

# Lessons from audits: Key themes from VAGO's 2011-12 audit program

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# Introduction

## Personal context:

- Auditor-General across 2 jurisdictions, ~ 20 years
- Personal inclination - 'value add' of audits – catalyst for change

## Key audit themes - background

- The idea of 'key audit themes' triggered by CSA in 2008-09
- This is the fourth year of this presentation
- Strong take-up → discussed with Secretaries and Ministers, used by Minister for Finance in his report, considered by VMIA (WovG risk), shared with Australasian Council of Auditors-General

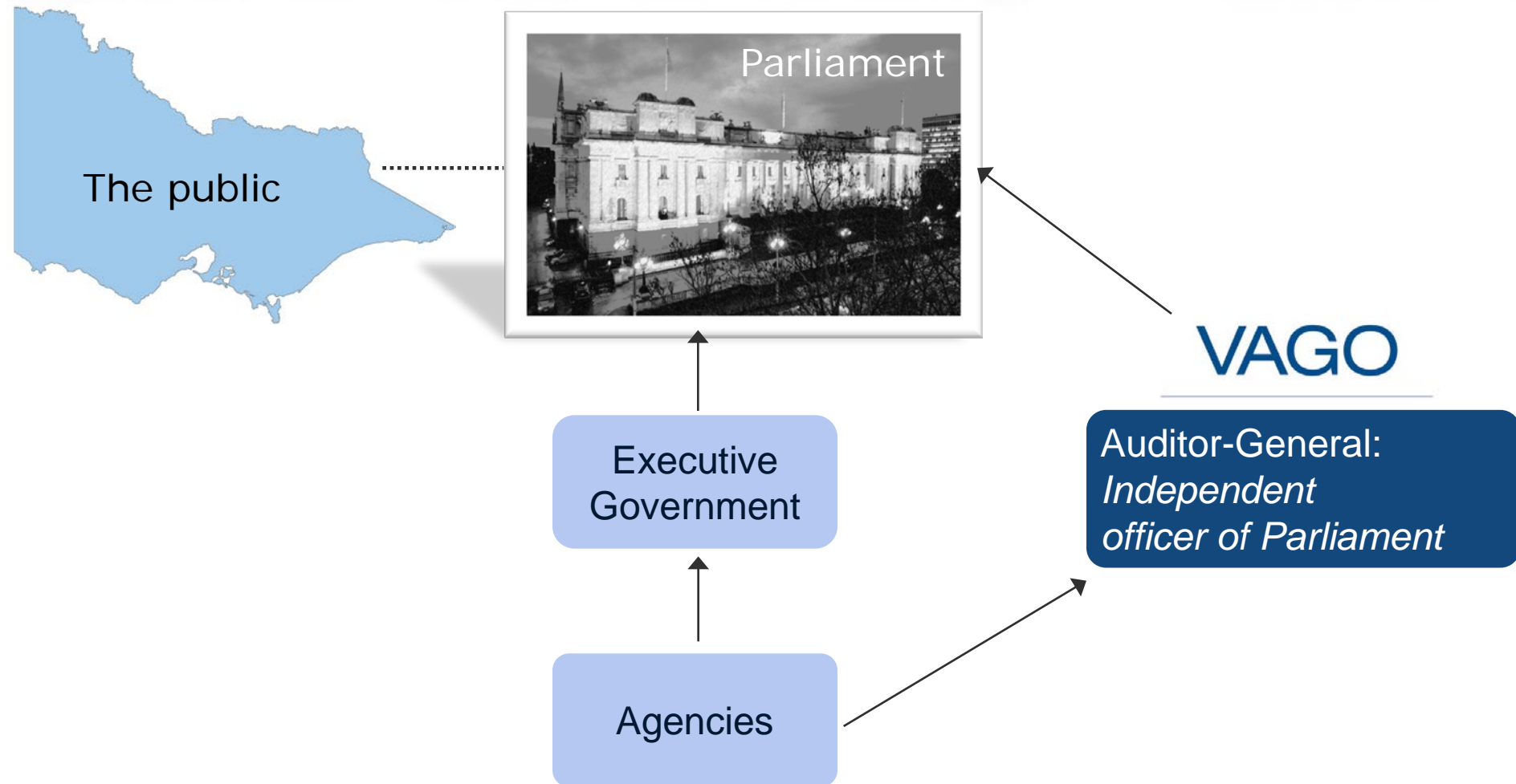
Pleased to once again launch the year's themes in partnership with CSA

