minimum, this involves setting timeframes to review and update policies and plans.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	DPC periodically reviews all of its policies, including the fraud and corruption control policies and plans and DPC will continue to make sure they are accurate and up to date.	30 June 2025
2	Review and update their policies and procedures for procurement, conflicts of interest and maintaining vendor master files. This should involve reviewing and updating: <ul style="list-style-type: none">• policies and procedures when there has been a significant change to the department or how it operates• conflict of interest policies to include timeframes for approving conflict of interest declarations• conflict of interest forms to include a field to record the role of the declarer and approver.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	DPC periodically reviews all of its policies and as part of the new corporate shared service model will work with Department of Government Services (DGS) to ensure that policies and procedures for procurement, conflicts of interest and maintaining vendor master files reflects best practice.	30 June 2025

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3	Set up a regular monitoring program to review fraud and corruption incidents and integrity investigations to identify how they can improve their controls.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	<p>The DPC fraud and corruption control policies and procedures are aligned with AS8001:2021 Fraud and Corruption Control Standards, which recommend an assessment is undertaken of controls after a fraud or corruption incident to consider if any updates are required. DPC will continue to be informed by these Standards.</p> <p>People and Culture engage with business areas in circumstances where an integrity matter results in an employee misconduct investigation if misconduct arose from deficiencies in business processes or practices, to ensure policy and practice gaps are addressed.</p>	30 June 2025
4	Set up regular data analytics reviews to assess their procurement activities for fraud and corruption risks. At a minimum, this involves collating and centralising data so they can export and review it.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle	<p>DPC procurement activities form part of the newly established DGS corporate shared service model for procurement where data from procurement activity undertaken by DPC is already captured centrally in DGS. DGS analyses the data and uses it to inform a quarterly procurement assurance program that is reported to the Procurement Governance Committee, which includes senior executive representatives from DPC. DPC will work with DGS and consider whether there is opportunity to augment the existing data collection processes that is cost-effective, efficient and benefits efforts to review procurement activities for fraud and corruption risks.</p>	30 June 2025

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Department of Treasury and Finance

1 Treasury Place
Melbourne Victoria 3002 Australia
Telephone: +61 3 9651 5111
dtf.vic.gov.au

D24/66294

Mr Andrew Greaves
Victorian Auditor-General
Level 31, 35 Collins Street
Melbourne VIC 3000
[Redacted]

Dear Mr Greaves

PROPOSED REPORT – PERFORMANCE AUDIT: ASSURING THE INTEGRITY OF THE VICTORIAN GOVERNMENT'S PROCUREMENT ACTIVITIES

Thank you for the opportunity to respond to the proposed report for the performance audit *Assuring the Integrity of the Victorian Government's Procurement Activities*.

The Department of Treasury and Finance's (DTF) action plan outlining how the department will seek to implement the recommendations is attached. DTF accepts, in full or in principle, all recommendations.

DTF is currently updating its Integrity Framework to ensure it is up to date and accurate and reflects best practice. DTF's fraud and corruption control policies and procedures are aligned with AS8001:2021 Fraud and Corruption Control Standards and, as part of the action plan, DTF will continue to be informed by these Standards.

Should you require further information in relation to DTF's response, please contact Vasko Nastevski, Chief Procurement Officer, via email at vasko.nastevski@dtf.vic.gov.au.

Thank you again for the opportunity to respond to the proposed report.

Yours sincerely

Chris Barrett
Secretary

24 / 5 / 2024



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Department of Treasury and Finance action plan to address recommendations from *Assuring the integrity of the Victorian Government's procurement activities*

No.	VAGO recommendation	Acceptance	Agreed management actions	Target completion date
1	Review their fraud and corruption control policies and plans to make sure they are accurate and up to date. At a minimum, this involves setting timeframes to review and update policies and plans.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	DTF is currently updating its Integrity Framework and will make sure its fraud and corruption control policies and plans are accurate and up to date.	2024/2025
2	Review and update their policies and procedures for procurement, conflicts of interest and maintaining vendor master files. This should involve reviewing and updating: <ul style="list-style-type: none">• policies and procedures when there has been a significant change to the department or how it operates• conflict of interest policies to include timeframes for approving conflict of interest declarations• conflict of interest forms to include a field to record the role of the declarer and approver.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	DTF is currently updating its Integrity Framework and will make sure its policies and procedures for procurement, conflicts of interest and maintaining vendor master files reflect best practice.	2024/2025

