

VICTORIA

Auditor General
of Victoria

REPORT ON PUBLIC SECTOR AGENCIES

**Results of special reviews and
financial statement audits
for agencies with balance dates
other than 30 June 2002**

June 2003

*Ordered to be printed by Authority.
Government Printer for the State of Victoria*

ISSN 1446-2559
ISBN 0 9750 419 5 9



AUDITOR GENERAL
VICTORIA

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I am pleased to forward this report to you for presentation to each House of Parliament, pursuant to section 15 of the *Audit Act* 1994.

The report sets out the results of financial statement audits conducted on public sector agencies with balance dates other than 30 June 2002 and the results of a number of special reviews undertaken up to the date of its preparation. It also contains a section on the status of matters raised in previous performance audit reports tabled during the 2000-01 financial year.

Yours faithfully

J.W. CAMERON
Auditor-General

5 June 2003

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Part 1

Executive summary

KEY FINDINGS

AUDIT RESULTS FOR AGENCIES WITH BALANCE DATES OTHER THAN 30 JUNE 2002

- There is scope for improvement in the timeliness of audited financial statements with only 34 per cent of agencies with balance dates in 2002 (other than 30 June) meeting the 12-week legislated time frame. Within 16 weeks of year-end, the audited financial statements of 76 per cent of all agencies were finalised.

Paras 2.3 to 2.10

- Clear audit opinions were issued on the financial statements of 125 public sector agencies with balance dates in 2002 (other than 30 June), with qualified opinions issued on the financial statements of 7 agencies.

Paras 2.11 to 2.13

- Melbourne University Private Limited has applied to the Government for continuation of its status as a university beyond the initial 5-year period, which expires on 14 July 2003.

Paras 2.14 to 2.22

- During the year ended 31 December 2002, the William Angliss Institute of TAFE approved the forgiveness of debt of \$825 441 owed by its subsidiary, Angliss Consulting Pty Ltd, following consideration of the financial condition and ongoing viability of the company.

Paras 2.23 to 2.27

- Latrobe Regional Hospital Pty Ltd, a company established under previous privatisation arrangements, was deregistered on 5 May 2003 following the wind-up of various financing arrangements and the transfer of the remaining property, plant and equipment of the company, valued at \$51.5 million, to Latrobe Regional Hospital (Public).

Paras 2.28 to 2.31

SPECIAL REVIEWS

Maintenance of Victorian school facilities

- An external assessment of the condition of school facilities, commissioned by the Department of Education and Training in 2001, identified that \$320 million in maintenance funding would be required over a 6-year period from 2000-01 to bring facilities up to the required standard.

Paras 3.8 to 3.15

- Based on the results of the 2001 exercise, a funding shortfall of at least \$120 million currently exists in respect of maintenance of school facilities, including relocatable classrooms, which was due to be undertaken by February 2003.

Para. 3.16

- Delays in addressing outstanding maintenance works are likely to reduce the useful life of school facilities and could expose the State to increased maintenance costs in the longer-term.

Paras 3.17 to 3.20

- The Department has determined that about 1 000 relocatable classrooms are in poor condition and require immediate replacement.

Paras 3.21 to 3.22

- The deteriorating condition of relocatable classrooms presents risks in terms of the learning environment for students and may lead to excessive future maintenance costs. The Department should accelerate its efforts to finalise strategies for the supply and maintenance of portable classrooms.

Paras 3.23 to 3.25

- To maintain the effectiveness of its Physical Resource Management System as a strategic planning tool, the Department needs to ensure schools routinely update the system in a timely manner.

Paras 3.26 to 3.30

Student administration systems in universities and TAFE institutes

- None of the agencies reviewed had developed specific security guidelines for their student administration systems. Without such procedures, there is an increased risk that critical control procedures will not be identified or implemented.

Paras 3.51 to 3.52

SPECIAL REVIEWS - *continued*Student administration systems in
universities and TAFE institutes - *continued*

- Weaknesses in user access management, including the registration, modification and removal of user access privileges to student administration systems, require attention by institutions.

Paras 3.53 to 3.65

- Deficiencies in password controls were identified within student administration systems at 4 of the institutions reviewed. Such controls form the primary means of preventing unauthorised access to these systems and validating users' identity. Without proper controls, the risk of unauthorised access is significantly increased.

Paras 3.74 to 3.75

- Monitoring of security activity within student administration systems was found to be deficient at all of the institutions examined.

Paras 3.76 to 3.77

Overseas operations of Victorian TAFE
institutes

- In 2002, around 7 700 students were enrolled in accredited overseas courses provided by Victorian TAFE institutes, with over half situated in the People's Republic of China.

Paras 3.112 to 3.116

- Revenue generated in 2002 by TAFE institutes from overseas operations was \$14.5 million, which equates to around 1.6 per cent of the aggregate operating revenue of all institutes for that year.

Paras 3.117 to 3.120

- Negative outcomes from offshore experiences have the potential to affect program delivery and, in turn, the reputation of the Victorian TAFE system. Risks to the quality of training development and delivery have the greatest potential to damage the international standing of Victorian TAFE provision.

Paras 3.138 to 3.139

- The Department of Education and Training should evaluate the adequacy of guidance on risk management currently available to institutes. The ideal outcome would be the dissemination of best practice guidance on the tailoring of general risk management strategies to the specific issues requiring attention in the provision of offshore training.

Paras 3.143 to 3.155

SPECIAL REVIEWS - *continued*

Overseas operations of Victorian TAFE institutes - *continued*

- There is a need to strengthen the reporting practices of TAFE institutes to Parliament in respect of their offshore operations.

Paras 3.156 to 3.159

Government advertising – Management of the Master Agency Media Service contracts

- Total expenditure under the contracts in 2002 was just over \$71 million.
- Since September 2002, media buying rebates from use of the contracts by most core government agencies, including rebates accrued at that time, have been held by the contractors under a directive from the Department of Premier and Cabinet. The rebates were to be used by the Department for whole-of-government communications activities. At the time of our review, there had been no draw-down of rebates for this purpose.

Paras 3.177 to 3.181

- Rebates held by the contractors have increased since the September 2002 changes. At April 2003, the contractors held rebates totalling \$2.3 million from media buying activities undertaken to 31 January 2003. In the event of a contractual dispute with the contractors, or financial failure, the funds may not be recoverable by the Government.

Paras 3.182 to 3.185

- The contractual arrangements for administering rebates are complex and do not have proven benefits. They should be reviewed.

Para. 3.185

- Monitoring by the Department of Premier and Cabinet of the management of rebates by agencies should be strengthened. Over the first 2 years of the current contracts, late payment of invoices by agencies has reduced the amount of rebates receivable by around \$1.3 million, or 17 per cent.

Paras 3.186 to 3.187

- There is a need to improve procedures for the monitoring of contractors' performance.

