

*John Doyle, Victorian Auditor-General*

The State of Victoria invests around \$39 million each year in the work of VAGO, providing assurance over the performance of the public sector, which is entrusted with over \$60 billion to spend each year. The investment in VAGO results in a range of products and activities that drive improvement across the public sector, including reports on the results of performance audits and financial audits.

These reports are a resource not just for the specific agencies they examine, but all public sector agencies as well as citizens who are seeking assurance about the performance of this public sector. VAGO's reports offer insights into wide-ranging issues and challenges facing public sector agencies. Often they make suggestions for change aimed at helping the public sector maximise its effectiveness, efficiency and economy.

While an individual audit is focused on specific agencies, the findings and recommendations can be used by other agencies to improve their own performance. Our reports include both opportunities for improvement and examples of better practice. Agencies benefit from keeping a watching brief on all the reports coming out of VAGO, even those which examine different sectors or types of activities. I call this the 'ripple effect', as I hope to see a report having influence outside its specific scope.

To support the ripple effect, over the past five years VAGO has analysed recent reports to identify themes across the audit findings where several agencies have been found to have the same challenges or shortcomings in approach.

People in different roles throughout an agency can use these themes in different ways. Management can use them to guide their work, as a checklist of things to address when developing and implementing programs and projects. Boards and audit committees can use them as starting points for lines of inquiry of management, to seek assurance that these risks are being managed and that controls are in place to address them. Internal audit can use the themes to inform their own annual program of audits, and conduct audits on some or all of the themes.

Agencies seeking to address such issues can draw on extensive guidelines and better practice guidance produced by various organisations, including Victoria's central agencies.

This publication contains themes arising from the audits tabled since the start of my term as Auditor-General in July 2013 to October 2014. This covers 48 reports with over 400 recommendations.

Looking forward, I will be monitoring the themes arising from my reports more closely. There is value in tracking the recurring issues in my audits, and providing additional commentary. This work can reveal useful insights, such as emerging trends that the public sector needs to closely monitor, or areas where a recurring issue has been addressed across the sector and the corresponding lessons to be learned from it. It will also help Parliament know whether the public sector is being accountable and addressing findings.

I am therefore introducing a rolling, three-year report examining themes from our audits. This will extend our previous practice, adding the year's themes to previous years. Once matured, this report will reveal emerging trends while monitoring previous years' themes and whether the public sector agencies are addressing them. I expect to table the first report in early 2015–16.

This will tie in well with another new VAGO product, my follow-up of performance audit recommendations. This report will contain agency acquittal of performance audit recommendations made by VAGO, and our analysis and commentary on these acquittals. Categorising these recommendations by the themes will enable us to see whether themes are being addressed through specific agency actions.

Over the coming months, VAGO will be consulting key stakeholders in the public sector to help develop this new approach to the themes, and the first report. We value your input and are interested in your ideas. Get in contact if you want to be involved in this project—see contact details on the back page.

John Doyle,  
*Auditor-General*  
December 2014



# Theme 1 – Governance, monitoring and oversight

Today's government is complex and interconnected, and citizens expect high levels of accountability as well as coordinated service delivery across agencies. However, shortcomings in governance accounted for the highest number of findings in our recent reports.

## Design of governance structures

Our audits sometimes found that governance structures had gaps, accountable bodies did not fulfil their roles, systems underpinning governance were inadequate, and there was often a lack of leadership and oversight. Decision-makers regularly did not receive the information required, and in some cases, there were no arrangements in place to brief government regularly or at key decision points including crises, such as cyber-threats.

'Perhaps the issue of greatest concern is... the lack of authoritative leadership and oversight to monitor and report on whether services are meeting the needs of migrants, refugees and asylum seekers... There needs to be genuine accountability for performance in this area.' (*Access to Services for Migrants, Refugees and Asylum Seekers*, May 2014)

## Sensitivities of joined-up governance

A joined-up activity is where a range of agencies bring together their particular skills to address a common policy goal. Such governance designs are an appropriate approach to complex and interconnected issues. Our audits found instances where this worked well, and agencies had designed joined-up governance successfully.