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3	Set up a regular monitoring program to review fraud and corruption incidents and integrity investigations to identify how they can improve their controls.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	<p>The DTF fraud and corruption control policies and procedures are aligned with AS8001:2021 Fraud and Corruption Control Standards, which recommend an assessment is undertaken of controls after a fraud or corruption incident to consider if any updates are required. DTF will continue to be informed by these Standards.</p> <p>People and Culture engage with business areas in circumstances where an integrity matter results in an employee misconduct investigation if misconduct arose from deficiencies in business processes or practices, to ensure policy and practice gaps are addressed.</p>	2024/2025
4	Set up regular data analytics reviews to assess their procurement activities for fraud and corruption risks. At a minimum, this involves collating and centralising data so they can export and review it.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle	<p>DTF procurement activities form part of the newly established DGS corporate shared service model for procurement where data from procurement activity undertaken by DTF is already captured centrally in DGS. DGS analyses the data and uses it to inform a quarterly procurement assurance program that is reported to the Procurement Governance Committee, which includes senior executive representatives from DTF. DTF will work with DGS and consider whether there is an opportunity to augment the existing data collection processes that is cost-effective, efficient and benefits efforts to review procurement activities for fraud and corruption risks.</p>	2024/2025

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Department of Transport and Planning

GPO Box 2392
Melbourne, Victoria 3001 Australia

Ref: BSEC-1-24-2118

Mr Andrew Greaves
Auditor-General of Victoria
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Greaves

Victorian Auditor-General's Office - Assuring the integrity of the Victorian Government's procurement activities - Proposed report

Thank you for your letter of 14 May 2024 enclosing the proposed report (the Report) for the *Assuring the integrity of the Victorian Government's procurement activities* performance audit.

The Department of Transport and Planning (the Department) is committed to conducting its procurement activities with an effective management of procurement risks, maximising value for money, aligning with best practice probity and governance processes, and in accordance with the Victorian Government Purchasing Board's policies and guidelines.

I note that your Report identifies the Department as one of only two departments that are proactively detecting fraud and corruption risks through the use of data analytics. This reflects the Department's zero tolerance for any level of fraud or corruption.

The Department accepts the three recommendations that have been directed at all departments. A response to each recommendation is enclosed for your consideration, noting that two recommendations have been addressed as completed.

Thank you for the opportunity to comment on the final report.

Yours sincerely



Paul Younis
Secretary
Department of Transport and Planning

24 May 2024

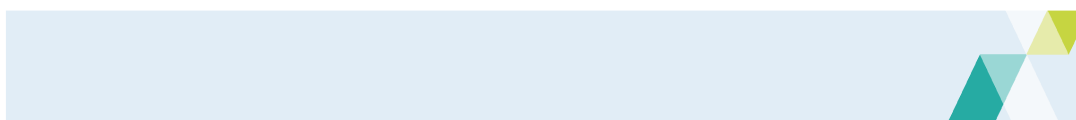
Enc: *DTP Action Plan - Assuring the integrity of the Victorian Government's procurement activities*



Assuring the integrity of the Victorian Government's procurement activities

Department of Transport and Planning – Action plan

No.	VAGO Recommendation	DTP Action	Due date
1	Review their fraud and corruption control policies and plans to make sure they are accurate and up to date. At a minimum, this involves setting timeframes to review and update policies and plans.	<p>Accepted</p> <p>DTP will continue to review its suite of fraud and corruption policies and plans to make sure they are accurate and up to date. This review occurs annually. DTP's policies require that policies and procedures are updated when there has been a significant change to the department or its operations.</p> <p>DTP's Fraud and Corruption Control Framework and policies are aligned with AS 8001:2021 Fraud and Corruption Control and have recently been updated to reflect machinery of government changes.</p>	Complete
2	<p>Review and update their policies and procedures for procurement, conflicts of interest and maintaining vendor master files. This should involve reviewing and updating:</p> <ul style="list-style-type: none"> • policies and procedures when there has been a significant change to the department or how it operates • conflict of interest policies to include timeframes for approving conflict of interest declarations • conflict of interest forms to include a field to record the role of the declarer and approver. 	<p>Accepted</p> <p>DTP will continue to annually review and update policies and procedures for procurement and conflicts of interest. DTP's policies require that policies and procedures are updated when there has been a significant change to the department or its operations.</p> <p>DTP requires that conflict of interest declarations must be approved prior to participation in a procurement process.</p> <p>DTP utilises electronic forms for conflict of interest declarations. The form includes mandatory fields for the name and position title of both the declarer and the approver.</p> <p>DTP is currently undertaking a major review of the vendor master file and supporting procedures. As part of this activity DTP is developing an overarching policy for maintaining the vendor master file which will include a fixed review cycle of 18 months, and the requirement to update when there has been a significant change to the department or its operations.</p>	31 December 2024