Paras 3.199 to 3.202

STATUS OF RECOMMENDATIONS MADE IN PERFORMANCE AUDIT REPORTS TABLED DURING 2000-01

Grants to non-government organisations: Improving accountability

- The Department of Treasury and Finance advised that recommendations on the accountability framework were considered when drafting the proposed Standing Directions of the Minister for Finance under the *Financial Management Act* 1994. We are of the view that agencies would also benefit from more comprehensive guidance on best practice principles.

Para. 4.14

- Disclosure requirements in the local government sector have been improved through amendments to the Local Government Regulations 2001.

Para. 4.15

- With the exception of procedures for dealing with conflict of interest, comments from 2 of the 9 agencies examined in 2000 indicated good progress in improving their management of grant programs.

Paras 4.17 to 4.19

Services for people with an intellectual disability

- The Department of Human Services has made progress in:
 - reducing the time taken to determine eligibility for service access;
 - establishing common minimum competency standards for government and non-government support staff;
 - revising the case management framework;
 - addressing a number of planning and client safety issues;
 - adopting an accelerated equity funding formula; and
 - enhancing quality monitoring and improvement processes.

Paras 4.26 to 4.68

- Partly reflecting the Department's focus on broad consultations, progress has been slow in:
 - Achieving equity in funding for regional services;
 - Refining the Support Needs Assessment tool; and
 - Completing reviews of the *Intellectually Disabled Persons' Services Act* 1986 and the *Disability Services Act* 1991. These reviews have the potential to provide for an integrated approach to disability in Victoria.

Paras 4.26 to 4.28

STATUS OF RECOMMENDATIONS MADE IN PERFORMANCE
AUDIT REPORTS TABLED DURING 2000-01 – *continued*

Non-metropolitan urban water authorities:
Enhancing performance and accountability

- The Water Legislation (Essential Services Commission and Other Amendments) Bill currently before Parliament introduces initiatives which will provide a long-term regulatory framework to address key pricing, service quality and other related matters.
Para. 4.72
- The accuracy of performance indicators, and systems supporting those indicators, are being audited by my Office for the 2001-02 financial year.
Para. 4.72

Teaching equipment in the Technical and
Further Education sector

- The Office of Training and Tertiary Education is currently investigating ways of improving costing of vocational education and training delivery and has negotiated greater flexibility with the Commonwealth equipment grants.
Paras 4.79 to 4.80
- There is a reasonable framework in place (in the form of the Australian Quality Training Framework) for ensuring the quality of vocational education and training, which includes verifying the integrity of training delivery and that training providers have equipment appropriate to the course being delivered.
Para. 4.82
- The Department of Education and Training advised that surveys of employers and students are undertaken annually by TAFE institutes. The Department also undertakes stakeholder research in response to specific policy initiatives. However, little progress appears to have been made in conducting surveys of TAFE teachers.
Para. 4.83

STATUS OF RECOMMENDATIONS MADE IN PERFORMANCE AUDIT REPORTS TABLED DURING 2000-01 – *continued*

Implementing Local Priority Policing in Victoria

- In April 2002, Victoria Police developed and disseminated Statewide, the Local Safety Committee Resource Kit which contains policy and guidelines (including reporting requirements) on the establishment and maintenance of Local Safety Committees.
Para. 4.90
- A network of 64 Local Safety Committees has been established and members confirmed that Local Priority Policing provides an invaluable community partnership and conduit for local issues.
Paras 4.92 and 4.94
- Victoria Police determines the effectiveness of Local Priority Policing through the use of performance indicators. It is important that these performance indicators are supported by a rigorous evaluation framework.
Para. 4.93

Managing Victoria's growing salinity problem

- The Department of Sustainability and Environment is undertaking a range of initiatives which address the recommendations in the 2001 Report.
Para. 4.103
- Relevant and appropriate performance information and good practice program management guidelines need to be developed to enable better monitoring and reporting of progress and conduct of future evaluations.
Para. 4.104

Post-acute care planning

(Tabled in the Report on Ministerial Portfolios, June 2001)

- The Department of Human Services plans to introduce performance indicators to address client and carer satisfaction and timeliness.
Para. 4.111
- The Department has adopted performance indicators as its major performance evaluation mechanism. These need to be supported by a robust evaluation framework which integrates evaluations into program design.
Paras 4.113 and 4.114
- The Department advised that it is actively working to streamline the number and type of programs as well as processes for service providers and users.
Para. 4.115

Part 2

Audit results for agencies with balance dates other than 30 June 2002

AGENCIES COVERED BY THIS REPORT

2.1 At the date of preparation of this report, the Auditor-General under the authority of the *Audit Act* 1994 had responsibility for the conduct of the financial statement audits of around 580 public sector agencies. Of these agencies, 150 have a balance date other than 30 June.

2.2 This Part of the report outlines the results of financial statement audits of those public sector agencies. The results of financial statement audits for agencies with balance dates at 30 June 2002 were outlined in the Auditor-General's *Report on Public Sector Agencies, February 2003*.

FINANCIAL REPORTING

Timeliness of financial reporting

2.3 The annual reporting and audit requirements for departments and other public sector agencies are set out in the *Financial Management Act* 1994 and the *Audit Act* 1994. Under section 45 of the Financial Management Act, each department and public body must submit its annual financial statements to the Auditor-General within 8 weeks of the end of the financial year.

2.4 The Auditor-General is then required by the *Audit Act* 1994 to complete the audit of these financial statements within 4 weeks of their receipt. Accordingly, the legislative framework requires the audited financial statements of the public sector to be completed within 12 weeks of the end of the relevant financial year.

2.5 Finally, within 4 months of the end of the financial year or the next sitting day after the end of the fourth month, the relevant Minister is required to table in each House of Parliament the annual report of each entity, including the audited financial statements.

2.6 Table 2A illustrates the overall performance of public sector agencies with balance dates other than 30 June in meeting the statutory requirement associated with the completion of audited financial statements.

TABLE 2A
TIMELINESS OF FINANCIAL STATEMENT COMPLETION,
FOR PUBLIC SECTOR AGENCIES WITH BALANCE DATES
IN 2002 OTHER THAN 30 JUNE

<i>Finalisation of audited financial statements (no. of weeks after end of financial period)</i>	<i>Entities</i>	
	<i>Number</i>	<i>Per cent (cumulative)</i>
Less than 8 weeks	4	3
8 to 10 weeks	19	15
10 to 12 weeks	28	34
12 to 14 weeks	37	59
14 to 16 weeks	26	76
More than 16 weeks (a)	36	100
Total	150	-

(a) Includes 18 entities with balance dates other than 30 June whose financial statements had not been finalised at the date of preparation of this report.

2.7 The table demonstrates that there is scope for improvement in the timeliness of completion of audited financial statements, with only 34 per cent of entities meeting the 12 week legislated completion time frame. The audited financial statements of 76 per cent of all agencies were finalised within 16 weeks of year-end.

2.8 Table 2B illustrates the performance of public sector agencies by ministerial portfolio in meeting the 12 week legislated completion time frame for the past 2 reporting cycles.