'Since 2012 Victoria Police and DH [Department of Health] have taken steps to strengthen their strategic engagement...the agencies have adopted the joined objective to improve joint long-term planning and opportunities for service system development by enhancing communication between emergency services and health systems, developing cross-organisational knowledge and understanding and strengthening relationships.' (*Mental Health Strategies for the Justice System*, October 2014)

## Further reading

*Operating Water Infrastructure Using Public Private Partnerships* (August 2013)

*WoVG Information Security Management Framework* (November 2013)

*Implementation of the Government Risk Management Framework* (October 2013)

*Management and Oversight of the Caulfield Racecourse Reserve* (September 2014)

However, these approaches are highly sensitive to governance weaknesses, of which our audits found many. Some activities are nominally joined up, but are not managed as such—with no plan or overarching strategy. This can result in significant additional risks for taxpayers.

'There is no overarching and coordinated oversight of prisoner transportation across the justice system. Governance and risk management processes do not cover the full movement of prisoners within the justice system... Corrections Victoria and Victoria Police cannot be assured that they are providing the most effective and efficient prisoner transportation.' (*Prisoner Transportation*, June 2014)

## Agencies fulfilling leadership roles

A key recurring issue was lead agencies falling short of their leadership and oversight responsibilities—failing to provide clear guidance or any guidance at all, and in some cases failing to step in when required.

'Central agencies do not provide any guidance to assist outer WoVG [Whole-of-Victorian-Government] agencies and these agencies are therefore less advanced with their security policies and frameworks... Although DTF [Department of Treasury and Finance] was required to oversee agency implementation of each agency's ISMF [Information Security Management Framework], we found little evidence of any oversight of agency standards, controls or compliance...There is no central view of the overall Victorian cyber threat situation.' (*WoVG Information Security Management Framework*, November 2013)

## Clear roles and responsibilities

There was also a lack of clarity around roles and responsibilities—including clear points of accountability. There were several examples where an agency or position was named as the point of accountability and, therefore, responsible overall for an activity, but they did not have the corresponding legal or structural requirements to support this.

'While DOJ [Department of Justice] is ultimately accountable for the Scheme [the Asset Confiscation Scheme], and performs a leadership role, the unclear governance arrangements mean that accountability and leadership are only notional. In practice, the Scheme includes two statutorily independent bodies, Victoria Police and OPP [Office of Public Prosecutions], over which DOJ has no control.' (*Asset Confiscation Scheme*, September 2013)

## Theme 2 – Strategy and planning

Strategy and planning is about working out a way to achieve something you want to do, and then determining the detailed approach to do this. Agencies struggled, however, with various aspects of strategy and planning, which undermines all subsequent activity.

### Developing strategies and plans

In some cases, agencies simply did not develop a strategy or plan for something that required an evidence-based, coherent approach. Agencies failed to develop plans for things like demand management, risk management, implementation and business continuity. Longer-term strategic plans were also absent or poorly coordinated.

'Melbourne has had a succession of land use and transport plans that have lacked continuity and have often been superseded before they are implemented.' (*Developing Transport Infrastructure and Services for Population Growth Areas*, August 2013)

Encouragingly, other audits found good examples of strategic and operational planning, which demonstrated management's grasp on their areas of responsibility.

'VicRoads has the most comprehensive strategy for managing the environmental impacts of the road system, and this is a model of what should exist on a portfolio-wide basis. The strategy has specific goals and actions for reducing greenhouse gas emissions, improving air quality and minimising traffic noise impacts. VicRoads also regularly reports on progress and can demonstrate that it is improving the environmental performance of the road network.' (*Managing the Environmental Impacts of Transport*, August 2014)

### Quality of planning documents

Plans and strategies that did exist often missed key elements—such as objectives or targets—or when they did exist, these elements did not meet appropriate standards.