# Today's presentation

## Today I will...

- Give a background on the changing role of external audit as a catalyst for improvement in the public sector.
- Highlight 5 key themes emerging from our almost 600 financial audits and 29 performance audits across 2011-12.
- Within each theme, point to particular persistent and recurring issues and risks found through our audit program.
- Give examples - discuss VAGO reports that demonstrate these recurring issues.
- Consider what can be done to minimise the recurrence.
- Allow time for questions and comments.

# Role of Auditor-General



# Role of Auditor-General: Assurance and improvement

## Our Purpose

- To provide assurance to Parliament on the accountability and performance of the Victorian public sector

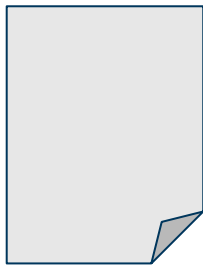
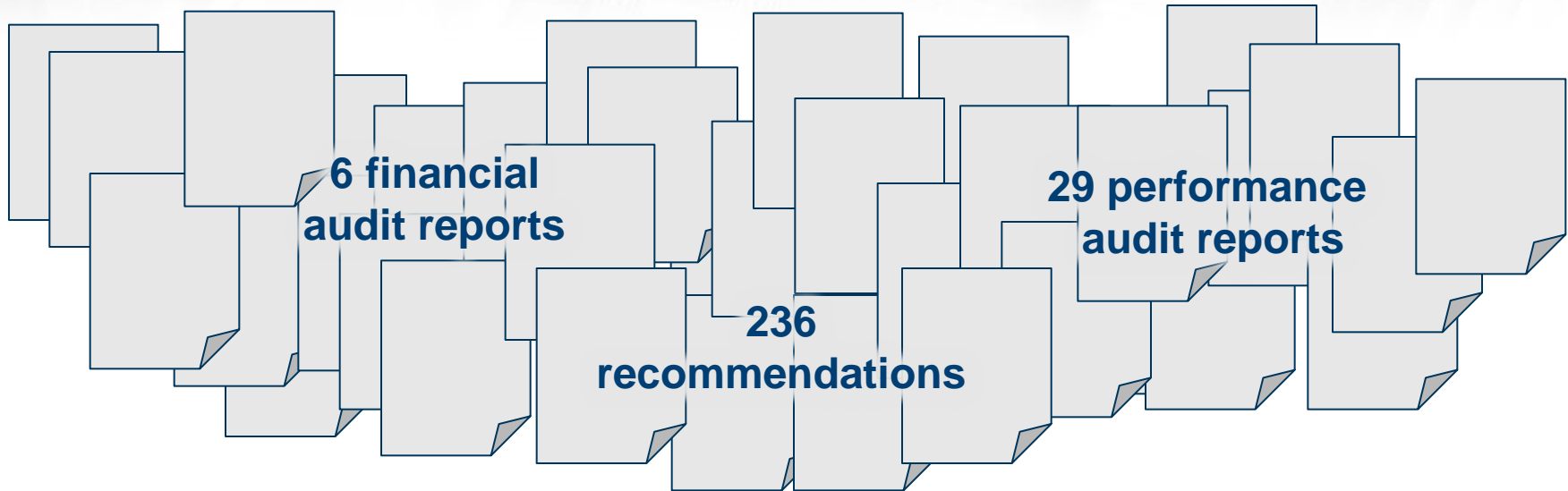
## Underlying this, we aim to:

- Promote improvement in the public sector

## Presentations like this:

- ✓ promote improvement
- ✓ share lessons from audits
- ✓ encourage agencies to learn not just from their own audits, but from all relevant audit reports

# The Key Audit Themes project: Maximising value from our audits



**Detailed Handout**  
for Ministers and Secretaries



**CSA seminar**



**Short Presentation**  
for VAGO events across 2012

# Key audit themes 2011-12

1. Clear direction in planning
2. Evidence based decision-making
3. Oversight deficit
4. Regulatory effectiveness
5. Reporting meaningfully on performance

# 1. Clear direction in planning

When considering projects it is easy to jump straight to the decision / solution instead of properly assessing need and considering what needs to be done rather than what we can do. There is a need for a clear direction and understanding when developing objectives.

## *Melbourne Markets Redevelopment (March 2012)*

- Failure to update governance arrangements and project management plans and to produce detailed project financials to reflect changes to scope and delivery strategies contributed to poor outcomes.
  - Business case and plan for warehousing is still being developed despite responsibility being assumed from April 2009.
  - Scope of works and financial information was still not sufficiently developed at the end of 2011 to assess viability of the project.



# 1. Clear direction in planning (cont'd)

## *Access to Public Housing (March 2012)*

- DHS has not set the overarching direction for public housing which has led to an unsustainable operating model. Clear long-term objectives have also not been set for public housing.
- Alternative models to sustainably managing public housing have not been adequately explored.

## *Public Transport Performance (February 2012)*

- Previous responses to managing the deteriorating performance have been partial and uncoordinated where complete revamps were necessary. An effective planning framework has recently been developed, however this has only been partially applied.

## 2. Evidence based decision-making

Decisions often do not make good use of evidence and supporting information – in some instances there has also been a lack of research undertaken behind decisions.

### *TAFE Governance (October 2011)*

- Holmesglen's decision to provide a loan as part of an acquisition strategy was made before due diligence was completed. The Board were not able to fully analyse the risk versus the potential return and lacked crucial information to inform its decision.

### *Business Planning for Major Capital Works (September 2011)*

- Three, of four, councils were not able to demonstrate that councillors received enough information to assess if their investment decisions were sound. There was also little evidence that these councils regularly reviewed their services to inform future spending decisions.

## 2. Evidence based decision-making (cont'd)

### *Maternity Services: Capacity (October 2011)*

- In planning for accessible maternity services the department has limited data about the timeliness of access to antenatal services and has not accessed external advice to inform strategic planning. It cannot be assured that services are provided when and where needed. Improvements are underway to address these limitations.

### *State Trustees Limited: Management of represented persons (February 2012)*

- Decisions about represented persons affairs are not always based on complete or accurate information. There is an inconsistency in the quality of client records which has the potential to compromise financial and legal decision-making.

### 3. Oversight deficit

An 'oversight deficit' persists in the Victorian public sector. Central departments are failing to adequately monitor the implementation of policies in accordance with their responsibilities.

#### *Government Advertising and Communications (February 2012)*

- Advertising and communications activities across government have not been adequately monitored and overseen, this has led to departments and authorities not complying with guidelines.

#### *Personal Expense Reimbursement, Travel Expenses and Corporate Credit Cards (May 2012)*

- The mechanisms for assuring government about performance are not working. With one exception, departments have not accurately reported transactions that breach the rules and these failings were not detected, nor the reported information adequately reviewed.

### 3. Oversight deficit (cont'd)

#### *Individualised Funding for Disability Services (September 2011)*

- By giving funds and control to people with disabilities DHS has created a marketplace for the disability sector, however it has not defined its role in managing the market. This is required if equitable access to high-quality services is to be maintained.
- DHS staff assess and prioritise applications inconsistently, resulting in acceptance or rejection of the application, and the notional funding and priority status applied, potentially not representing the person's true need and urgency.