TABLE 2B
TIMELINESS OF FINANCIAL STATEMENT COMPLETION BY PORTFOLIO,
2002 AND 2001 (a)

<i>Portfolio</i>	<i>2002</i>		<i>2001</i>	
	<i>Number of agencies with 2002 reporting dates other than 30 June</i>	<i>Number of statements finalised within 12 weeks</i>	<i>Number of agencies with 2001 reporting dates other than 30 June</i>	<i>Number of statements finalised within 12 weeks</i>
Education and Training	120	44	115	54
Human Services	17	4	18	6
Sustainability and Environment	6	0	7	0
Premier and Cabinet	0	0	1	0
Treasury and Finance	7	3	8	4
Total	150	51	149	64
Percentage		34		43

(a) Table only includes portfolios with financial statements for periods other than 30 June.

2.9 The table shows that the overall timeliness of completion of audited financial statements deteriorated in 2002, with 34 per cent of entities meeting the 12 week legislated completion time frame compared with 43 per cent in 2001. This was mainly due to delays in the finalisation of subsidiary companies and other associated entities of certain universities.

2.10 Timeliness of reporting is an essential characteristic of an effective accountability process. Accordingly, it is important that avenues are identified and pursued to improve the timeliness of the financial reporting process.

RESPONSE provided by Secretary, Department of Education and Training

The Department is concerned about the performance of education and training entities in meeting statutory reporting timelines. It is intended that the Department's Audit Committee will commission a review of the primary reasons for this performance during the first half of 2003-04.

Nature of audit opinions issued

2.11 At the date of preparation of this report, 125 clear audit opinions had been issued on the financial statements of public sector agencies (including universities, TAFEs, Alpine Resorts, Cemeteries and other entities) with balance dates other than 30 June 2002, with qualified audit opinions issued on a further 7 financial statements. Appendix A to this report provides information in respect of each agency concerning the timing of the finalisation of financial reports and audit opinions, and nature of the audit opinions issued.

2.12 The major reasons for the issue of qualified audit opinions were:

- Inclusion in the audit opinion of the Royal Melbourne Institute of Technology of a qualification related to its Academic Management System the (AMS). During the year, technical problems relating to systems performance of both hardware and software effected the operation of the AMS. These problems resulted in errors in billing fee-paying students, duplicate transactions, unreconciled differences between the AMS, the general ledger and the bank account, a lack of supporting documentation for adjustment processes, difficulties in issuing Higher Education Contribution statements, and errors in processing and advising enrolment details. As a consequence, the accounting records produced by the AMS were not adequate or sufficiently accurate to permit the application of necessary audit procedures. We were, therefore, unable to obtain all information and explanations required to form an opinion on certain balances included in the Institute's financial report. A more comprehensive report on the AMS project was included in the *Report on Public Sector Agencies, February 2003*. Due to ongoing financial difficulties, a separate examination of the financial condition of RMIT has been conducted and separately reported to Parliament;
- Inappropriate recognition of Commonwealth Government general operating grants in the financial statements of 4 universities and one associated agency. These grants, which were non-reciprocal in nature, were not disclosed in accordance with Australian Accounting Standard AAS 15: *Revenue* which requires that they be treated as income;

- Continuation of a qualification relating to non-compliance by a cemetery trust with the Victorian Government Policy - Revaluation of Non-Current Physical Assets - May 2002 and Accounting Standard *AASB 1041: Revaluation of Non-Current Assets*, which require land to be valued on a fair value basis. Land valuation undertaken by the trust had not been prepared on a fair value basis for the reporting periods ended 31 December 2001 and 2002; and
- An inability to express an opinion on the completeness of cash donations disclosed in the financial statements of the Anti-Cancer Council of Victoria as evidence available to audit revenue from cash sources was limited. This issue is common for charitable organisations as it is often impracticable to establish control over the collection of all cash donations prior to entry of transactions into financial records.

2.13 A number of qualifications included in the audit opinions of agencies in previous years were removed from the audit opinions issued for the year ended 31 December 2002. Qualifications removed included:

- The qualification relating to the inappropriate recognition of an asset equivalent to a number of universities' unfunded superannuation liability in the statement of financial position was removed from the audit opinions of several universities. The decision to remove this qualification followed issue of *Abstract 51: Recovery of Unfunded Superannuation of Universities* by the Australian Accounting Standards Board's Urgent Issues Group. This Abstract expressed the view that previous practice provided an indication that a university controls a receivable and its recovery is probable given that the Commonwealth and State Governments have undertaken to provide funding to universities for this purpose in the *Higher Education Funding Act 1988*;
- A qualification relating to the Angliss Consulting Pty Ltd's inability to substantiate the amortised value of \$465 000, assigned to Intangible Assets "Intellectual property rights" was removed for the 2002 year following a resolution by the company to write-down the value of the asset to nil. Further comment on Angliss Consulting Pty Ltd is provided in subsequent paragraphs of this report; and
- Qualifications relating to the overstatement of the carrying value of related entity receivables in Securities Finance Corporation Limited's (SFCL) financial report and payables in Tricontinental Corporation Limited's (TCL) financial report were removed. These qualifications were removed after the directors of SFCL resolved to forgive intercompany debts owed by TCL of \$1.1 billion due to changes in financing arrangements within the Tricontinental Group, these debts were no longer recoverable from TCL.

OTHER ISSUES ARISING FROM FINANCIAL AUDITS

Consolidation of the operations of Melbourne University Private Limited and Melbourne Enterprises International Limited

2.14 Our *Report on Ministerial Portfolios, June 2001* reported the impact of the creation of Melbourne University Private Limited (MUPL) on The University of Melbourne. At that time, we made reference to the accountability arrangements in place and the financial performance of MUPL from the time of its establishment in January 1998.

2.15 The University status granted to MUPL for an initial 5-year period was based on a number of conditions, which were subject to compliance review after 3 years. Those conditions included an obligation to maintain a research function at an appropriate level.

2.16 The University of Melbourne decided, in October 2000, to consider a proposal to merge the activities of MUPL and Melbourne Enterprises International Limited (MEIL).

2.17 At that time, MEIL's major activities involved:

- project management, largely under contract, to the Australian Government's overseas aid program (AusAID), the Asian Development Bank, the United Nations and the World Bank; and
- the provision of English language training to foreign students both in Melbourne and at overseas locations (conducted through acquisition and corporatisation of existing English language schools).

2.18 During 1999, the financial position of MEIL had been considerably enhanced as a consequence of the floating of Melbourne Information Technology Limited (MITL), which resulted in a gain in the order of \$79 million to MEIL from the sale of 85 per cent of its interest in MITL. An amount of \$50 million was donated by MEIL to The University of Melbourne. The remaining funds were retained by MEIL as seed capital for the development of business activities and to generate a commercial return. Subsequently, MEIL's remaining 15 per cent interest in MITL was sold in 2001 and the resultant funds were retained by MEIL.

2.19 Part of these funds were utilised by MEIL to fund a joint venture interest with the University of Queensland, Uniseed Pty Limited, providing financing of early stage technologies initiated within those educational institutions.