'OCS [the Office for the Community Sector] developed an implementation plan for the action plan but this did not adequately address time frames, resources, responsibilities, risks, monitoring, evaluation and reporting. . . . OCS identified two high-level risks as part of developing the implementation plan but it did not develop a detailed risk management plan. Therefore, it is not clear how risks were identified or whether they were purposefully managed during the plan's implementation.' (*Implementation of the Strengthening Community Organisations Action Plan*, October 2013)

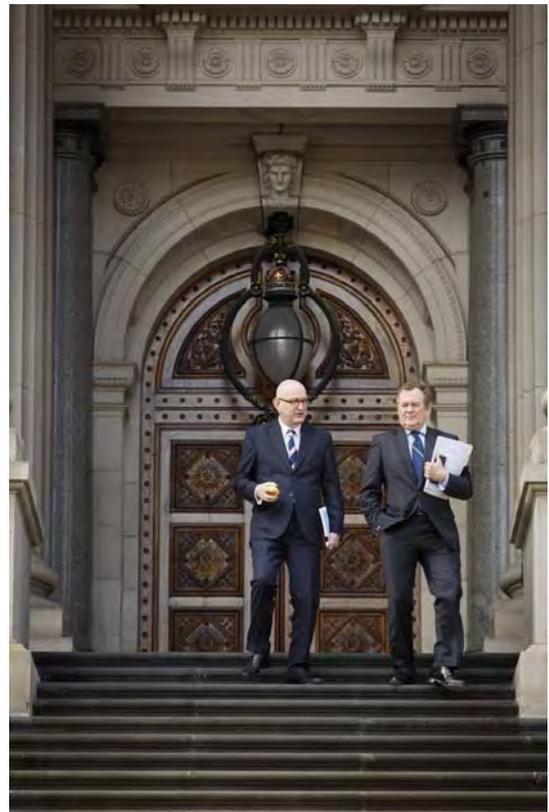
### Further reading

*Clinical ICT Systems in the Victorian Public Health Sector* (October 2013)

*Accessibility of Mainstream Services for Aboriginal Victorians* (May 2014)

*Managing Consultants and Contractors* (June 2014)

*Using ICT to Improve Traffic Management* (June 2014)



*The Auditor-General and Deputy Auditor-General leaving Parliament.*

# Theme 3 – Performance measurement

Good performance measurement is a fundamental aspect of management. In the public sector, demonstrating performance is critical as it is used to account for the use of taxpayers' money, determine the outcomes achieved, drive improvement and inform internal and external stakeholders. However, audits found this measurement was an area of weakness.

## Understanding and being aware of performance

Poor performance measurement across government means that we don't fully understand the effect of a wide range of services and activities. At a fundamental level, entire sectors had poor performance measurement frameworks.

'While Budget Papers and annual reports include many output performance measures, weaknesses in defining objectives and linking them to outputs, the absence of robust and logical outcome measures and meaningful commentary mean they are impenetrable to the reader.' (*Public Sector Performance Measurement and Reporting*, October 2014)

### Further reading

*Performance Reporting Systems in Education*  
(September 2013)

*Prevention and Management of Drug Use in Prisons*  
(October 2013)

*Tourism Strategies* (December 2013)

*Managing Victoria's Native Forest Timber Resources*  
(December 2013)

## Diverse weaknesses

The reasons behind this lack of awareness and understanding were diverse. Agencies:

- failed to conduct evaluations or had problems with their evaluations
- had no or little documentation to support assertions about performance
- had poor performance measurement systems, or none at all
- measured the wrong things
- measured just outputs, not outcomes
- did not have a culture of regular review.

'[Public Transport Victoria's] capacity to effectively monitor the performance of bus operators in improving coordination is compromised by an over-reliance on self-reporting, minimal quality assurance, and by a lack of reporting on the achievement of defined coordination goals.' (*Coordinating Public Transport*, August 2014).

There were some examples, nonetheless, of improvements in performance measurement.

'LGV [Local Government Victoria] and local councils are making good progress in developing the performance reporting framework, which should enable us to commence forming audit opinions on the relevance and appropriateness of performance statements in 2014–15.' (*Local Government: Results of the 2012–13 Audits*, December 2013)

## VAGO's new executive structure

VAGO's executive structure has changed to reflect the priorities of the new Auditor-General.