No.	VAGO Recommendation	DTP Action	Due date
3	Set up a regular monitoring program to review fraud and corruption incidents and integrity investigations to identify how they can improve their controls.	<p>Accepted</p> <p>DTP will continue its existing practice to undertake post transactional reviews following a fraud or corruption incident to strengthen internal controls and to understand any red flags associated with non-compliance or maladministration to inform policy and/or process improvements.</p> <p>DTP continuously works to identify fraud and corruption risks through the following:</p> <ul style="list-style-type: none"> • an established enterprise risk assessment process, • findings from reviews and investigations, • employee feedback, • external feedback and • proactive monitoring of procurement actions and activities, including an ongoing program of data analytics to identify anomalies for further investigation. 	Complete

Appendix B:

Abbreviations, acronyms and glossary

Abbreviations We use the following abbreviations in this report:

Abbreviation

the Standard	<i>AS 8001:2021, Fraud and corruption control</i>
Standing Directions	<i>Standing Directions 2018 Under the Financial Management Act 1994</i>

Acronyms We use the following acronyms in this report:

Acronym

ABN	Australian Business Number
DE	Department of Education
DJCS	Department of Justice and Community Safety
DJSIR	Department of Jobs, Skills, Industry and Regions
DTP	Department of Transport and Planning
IBAC	Independent Broad-based Anti-corruption Commission
VAGO	Victorian Auditor-General's Office
VGPB	Victorian Government Purchasing Board

Glossary This glossary includes an explanation of the types of engagements we perform:

Term

Reasonable assurance	We achieve reasonable assurance by obtaining and verifying direct evidence from a variety of internal and external sources about an agency's performance. This enables us to express an opinion or draw a conclusion against an audit objective with a high level of assurance. We call these audit engagements. See our assurance services fact sheet for more information.
Limited assurance	We obtain less assurance when we rely primarily on an agency's representations and other evidence generated by that agency. However, we aim to have enough confidence in our conclusion for it to be meaningful. We call these types of engagements assurance reviews and typically express our opinions in negative terms. For example, that nothing has come to our attention to indicate there is a problem. See our assurance services fact sheet for more information.

Appendix C:

Audit scope and method

Scope of this audit

**Who we
examined**

We examined all 10 Victorian Government departments:

- Department of Education
 - Department of Energy, Environment and Climate Action
 - Department of Families, Fairness and Housing
 - Department of Government Services
 - Department of Health
 - Department of Jobs, Skills, Industry and Regions
 - Department of Justice and Community Safety
 - Department of Premier and Cabinet
 - Department of Transport and Planning
 - Department of Treasury and Finance.
-

**Our audit
objective**

Have departments implemented suitable controls to prevent, detect and investigate fraud and corruption when procuring goods and services?

**What we
examined**

We examined if Victorian Government departments:

- have policies, procedures and controls to prevent, detect and investigate fraud and corruption during the procurement process
 - follow their procurement policies, procedures and controls for fraud and corruption.
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Conducting this audit

Assessing performance

To form our conclusion against our objective we used the used the following lines of inquiry and associated evaluation criteria:

Line of inquiry	Criteria
1. Foundation: Do departments have a strong fraud and corruption control framework?	1.1 Roles and responsibilities for fraud and corruption prevention, detection and control are clearly defined and widely communicated.
	1.2 Fraud policies, risk assessments and control plans are: <ul style="list-style-type: none"> comprehensive and tailored to the organisation's functions reviewed regularly and updated if required – at a minimum, when there is a major operational change that affects fraud risk.
	1.3 There is internal reporting on procurement activity, risk assessments and fraud and corruption events so that responsible officers can be satisfied to sign off on the organisation's annual attestations.
	1.4 There is staff training so that employees understand what constitutes fraud and corruption, and how to identify and respond to it.
	1.5 Pre-employment screening and additional post-employment screening, especially for high-risk positions (for example, roles with financial delegations), include appropriate background and characters checks.
2. Prevention: Are departments' controls to prevent procurement fraud and corruption proportionate to risk and responsive to the fraud risk assessment?	2.1 There is clear separation of duties in the procurement lifecycle.
	2.2 Due diligence is completed to confirm: <ul style="list-style-type: none"> the legitimacy of new suppliers before contracting this is periodically completed for existing suppliers.
	2.3 Conflicts of interest are identified and managed before and during a procurement.
	2.4 Procurement processes are open and fair.
	2.5 Responsible officers authorise procurement of and payment to suppliers before a contract or payment is finalised.
	2.6 Vendor master file changes initiated/requested by suppliers are independently verified before any change is made.
3. Detection: Are departments' controls to detect procurement fraud and corruption proportionate to risk and responsive to the fraud risk assessment?	3.1 Regular review of procurement and payment activity to identify possible instances of fraud and corruption is conducted.
	3.2 There is a whistleblower process in place to report possible instances of fraud and corruption.
4. Response: Do departments actively respond to procurement fraud and corruption events in a timely manner?	4.1 There is a defined action plan for when a fraud or corruption event is identified, including that: <ul style="list-style-type: none"> an investigation and disciplinary action will be undertaken if necessary any investigation will be undertaken by a qualified professional all fraud and corruption events (including investigations undertaken) will be comprehensively documented incidents will be escalated to integrity bodies and other government agencies (if appropriate).
	4.2 Learnings from fraud and corruption events are used to inform updates to fraud and corruption controls.