2.20 In November 2001, MUPL replaced The University of Melbourne as the sole member of MEIL and, on 1 July 2002, the operating activities and net assets of MEIL were transferred to MUPL. Included in this transfer were significant financial interests in a number of overseas companies (English language centres) and the Uniseed joint venture (commercialising intellectual property). As a result of the transfer, MUPL's financial position was considerably improved with the consolidated equity position for MUPL rising from \$3.1 million to \$37.9 million at 1 July 2002.

2.21 In accordance with the Ministerial Order dated 14 July 1998 under the *Tertiary Education Act* 1993, a report was required by 31 December 2001 on the MUPL's progress towards implementation of the development plans approved for operation as a university. The review made various recommendations to the Minister for Post Compulsory Education, Training and Employment.

2.22 An application has been made by MUPL to the Government for the continuation of its university status beyond the initial 5 year period, which expires on 14 July 2003.

Angliss Consulting Pty Ltd

2.23 Angliss Consulting Pty Ltd (the company) is a wholly-owned subsidiary of William Angliss Institute of TAFE. The company operates a multi-media business including developing its own products, such as computer software, for retail sale, provision of training courses, and retail food and conference centre operations.

2.24 During 1999, the Institute transferred responsibility for various commercial activities to the company. Since that time, the Institute has provided loans to the company, totalling \$924 183, through the funding of certain operating expenditure, including \$375 949 during the year ended 31 December 2002. The Institute had anticipated that the company would repay these amounts as the profitability of the company improved in future years.

2.25 The company reported an operating surplus of \$11 387 for the year ended 31 December 2002 and net assets of \$209 043 as at 31 December 2002 following inclusion of:

- Revenue of \$825 441, with a corresponding reduction in liabilities, arising from the forgiveness of debt by the Institute. The remaining loan balance of \$98 742, which is equivalent to the cash assets held by the company, remains as a liability to the Institute within the company's financial report as at 31 December 2002; and
- Expenditure, and a corresponding reduction in assets, of \$465 000 related to the accelerated amortisation of intangible assets. As referred to previously in this report, the audit opinion on the 31 December 2001 financial report of the company had been qualified on the basis of the inability of the company to substantiate the valuation of these assets.

2.26 The Institute approved the forgiveness of debt of \$825 441 following consideration of the financial condition and ongoing viability of the company and reassessment of the potential for the company to repay the loan in future. This amount was included as expenditure within the financial report of the Institute for the year ended 31 December 2002.

2.27 The company has advised that it is aiming to increase its revenue base to ensure its long-term viability. In the short-term, the Institute has agreed to provide ongoing financial support to the company for a further 12 month period.

Deregistration of Latrobe Regional Hospital Pty Ltd

2.28 Our *Report on Public Sector Agencies June 2002* included comment on the unwinding of arrangements associated with the private ownership and operation of Latrobe Regional Hospital. As outlined in that report, the State implemented new arrangements to return operation of the hospital to the public sector, via Latrobe Regional Hospital (Public), due to concerns regarding the financial capacity of the private sector provider to continue to provide ongoing hospital services. The new operating arrangements were formally completed on 18 January 2002.

2.29 On 8 May 2002, the new ownership arrangements were completed when the State assumed ownership of shares in Latrobe Regional Hospital Pty Ltd (the company), previously established to own the hospital. On 12 September 2002, an agreement was entered into by all remaining parties to the New Latrobe Regional Hospital Agreement (the agreement made in 1997 to design, construct, own and operate the hospital) to wind-up the financial structure of the hospital project.

2.30 Since our previous report, significant changes have occurred in the state of affairs of the company in that:

- on 19 September 2002, the new Latrobe Regional Hospital Agreement was terminated and, as a result, the company ceased to have any involvement in the public hospital;
- an amount of \$44.4 million was paid by the State to Treasury Corporation Victoria representing payment in full of all bond debt owed by the company following provision of a capital contribution of the same amount by the State. This payment also released the State of obligations to the company relating to an “Allocated Facilities Charge” which the State was contracted to pay for a further 11 years;
- Latrobe Regional Hospital (Public) forgave sub-ordinated debt and associated interest obligations by the company of \$16.6 million. Latrobe Regional Hospital (Public) had previously purchased these and other rights associated with the hospital facilities and equipment from the private sector provider for \$6.6 million;
- the company ceased trading from 19 September 2002; and
- property, plant and equipment of the company, valued at \$51.5 million, was transferred to Latrobe Regional Hospital (Public).

2.31 Latrobe Regional Hospital Pty Ltd was subsequently deregistered as a company on 5 May 2003.

Adequacy of financial controls within agencies

2.32 While the principal purpose of financial statement audits is to add credibility to the financial accountability process through the expression of an independent audit opinion on the annual financial report of each public sector agency, the financial audit process also incorporates a range of other activities, such as:

- assessing the adequacy of the management control environment; and
- verifying the existence of management and information technology controls, and assessing the effectiveness of such controls.

2.33 As part of the financial audits of agencies with balance dates other than June 2002, we identified that opportunities existed for improvement in certain aspects of their management and internal control processes. We identified a range of issues with the potential to adversely impact on financial management and control within certain agencies, if not appropriately addressed. The more common control and management issues identified included:

- inadequate arrangements for audit committees in terms of the non-existence of committees, irregular meetings for established committees or the need for greater representation of independent members on committees;
- the need for further development of effective risk management processes and, in particular, the development of formal approaches in relation to fraud prevention;
- deficiencies in the management and collection of outstanding debts;
- inadequate asset management practices in terms of the recording and valuation of fixed assets; and
- deficiencies in information technology management processes including the absence of formal disaster recovery plans, strategies for the ongoing development and maintenance of information technology, and password security processes.

2.34 Recommendations were made to relevant agencies outlining management actions required to address these control deficiencies and issues.

Part 3

Special reviews

- Maintenance of Victorian school facilities _____ 23
- Student administration systems in universities and TAFE institutes _____ 29
- Overseas operations of Victorian TAFE institutes _____ 39
- Government advertising – Management of the Master Agency Media Service contracts _____ 54

MAINTENANCE OF VICTORIAN SCHOOL FACILITIES

3.1 At 30 June 2002, the Department of Education and Training controlled 1 625 primary, secondary and special schools located on 6 315 hectares of land. Around 14 000 school buildings, valued at \$3.3 billion, were located on this land.

3.2 Given the State's significant investment in school facilities, the Department has a responsibility to ensure that facilities under its control are well maintained in order to support an effective learning environment for Victorian school students.

3.3 Under the provisions of the *Education (School Councils) Act 1975*, each school council also has a responsibility for managing school facilities, including authorising expenditure for urgent maintenance works.

3.4 Maintenance funding is provided annually to schools through the maintenance and minor works component of the annual School Global Budget (SGB) process. The SGB is designed to enable schools to allocate resources in ways that best support the effective delivery of education programs and is provided through an annual parliamentary appropriation to the Department. Each year, the SGB makes available \$27 million to address the maintenance needs of all schools. Of this amount, \$13.5 million must be used to carry out planned maintenance while the balance of \$13.5 million is available for unforeseen maintenance needs. Additional funds may be provided through supplementary grants to schools.