Peter Frost's role is now Chief Executive Officer and Deputy Auditor-General. This reflects increased responsibilities, including assumption of full responsibilities of the sworn Acting Auditor-General in the absence of the Auditor-General.

Two new Assistant Auditor-General positions were created, with new groups:

- Information Systems Audit—focuses on audits of information systems and associated activities such as procurement and management. This team also provides services and support to our Performance Audit and Financial Audit groups.

- Standards and Quality—builds on our existing practices to focus on the quality of our audits, continuing to ensure they are rigorous and well supported. The group also focuses on continuous improvement and quality across all aspects of VAGO.

The Governance, Legal and Strategy group was renamed from Policy and Coordination Directorate, and its responsibilities expanded to include planning, strategy, media, and enhanced community engagement and outreach. Marco Bini's role was redefined as Executive Director, Governance Legal and Strategy.

## Theme 4 – Data collection, management and use

Quality data that is used well is an important part of performance management. Performance measurement frameworks can be undermined by poor data. Data collection and management was an area of recurring weaknesses across audits.

### Gathering good data

Agencies were not always collecting information that was useful, sufficient or consistently gathered. Information was often poor quality, inaccurate or out of date, and sometimes agencies failed to test the reliability of the data.

'Data on shared service activity in the sector is currently not collected to assess trends, demonstrate the costs and benefits of shared services, assist in informing policy and program development and target future activities and the development of appropriate support and guidance materials.' (*Shared Services in Local Government*, May 2014)

### Integrating data

There was often a lack of information transfer or sharing, especially in programs involving multiple agencies. This led to poor understanding of the data and its trends.

'Different sources of information on OHS [occupational health and safety] risk are not routinely integrated or prioritised... No single agency has a comprehensive understanding of sector-wide OHS risk because no agency currently monitors OHS incidents and emerging trends.' (*Occupational Health and Safety Risk in Public Hospitals*, November 2013)

### Using data well

Agencies did not always use data well, and failed to generate intelligence and trend information. They did not always feed it back into the system to improve performance. A lack of baseline information made it impossible to measure changes.

'DEECD [Department of Education and Early Childhood Development] has been failing to optimise its own data and without appropriate analysis, improvements to the quality of data collections will not fill the sizable gaps in DEECD's understanding. It is essential that DEECD not just collect, but properly analyse data.' (*Apprenticeship and Traineeship Completion*, March 2014)

Some agencies did use the data they collected well, to inform themselves and improve their own practices.

'Good practice was evident at VicPol in the way it verifies its fixed [telephone] voice invoices. Specifically, the Eastern Region proactively monitors expenditure trends, which enables it to cost-effectively identify, investigate and resolve potential anomalies.' (*Managing Telecommunications Usage and Expenditure*, September 2013)

### Further reading

*Prisoner Transportation* (June 2014)

*Effectiveness of Catchment Management Authorities* (September 2014)

*Managing Emergency Services Volunteers* (February 2014)

*Asset Management and Maintenance by Councils* (February 2014)

### New governance mechanisms

We have reformed our decision-making processes, establishing three new internal committees to review, scrutinise and enhance the quality and rigour of our work:

- Performance Audit Challenge Committee—provides a testing group for audit conclusions and recommendations.
- Financial Audit Challenge Committee—monitors financial audits, the development of parliamentary reports on the results of financial audits, and the performance of audit service providers.
- Operations Committee—focuses on sustaining the capability and performance of VAGO's workforce, and guiding information security, technology

communications and management advances. It also monitors performance against the strategic and business plans, reviewing external feedback and monitoring compliance.

### Independent Advisory Group

The Auditor-General has established an Independent Advisory Group to hear more broadly the perspectives, concerns and ideas of those external to VAGO and for these to be reflected in the strategic plan currently in development and in the audit work plan going forward.

Members are drawn from across the Victorian public, not-for-profit and private sectors and have been invited to participate on the basis of their experience and knowledge in one or more areas.