Our methods

As part of the audit we:

- assessed relevant documentation from all 10 Victorian Government departments
 - selected DE, DJCS and DJSIR to do a detailed assessment on a sample of:
 - 27 procurements conducted between January 2022 and June 2023
 - 9 procurement exemptions from the departments' standard procurement processes, conducted between January 2022 and June 2023
 - interviewed staff
 - reviewed 18 cases of procurement fraud and corruption at DE, DJCS and DJSIR between July 2022 and January 2024
 - reviewed VAGO's mandatory notifications register between July 2022 and January 2024.
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Compliance

We conducted our audit in accordance with the *Audit Act 1994* and ASAE 3500 *Performance Engagements* to obtain reasonable assurance to provide a basis for our conclusion.

We complied with the independence and other relevant ethical requirements related to assurance engagements.

Cost and time

The full cost of the audit and preparation of this report was \$625,000.

The duration of the audit was 11 months from initiation to tabling.

Auditor-General's reports tabled during 2023–24

Report title	Tabled
<i>Cybersecurity: Cloud Computing Products</i> (2023–24: 1)	August 2023
<i>Responses to Performance Engagement Recommendations: Annual Status Update 2023</i> (2023–24: 2)	August 2023
<i>Eloque: the Joint Venture Between DoT and Xerox</i> (2023–24: 3)	October 2023
<i>Domestic Building Oversight Part 1: Regulation</i> (2023–24: 4)	November 2023
<i>Employee Health and Wellbeing in Victorian Public Hospitals</i> (2023–24: 5)	November 2023
<i>Reducing the Illegal Disposal of Asbestos</i> (2023–24: 6)	November 2023
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2022–23</i> (2023–24: 7)	November 2023
<i>Contractors and Consultants in the Victorian Public Service: Spending</i> (2023–24: 8)	November 2023
<i>Major Projects Performance Reporting 2023</i> (2023–24: 9)	November 2023
<i>Fair Presentation of Service Delivery Performance 2023</i> (2023–24: 10)	November 2023
<i>Reducing the Harm Caused by Drugs on Victorian Roads</i> (2023–24: 11)	December 2023
<i>Results of 2022–23 Audits: Local Government</i> (2023–24: 12)	March 2024
<i>Withdrawal from 2026 Commonwealth Games</i> (2023–24: 13)	March 2024
<i>Follow-up of Management of the Student Resource Package</i> (2023–24: 14)	May 2024
<i>Literacy and Numeracy Achievement Outcomes for Victorian Students</i> (2023–24: 15)	May 2024
<i>Guardianship and Decision-making for Vulnerable Adults</i> (2023–24: 16)	May 2024
<i>Domestic Building Oversight Part 2: Dispute Resolution</i> (2023–24: 17)	June 2024
<i>Planning Social Housing</i> (2023–24: 18)	June 2024
<i>Effectiveness of the Tutor Learning Initiative</i> (2023–24: 19)	June 2024
<i>Assuring the Integrity of the Victorian Government's Procurement Activities</i> (2023–24: 20)	June 2024
<i>Effectiveness of Arterial Road Congestion Initiatives</i> (2023–24: 21)	June 2024
<i>Metro Tunnel Project: Phase 3 – Systems Integration, Testing and Commissioning</i> (2023–24: 22)	June 2024

All reports are available for download in PDF and HTML format on our website at <https://www.audit.vic.gov.au>

Our role and contact details

The Auditor-General's role

For information about the Auditor-General's role and VAGO's work, please see our online fact sheet [About VAGO](#).

Our assurance services

Our online fact sheet [Our assurance services](#) details the nature and levels of assurance that we provide to Parliament and public sector agencies through our work program.

Contact details

Victorian Auditor-General's Office
Level 31, 35 Collins Street
Melbourne Vic 3000
AUSTRALIA
Phone +61 3 8601 7000
Email enquiries@audit.vic.gov.au