3.5 A school council may acquire additional school facilities from its own resources. However, the Department does not provide maintenance funding for those facilities it considers to be over and above the standard set of facilities to which a school is entitled by virtue of its enrolment.

Nature of our review

3.6 We examined the adequacy of processes established by the Department to ensure the timely maintenance of school facilities. Our review included an evaluation of the procedures developed by the Department to assess the condition of facilities at all Victorian government schools and to manage information dealing with the level of outstanding maintenance at schools.

3.7 We visited a small sample of schools and engaged the services of an expert to assist in our evaluation of the condition assessment process.

Assessment of school facilities

3.8 In November 2000, the Department engaged (at a cost of around \$3.7 million) 3 private sector firms with wide experience in the building industry to ascertain the physical condition of all school facilities, including relocatable classrooms. The exercise involved an examination of every room in all school buildings. Some 18 building elements were required to be assessed, including floors, roofs, external windows, fibro-cement/asbestos, school grounds and services.

3.9 Identified maintenance requirements were rated according to the scale detailed in Table 3A below.

**TABLE 3A
RATING OF MAINTENANCE REQUIREMENTS**

<i>Rating no.</i>	<i>Assessed condition</i>
0	Urgent – immediate repair required, high risk, major problem
1	Repairs required within the next 12 months
2	Requires attention within 2 years
3	Requires attention within 3 years
4	Requires attention within 4 years
5	Will last for 5 or more years without repair

Note: The above time frames date from the completion of the condition assessment exercise in February 2001.

3.10 The contractors were also requested to calculate the cost of identified maintenance, based on standard costs determined by the Department.

3.11 The Department required the contractors to follow an approved facilities assessment program. Training was provided to the contractors to ensure the criteria used to assess the condition of school facilities were consistently applied.

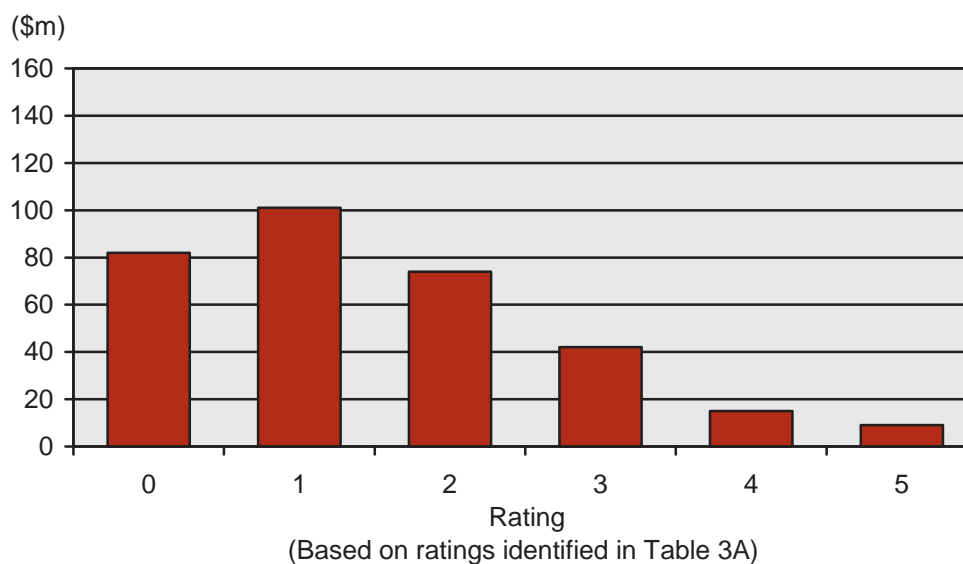
3.12 All schools were afforded the opportunity to identify any issues of concern for inclusion in the facilities review. Schools were also able to challenge the results of the exercise if they disagreed with the assessment of any item.

Level of outstanding maintenance

3.13 The assessment of school facilities by contractors was completed in February 2001 and identified that **\$320 million would be required over the 6-year period, commencing in 2000-01, to bring facilities up to the required standard.**

3.14 Chart 3B provides details of the estimated level of required expenditure as determined by the assessment process.

CHART 3B
ESTIMATED COST OF OUTSTANDING MAINTENANCE WORKS AT SCHOOLS,
FEBRUARY 2001
 (\$million)



Source: Department of Education and Training – Facilities Services Division.

3.15 As indicated in Chart 3B, the assessment of school facilities identified that \$82 million was required for items categorised under rating 0 as in need of urgent repair. At the date of preparing this report, the Department had allocated sufficient funds to schools to fully meet eligible rating 0 items.

Ongoing maintenance needs

3.16 Chart 3B indicates that around \$100 million was required for maintenance of rating 1 facilities up to February 2002, and around \$75 million to February 2003 for those under rating 2. As mentioned in paragraph 3.4, each school receives annually through their SGB an amount of \$27 million, comprising \$13.5 million for identified maintenance and an equivalent amount to meet unforeseen maintenance. **Even if schools had utilised all of this funding for identified maintenance needs during the 2 year period to February 2003 (which would be unlikely), a funding shortfall of at least \$120 million (\$175 million less \$54 million) exists in respect of maintenance of school facilities, including relocatable classrooms.**

3.17 Inflationary factors and other pressures will exacerbate the funding shortfall for schools. For example, under the *Building Act* 1993, schools are required to conduct periodic inspections of essential services for life safety items such as fire detection and suppression systems, air handling systems and lifts. Not all of these items are specifically funded by the Department and schools use their school global budget allocation to pay for these inspections.

3.18 Delays in addressing outstanding maintenance works are likely to reduce the useful life of school facilities and could expose the State to increased maintenance costs in the longer-term.

3.19 Given the continuing inflationary and other pressures facing schools, there is a need to review the base recurrent funding level required by schools to eliminate the school maintenance backlog and fully fund annual maintenance requirements.

3.20 In summary, the assessment of school facilities provided a sound basis for establishing the physical condition of school facilities. A similar review will need to be conducted regularly in future to ensure that data on the condition of school facilities remains up-to-date and continues to provide useful information for planning and management purposes.

Maintenance of relocatable classrooms

3.21 There are around 6 300 relocatable classrooms used throughout the State. Table 3C shows the age profile and written-down value of relocatable classrooms as at 30 June 2001 (the latest available data).

TABLE 3C
AGE PROFILE OF RELOCATABLE CLASSROOMS AS AT 30 JUNE 2001

<i>Model type (a)</i>	<i>Number</i>	<i>Average age</i> <i>(years)</i>	<i>Written-down</i> <i>replacement cost</i> <i>(\$m)</i>
1	628	25-30	13
2	2 192	35	50
3	304	25-30	11
4	562	15-20	31
5	2 455	15-20	171
Other	157	10-25	8
Total	6 298		284

(a) Numerical classification used by the Department to categorise relocatable classrooms according to their size and purpose.

Source: Department of Education and Training – Facilities Services Division.