# Theme 5 – Workforce management and capability

Effective workforce management is vital to any organisation achieving its objectives. Having people with the right skills and experience is just as important as good governance, planning and performance measurement. However, issues with staffing and capabilities was a recurring theme in our audits.

## Skills and experience

Our audits sometimes found that staff lack necessary skills to fulfil their roles. Staff don't always receive the training and development required, meaning organisations lack the skills they need to manage significant projects and programs. Further, organisations don't always know what skills and capabilities they need their staff to have.

'Four of the five audited councils had not yet fully assessed the skills and knowledge they needed to effectively manage infrastructure assets. None of the five councils had developed a structured professional development program for staff with asset management responsibilities.' (*Asset Management and Maintenance by Councils*, February 2014)

## Staffing models

Unsuitable or poor quality staffing models in some areas of the public sector are undermining effectiveness in important areas, especially around service delivery. Having a sustainable workforce, and having the right people available at the right time, are crucial.

'Current staffing models are not providing sufficient quality and stability of care for children in residential care, with implications for children's education, health and other outcomes. No formal qualifications are required to work in residential care services, yet staff are employed to care for children with complex needs, including violent and risk-taking behaviours, substance abuse and mental health issues.

With casual staff making up 55 per cent of the residential care workforce, staff transience and a heavy reliance on temporary labour reduces stability for children.' (*Residential Care Services for Children*, March 2014)

## Further reading

*Access to Services for Migrants, Refugees and Asylum Seekers* (May 2014)

*Managing Emergency Services Volunteers* (February 2014)

*Apprenticeship and Traineeship Completion* (March 2014)

*Recreational Maritime Safety* (June 2014)

## Introducing new members of VAGO's Leadership Group

### Assistant Auditor-General, Financial Audit

Craig Burke, BBus (Acc) FCPA



Craig Burke has substantial financial expertise with over 30 years in public sector accounting, risk management and auditing.

Craig became the Assistant Auditor-General, Financial Audit, in November 2014, having been a Sector Director at VAGO across several portfolios.

### Assistant Auditor-General, Standards and Quality

Matthew Zappulla, BCom, FCA



Matthew joined the Auditor-General's Office in April 2014.

Prior to joining VAGO, Matthew was a director at PwC responsible for overseeing the implementation of assurance methodologies and technologies, including addressing the impact of changes to guidance

and standards, designing and delivering technical and professional training and overseeing inspection and review activities.

# Theme 6 – Financial management and sustainability

Financial management underpins planning, implementation and evaluation of activities. Good financial management shouldn't be taken for granted, and requires investment. Issues with financial management have been a trend in recent audits.

## Accounting, reporting and record keeping

This year, for the first time ever, the Auditor-General qualified the state's financial statements, because he disagreed with the appropriateness and application of an accounting policy, which resulted in a significant write down of taxpayer investments in school buildings. The state was unable to provide sufficient appropriate audit evidence to fully support its approach.

'I issued a qualified audit opinion on the AFR [Annual Financial Report of the State of Victoria] as I do not agree with the state's decision to write down \$1.58 billion of taxpayers' investments in schools buildings...Victoria is alone in its approach to this matter.' (*Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14*, October 2014)

More broadly, accounting practices can have real impacts on programs. Audits revealed poor reporting and record keeping in relation to entities' finances and budgets.

'OAAV [Office of Aboriginal Affairs Victoria] was not able to quantify the total amount spent by the Victorian Government in relation to services for Aboriginal people, and some departments had difficulty providing complete financial information. Therefore, the total amount of funding is not clear, and the lack of complete information makes effective monitoring of expenditure problematic.' (*Accessibility of Mainstream Services for Aboriginal Victorians*, May 2014)

## Financial sustainability

A frequent finding related to the financial sustainability of entities. Financial challenges, including liquidity, repaying debt, and asset maintenance, meant many entities were classified as high risk. Additional government funding or letters of comfort were often required.