## 4. Regulatory effectiveness

An environment exists where regulations are not being complied with and/or agencies are not fully undertaking their enforcement responsibilities to assure regulatory compliance.

### *Compliance with Building Permits (December 2011)*

- The Commission has not adequately discharged its responsibilities under the *Building Act 1993*, and its obligations as a regulator.
  - A framework to monitor the effectiveness of the building control system has not been developed, more than 17 years since its establishment.
  - It has not adequately exercised its powers to audit private building surveyors who are responsible for over 85 per cent of the permits issued each year. 96 per cent of permits examined did not comply with minimum standards.

## 4. Regulatory effectiveness (cont'd)

### *Managing Contaminated Sites (December 2011)*

- The complex regulatory framework has significant gaps, and key elements lack clarity. In many cases, this has led to a lack of accountability and responsibility, and subsequent inaction. No single entity is accountable for oversight of the effectiveness of the regulatory framework in operation.

## 5. Reporting meaningfully on performance

Many agencies report performance but few report relevant and appropriate performance measures. There is a lack of consistency in reporting requirements across the public sector, sending 'mixed messages' about the importance of this fundamental accountability mechanism.

### *Agricultural Food Safety (March 2012)*

- There is little similarity in reporting between agencies making it difficult to assess performance across the sector. Public reporting almost exclusively describes activities, rarely demonstrating how these contribute to achieving goals or objectives.
- The regulators do not have clear performance measures, limiting assurance over their effectiveness and also their ability to attribute their regulatory work to positive food safety outcomes in Victoria.



## 5. Reporting meaningfully on performance (cont'd)

### *Performance Reporting by Local Government (April 2012)*

- Performance reporting by councils remains inadequate, the focus is on inputs and operating activities rather than the impact of services and achievement of objectives. This impairs accountability and is a major obstacle to addressing recurring performance deficiencies in councils.

### *Fraud Prevention Strategies (June 2012)*

- There is no formal basis to assess whether fraud strategies are soundly based, coordinated, purposefully implemented and reviewed as risk-based fraud control plans do not yet exist at all councils.
- None of the five councils had established effective arrangements for systematically monitoring and reporting on the performance of their fraud control activities to those charged with governance.

## 5. Reporting meaningfully on performance (cont'd)

### *Procurement Practices in the Health Sector (October 2011)*

- The performance measures set for Health Purchasing Victoria address only a selection of the functions assigned to it under the *Health Services Act 1988* as not all of the functions were included in the Memorandum of Understanding against which performance is actively monitored.
  - Performance measurement is therefore limited as it neglects other important legislative functions.

# Purposeful management

These themes lead to an overarching theme being a lack of 'purposeful management'.

This is not due to a lack of resources or effort on behalf of agencies but:

- clarity of direction at the outset
- seeing the project through
- having regard to lessons learned as a result.

Doing things right is no longer sufficient

→ need to **do the right thing.**

# Sound familiar?

Each year, we find 'functional findings' that seem to be common across different audits, different agencies, different operational areas.

Worryingly, this is not the first year our key audit theme analysis has identified some of these themes. The following have recurred, in some form, since 2008-09:

- Evidence based decision-making
- Oversight deficit
- Reporting meaningfully on performance

# Possible causes

Audit bias?

Themes could recur due to the nature of public sector audit, however, we have implemented a thorough risk and materiality based audit planning methodology to mitigate against this.

*or*

Government entities not responding purposefully?

The '*Government Response to the Auditor-General's Reports issued during 2010-11*' demonstrates that recommendations are being accepted, however, these need to be implemented and taken forward to prevent recurrence.

# Key challenge – responding to issues

In responding to these themes, consider your own areas of responsibility and see if these themes apply.

Do you know **why** you're doing what you do?

Some agencies are responding better than others:

→ Sustainability Victoria, Environment Protection Authority and the Building Commission

In prospect - Better Services Implementation Taskforce.

# Discussion?

All VAGO reports available at [www.audit.vic.gov.au](http://www.audit.vic.gov.au)