3.22 The Department has identified that:

- Relocatable classrooms represent around 10 per cent of total classroom space;
- If properly maintained, relocatable classrooms have a useful life of 40 years; and
- About 1 000 relocatable classrooms (16 per cent) are in poor condition, requiring immediate replacement (estimated replacement cost \$75 million). This cost forms part of the information on outstanding maintenance included in Chart 3B.

3.23 The Department estimates that around \$5.6 million is required each year to maintain relocatable classrooms in good condition, but does not provide specific funding for this purpose. As with other facilities, any maintenance work for relocatable classrooms undertaken by schools has to be funded from their SGB allocation, in the absence of supplementary funding. Because relocatable classrooms may be removed from a school at short notice, schools generally use available funds to maintain permanent classrooms rather than relocatables. **As a result, the general condition of relocatable classrooms deteriorates rapidly over time.** Our visits to schools confirmed the poor condition of a number of relocatable classrooms.

3.24 To overcome the deteriorating condition of relocatable classrooms, the Department has been investigating the viability of accessing private sector funding under the Government's Partnerships Victoria initiative to build and maintain the State's stock of relocatable classrooms. Maintenance for relocatable classrooms has been deferred by the Department until a decision is made on this matter. The Department expects to complete its business case on this issue late in 2003.

3.25 **The deteriorating condition of relocatable classrooms presents risks in terms of the learning environment for students and may lead to excessive future maintenance costs. The Department needs to accelerate its efforts to finalise strategies for the supply and maintenance of portable classrooms.**

Physical Resource Management System

3.26 The Physical Resource Management System (PRMS) maintained by the Department records information on the physical condition of each government school building in Victoria. It is used to assess the outstanding maintenance requirements of schools and to plan future funding needs. The information recorded within the PRMS was sourced from the results of the previously mentioned assessment of school facilities conducted by contractors in 2001. The integrity of the data within the PRMS depends on each school updating the database when maintenance works are completed.

3.27 Given the importance of the PRMS to the Department for overall asset management purposes, it is essential that information recorded on the system is complete and accurate. However, according to a review undertaken by the Department in January 2003, around 300 schools (18 per cent) had not updated the system to record completed maintenance works.

3.28 As a consequence, the PRMS database contains inaccurate information concerning the current level of outstanding maintenance requirements. As previously stated, sufficient funding has been provided by the Department for approved rating 0 maintenance. However, we found several instances of approved rating 0 maintenance works at schools recorded as outstanding in the database.

3.29 The Department has advised us that its ongoing internal audits of schools routinely verify that funds allocated for approved maintenance works are properly applied by schools. At the time of our review, the Department was in the process of contacting each of the identified schools to ascertain the reasons why PRMS records had not been updated.

3.30 To maintain the effectiveness of its PRMS as a strategic planning tool, the Department needs to ensure schools routinely update the system in a timely manner.

RESPONSE provided by Secretary, Department of Education and Training

The Department has made considerable effort to address the issue of school maintenance. In that context, it is pleasing to note the Auditor-General's overall support for the systems and structures put in place to manage maintenance in Victoria's 1 615 schools (figure as at May 2003). This system is based on localised responsibility for decision-making and implementation, based on a statewide audit which ensures priorities and funding levels are standardised across schools.

Government has committed to fund a program to replace older-style small relocatable classrooms during this term of office.

The PRMS database, as the Auditor-General recognises, is a key tool in asset management of school facilities. Schools have been trained and encouraged to use the database, and Regional officers have monitored and supported schools to comply with requirements.

STUDENT ADMINISTRATION SYSTEMS IN UNIVERSITIES AND TAFE INSTITUTES

3.31 Universities and Tertiary and Further Education (TAFE) institutions rely heavily on information technology (IT) systems for the delivery of educational services and management of their operations. Student administration systems, in particular, provide key functions within these bodies, such as:

- managing student admissions;
- managing student course and subject enrolments;
- processing fees and billing;
- recording and maintaining student results; and
- complying with various government reporting requirements.

3.32 As these functions are core elements of the operations of universities and TAFEs, any factors that affect the confidentiality, integrity and/or availability of these systems could have a significant organisational impact. For instance, maintaining the integrity of academic records is vital to ensure that the public and other stakeholders have confidence in official records on student achievements issued by these agencies. Also, if institutions are unable to adequately enrol or accurately invoice students, which could occur in the event of corruption or failure of their student administration systems, they may suffer financially.

3.33 Risks that may impact on the operation of student administration systems include:

- unauthorised access or alteration of student details;
- incorrect calculation of student fees and charges, or of information provided to government;
- loss of availability of the system for extended periods of time, or during critical processing periods; and
- loss or destruction of information or data.

3.34 The adequacy of security and related system control mechanisms over these systems is, therefore, critical in mitigating such risks and minimising the likelihood of operational, financial, legal or reputational damage to the institutions.

3.35 In August 2002, the New South Wales Independent Commission Against Corruption (ICAC) issued a report on its investigation into the conduct of officers and students at the University of Technology, Sydney. As well as commenting on cases of unauthorised alteration of student results, the report highlighted a number of weaknesses in relation to the administration of student records and computer security. Some of these weaknesses included:

- non-compliance with access authorisation procedures;
- poor record keeping;

- incomplete knowledge of user access levels;
- inadequate separation of student administration roles;
- poor password security;
- system logging limitations; and
- inadequate auditing and monitoring of system access.

3.36 The issues raised in the ICAC report highlight the consequences of failing to implement adequate security and control over student administration systems.

Scope of review

3.37 We undertook an audit to evaluate the adequacy of security and related system controls implemented over the student administration systems at a sample of universities and TAFEs within the State. Six organisations were examined. The review assessed information security policies and procedures relevant to student administration, the extent of adherence to these procedures and some of the key components of security implemented within each of the systems.

3.38 The review did not examine the security over other systems interfacing with the core student administration systems such as internet connected applications.

Overall conclusion

3.39 At all of the universities and TAFEs reviewed, we found that improvements were required to security planning, both at an organisational level and in terms of the specific operation of student administration systems. We also found that the level of security and control implemented within individual student administration systems varied between institutions.

3.40 **Specific control weaknesses with varying risk implications were identified at all of the institutions reviewed. These could effect the ability of the institution to restrict access to systems, identify unauthorised behaviour and adequately maintain their student administration software. The weaknesses identified included:**

- deficiencies in the management of student administration system user access, such as user registration and removal, and in the retention of user access documentation;
- a lack of documentation of student administration system access levels and instances of users with access levels in excess of their requirements;
- weak password security settings;
- a lack of monitoring of security-related activity over student administration systems, which reduces the ability of the agencies to detect unauthorised behaviour;
- weaknesses in procedures for the maintenance and development of existing student administration system software; and
- a need for improvement in business continuity planning processes for these systems.

3.41 We have recommended to the institutions examined that they initiate improvements to current IT security and control practices over their student administration systems.

3.42 For a majority of the institutions reviewed, their internal auditors undertook limited work in relation to security and control over central student administration systems. We believe that the examination of these systems should be subject to periodic internal audit scrutiny.