'The ability of the metropolitan water entities to repay the debt from their own operations is decreasing year-on-year. For the metropolitan water entities, borrowing to facilitate the payment of dividends and fund infrastructure programs puts pressure on water prices or spending in order to cover the cost of servicing the debt.' (*Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2012–13*, November 2013)

Encouragingly, some agencies demonstrated good financial management, and improved their financial situation as a result.

'Four TAFEs reported a surplus and improved financial performance in 2013 – Chisholm, Goulburn Ovens, Kangan and Sunraysia. Restructuring arrangements undertaken early by these TAFEs—such as increasing the level of courses provided through third parties, changed course offerings, staff redundancies, campus rationalisation and reducing operating costs—have set them on a financially viable pathway, and they are to be commended.' (*Technical and Further Education Institutes: Results of the 2013 Audits*, August 2014)

## Further reading

*Public Hospitals: Results of the 2012–13 Audits* (November 2013)

*Technical and Further Education Institutes: Results of the 2013 Audits* (August 2014)

*Oversight and Accountability of Committees of Management* (February 2014)

*Residential Care Services for Children* (March 2014)

## VAGO's Leadership Group

### Assistant Auditor-General, Information Systems Audit

Karen Phillips, BBus (Acc), BComp, MIMS



Karen joined the Auditor-General's Office in April 2014. Prior to joining VAGO, Karen was a director at PwC specialising in systems assurance, internal controls, internal audit and business continuity management.



From left: Marco Bini, Craig Burke, Natalia Southern, Peter Frost, Nancy Stefanovski, Karen Phillips, Matthew Zappulla

# Theme 7 – Responding to known risks and recommendations

When management knows that there are problems in their areas of responsibility, they should do something. However, recent audits show that agencies are failing to act in response to known risks and recommendations. This imperils the achievement of desired outcomes and value for money of government services.

## Identifying and managing risks

Management should establish procedures to identify, evaluate and address risks. However, agencies did not always adequately inform themselves of risks and often failed to manage them appropriately. Interagency and statewide risks were particularly poorly managed.

'Victoria is vulnerable to the impacts of interagency and statewide risks and especially those risks where the full force and significance of the consequences are expected to materialise in the medium- to long-term—five years or more from today. The state is not well prepared to effectively manage these risks.' (*Implementation of the Government Risk Management Framework*, October 2013)

A key challenge facing many agencies is financial risks associated with increasing demand and budget pressure. VAGO, nonetheless, found examples of good practice.

'One of the major risks that VLA's [Victoria Legal Aid] board and senior management actively manages is the ability of VLA to secure adequate levels of funding to meet demand for its legal services... VLA has acted to mitigate its financial risks by introducing changes to its eligibility guidelines during 2012–13 to reduce expenditure, and by changing the way it delivers services.' (*Access to Legal Aid*, August 2014)

## Responding to known issues

Agencies have information about performance from their own intelligence, including performance measurement data and staff observations. This information highlights risks, problems and opportunities, and one of the reasons it is collected is to enable management to respond to any issues. However, audits found that agencies are not responding to these known issues, often without any clear reason why. The consequences of this can be significant.

'DEPI [Department of Environment and Primary Industries] has... not capitalised on opportunities to work with trustees where they have flagged an interest in addressing longstanding issues, such as establishing a sound governance framework.' (*Management and Oversight of the Caulfield Racecourse Reserve*, September 2014)

## Acting on recommendations

The state invests millions of dollars each year into bodies including VAGO that provide recommendations for improvement. However, many of our recent audits found that agencies had done little in response. As such, VAGO is introducing a regular follow up of agency actions on recommendations. The first report is due in February 2015.

'Disappointingly, some 45 per cent of audit findings from previous years are yet to be rectified... despite agreement and commitment by management to resolve them.' (*Information and Communications Technology Controls Report 2013–14*, October 2014)

## Further reading

*Asset Confiscation Scheme* (September 2013)

*Asset Management and Maintenance by Councils* (February 2014)

*Public Sector Performance Measurement and Reporting* (October 2014)

*Heatwave Management: Reducing the Risk to Public Health* (October 2014)

# VAGO

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