3.43 While not all Victorian universities and TAFEs formed part of this review, it is important that all educational institutions consider the findings and recommendations in this report as they relate to their operations.

3.44 Positive responses were received by the institutions examined to the specific control issues and recommendations raised with them. We will conduct a further examination at a later date to determine whether the findings of the review have been addressed by the institutions.

Organisational policies and procedures

3.45 Effective security management within universities and TAFEs is critical in supporting their operations, not only in relation to IT but also in relation to key business processes, physical assets and staff.

IT security policies and procedures

3.46 Agencies should maintain a framework to control information security. This should include an information technology security policy, which:

- stresses the importance of information security;
- describes security standards and compliance requirements; and
- provides guidance on the allocation of information security roles and responsibilities.

3.47 Training and education of staff in information security concepts and requirements are important components of this framework.

3.48 Agencies should also develop and communicate procedures for addressing and responding to security-related incidents. These procedures would detail the actions to be taken when a security incident is detected, who the incident should be reported to, what actions should be taken to resolve the issue, and how weaknesses identified as a result should be corrected and reported.

3.49 While a majority of the agencies reviewed had developed formal IT security policies, 2 were yet to obtain management endorsement of these policies. As a consequence, the requirements of these security policies had not been fully implemented and communicated throughout the agencies concerned.

3.50 Five of the 6 agencies reviewed had not developed specific procedures for handling and responding to security incidents. Without these procedures, agencies may not mitigate the damage in the event of a security incident by providing quick remedial action, securing any relevant evidence that is required and ensuring the weaknesses exploited are subsequently resolved.

Student administration system security guidelines

3.51 Specific security guidelines for student administration systems should be developed for all educational institutions. These would address the procedures and mechanisms required to provide security and control within and around the systems, and include:

- allocation of responsibility for security administration;
- procedures for administering user accounts such as their registration, modification and removal;
- definition of access privileges existing within the system and guidance on their allocation to users;
- procedures for the periodic review of user access rights; and
- logging and monitoring requirements, including the timing of these tasks.

3.52 We found that none of the agencies reviewed had developed specific security guidelines for their student administration systems. Without such procedures, there is an increased risk that critical control procedures will not be identified or implemented.

User access management

3.53 The process for managing the registration, modification and removal of user access privileges to student administration systems is critical from a security perspective. If these tasks are not adequately controlled, there is an increased risk of unauthorised users gaining access to the systems or being provided access levels in excess of their requirements. Both of these risks may result in the loss or compromise of sensitive student information.

User registration processes

3.54 User registration procedures should ensure that only authorised users are granted access to information systems, and that the levels of access granted are commensurate with the staff member's duties. In relation to student administration systems at universities and TAFEs, this can be achieved by requiring management to formally approve access for all new users. Formal authorisation should be obtained when changing user access levels due to new job requirements or roles.

3.55 Systems administration staff should check management approvals before creating new user accounts (user identifiers within the system consisting of a login name and password, which determines what functions can be accessed). This can be achieved through the use of specific user access forms requiring a formal authorising signature. Records relating to the approval of user access should be retained as an audit trail, including electronically approved authorisations.

3.56 We identified deficiencies in the user registration processes at 4 of the 6 agencies. At 2 agencies, approval for new users was informal, based on a phone call or email. As a result, no supporting documentation was retained for approval of any of the users of those systems. At 2 other institutions a formal process was in place, however, we found that these processes had not been followed in all cases of user account creation and modification.

3.57 All users should be allocated unique user accounts and passwords to access student administration systems. User accounts that are shared or do not identify any specific user can lead to problems with accountability. For instance, if there is any misuse of these accounts it may be difficult to identify the actual user responsible.

3.58 Unique user accounts and passwords were set up by default at all of the universities and TAFEs reviewed, as standard security practice. Specific instances of generic and shared user accounts were also identified at 5 of the agencies. Our assessment of the risks of using these accounts differed at each of the agencies depending on their specific uses, however, recommendations for replacement of generic or shared accounts with unique user accounts were made in all cases.

User de-activation and review processes

3.59 The process of de-activating user accounts on a timely basis when circumstances warrant such action, is an important component of user access management. User accounts should be de-activated when staff leave the organisation or where their roles change. Methods of effectively de-activating user accounts include the regular use of human resource information to identify users leaving the organisation, and education of user management to report staff cessations to those responsible for managing security on a prompt basis.

3.60 Deficiencies in user removal procedures were identified at 4 of the universities and TAFEs reviewed. Weaknesses related primarily to the lack of a formal process in this area as well as in the consistency and frequency of human resource information provided to administration staff, to assist in the removal of user accounts.

3.61 At 2 of the agencies, user accounts had not been accessed or used in over 6 months, and in one agency we identified a small number of active accounts relating to users that had left the organisation.

3.62 In most computer systems including student administration systems, there are often requirements for setting up temporary user accounts for contract or casual staff. In order to ensure that these accounts are de-activated in a timely manner after the users have left the organisation, systems should be capable of setting an automatic account expiry date.

3.63 We found that most of the sampled agencies' student administration systems did not have a facility or were not currently configured to expire user accounts on a certain date, or after a specific period of time.

3.64 On a periodic basis (i.e. 6 monthly), universities and TAFEs should conduct a formal review of all user access rights within their student administration systems. The review should ensure that all active users still require access to the system and that their access levels remain commensurate with their work position and requirements. This process assists in ensuring that access to the student administration system and its functions is controlled.

3.65 We found that only one of the agencies sampled had a formal and regular process in place to conduct periodic reviews of user accounts. Other agencies indicated that this process was undertaken on an ad-hoc basis, but audit trails were not retained.

Access control

3.66 Security features within a system should be capable of controlling access to specific functions and information. These features should be implemented to limit the ability of users to access only certain transactions and information. This is usually based on the minimum system requirements to perform their duties or role.

3.67 To assist in the correct allocation of access privileges to users of student administration systems, educational institutions should document and describe all the access levels that are available, and outline the types of users that should be allocated to these access levels. Care should be taken to ensure that access levels for sensitive functions are heavily restricted and controlled.

3.68 Inadequate documentation of access levels could result in users being granted access in excess of their job requirements. This, in turn, increases the risk that unauthorised transactions will be processed and that information may be inappropriately accessed by users.

3.69 All of the student administration systems examined as part of this review had the capability to restrict user access to specific transactions and information. However, we found that access to certain sensitive functions within these systems such as management of student results, should have been further restricted at 4 of the agencies. Also, most of the agencies sampled had not adequately described and documented the types of access privileges available for allocation to staff.

3.70 Due to functional limitations of the student administration system at some of the universities and TAFEs reviewed, the administration of security by those institutions was made more difficult. These limitations have resulted in complexities in creating new users within the system, resetting of passwords and identifying security privileges allocated to users. Consideration of security requirements should be highly prioritised by institutions during the development and implementation of student administration systems.

3.71 Where the development and ongoing maintenance of student administration systems is performed by third party vendors (including those developed as part of government initiatives), which was the case for a number of the institutions reviewed, security-related issues and weaknesses identified within the software should be communicated to these providers.

Sensitive system utilities

3.72 Many systems provide the ability for a restricted number of persons to access and alter data directly, bypassing security features set up within the applications. These utilities or programs are generally used for the maintenance of databases and are often required for administration purposes. They are typically restricted to only a few staff members and should be tightly controlled and monitored.

3.73 We found that access to utilities at the universities and TAFEs examined was restricted to a limited number of users. However, 2 of the agencies did not have a formal approval mechanism or procedures in place for the use of these utilities. In addition, no formal monitoring of the usage of system utilities occurred at 5 of the agencies.

Password security

3.74 Deficiencies in password controls were identified within student administration systems at 4 of the institutions reviewed. As such controls form the primary means of preventing unauthorised access to these systems and validating users' identity, it is imperative that good practices are applied in their selection and use. Without proper controls, the risk of unauthorised access to these systems is significantly increased.

3.75 Features of good password controls include those that enforce minimum password lengths (i.e. 6-8 characters), are required to be frequently changed by users (i.e. every 30-60 days) and have complexity requirements to make them difficult to guess (i.e. they must contain a mixture of characters or numbers).

Monitoring system access and use

3.76 Monitoring of security activity within student administration systems was found to be a deficient at all of the institutions examined.

3.77 Security monitoring activities improve an organisation's ability to detect unauthorised activity and respond accordingly. While a variety of system logs were available at agencies, none had implemented a formal and regular process to review that activity. Formal strategies for logging and monitoring student administration information should be developed by educational agencies and conducted daily. Specific areas of monitoring that should be considered include:

- failed logon access attempts;
- activities performed by privileged users within the system; and
- changes made to sensitive student data such as student results and fees, particularly those made after normal data entry time periods.

Systems development and maintenance

3.78 Student administration systems within universities and TAFEs are continually enhanced to provide new functionality or comply with new government reporting requirements. The organisational approach to the development and maintenance of these enhancements varied between the agencies sampled. For instance, in some cases the student administration software was supplied by a third party vendor and in others was developed and maintained by internal staff.

3.79 Student management systems can be complex and diverse in their functionality. Strict control over the implementation of program changes to these systems is, therefore, critical in ensuring that they operate as intended and are not corrupted. In the case of systems developed and maintained internally, these controls are particularly important.

3.80 Universities and TAFEs should ensure that there are formal procedures and control over the maintenance of student administration software. These should include procedures for:

- initiating and approving program changes;
- testing changes;
- migrating changes into the "live" environment;
- training staff; and
- updating user manuals and technical documentation.

3.81 These procedures should be formally documented and communicated to all staff involved in the process.

3.82 All of the agencies reviewed had established procedures for the development and maintenance of their student administration systems. However, specific deficiencies within these processes, such as the level and formalisation of testing performed and maintenance of user and technical documentation, were identified at 2 of the agencies. We found that none of the sampled universities and TAFEs had adequately documented the procedures for developing their systems.

3.83 Some of the duties within the development and maintenance roles should be segregated from operational activities. This is to enhance the security and control over the development process. For example, where development staff have access to the operational systems and data, they may be able to introduce unauthorised and untested code or alter operational data.

3.84 All the agencies that develop and maintain their student administration systems in-house were found to have inappropriate segregation of duties within their programming/development areas. These largely related to development staff having access to “live” systems. Recommendations for further segregation of these roles and additional monitoring activities were communicated to these agencies.

Business continuity management

3.85 Business continuity and disaster recovery planning should be implemented over university and TAFE student administration systems to assist in the recovery of these critical operations in the event of failure or interruption to services. Business continuity plans should incorporate the development of an IT disaster recovery plan. This plan should include detailed recovery procedures for a range of potential interruptions to student administration services, consideration of the use of alternate processing sites and periodic testing of procedures.

3.86 The timing of the recovery of these systems and processes is also critical. At certain times of the year, such as during enrolments, quick recovery would be needed in the event of any problems, to minimise the overall interruption to operations.

3.87 All of the universities and TAFEs sampled had implemented some recovery capability with regard to these systems. These usually took the form of regular backup processes and offsite storage of backup media.

3.88 Most of the institutions sampled had also developed disaster recovery plans, although problems with the quality and completeness of some of these plans were identified in that:

- one was yet to develop a documented plan;
- 2 had incomplete or outdated plans;
- in 2 cases, plans were yet to be endorsed by management; and
- 4 had not tested the plans.

3.89 We have emphasised to the institutions concerned the importance of rectifying these problems.

RESPONSE provided by Secretary, Department of Education and Training

The Department endorses the Auditor-General's findings and supports their implementation.

OVERSEAS OPERATIONS OF VICTORIAN TAFE INSTITUTES

The vocational education and training system

3.90 The Vocational Education and Training (VET) system in Victoria provides education in skills to enter or re-enter the labour force, to retrain for a new job or to upgrade skills for an existing job. It provides VET qualifications accredited by State and Territory registration bodies under the Australian Qualifications Framework.

3.91 VET can be provided only by Registered Training Organisations (RTOs) which include public Technical and Further Education (TAFE) institutes, some secondary schools and private organisations.

3.92 In Victoria, there are 20 public post-secondary TAFE institutes comprising 14 stand-alone TAFE institutes, 5 universities with TAFE divisions and the Driver Education Centre of Australia (DECA).

3.93 The Victorian Qualifications Authority is the body responsible for the accreditation of post-compulsory education courses (not including higher education) and registration of RTOs in Victoria. It may investigate a course or part of a course that is accredited to determine whether it should continue to maintain accreditation, and its functions include developing policies for quality assurance for VET qualifications issued in Victoria.

3.94 State or Commonwealth recurrent funding made up 62.6 per cent of total operating revenue (approximately \$905 million) of public TAFE providers in 2001. The remainder of their revenue included approximately \$39 million from fee-for-service income from government and \$155 million in fee-for-service receipts from other sources, including offshore activities and onshore full fee-paying students¹.

3.95 In June 2002, the Victorian Government released *The Ministerial Statement on Knowledge and Skills for the Innovation Economy*, which included emphasis on attracting revenue in domestic and international markets by the TAFE sector, and increasing staff skills to ensure provision of innovative and relevant training.

3.96 The Ministerial Statement specified that “*Targets will be negotiated with individual Institutes to increase fee-for-service revenue for the TAFE sector from international students and domestic industry over the next 3 years*”.

¹ Fee-for-service revenue includes fees from individuals, other than regulatory student fees, and organisations, including government organisations, for on and off-the-job vocational education and training, and for other training purposes that are paid to and retained by the provider. Included are overseas student fees, government and private revenues for specific training usually on a tendering/pricing basis, consultancy fees, and fees for Adult and Community Education passing through the accounts of public training providers.

3.97 Fee-for-service targets expressed as a percentage of total revenue have been negotiated with most public TAFE providers and included in their performance agreements. The targets increase each year from 2003 to 2005 and are roughly proportional to the organisation's reported fee-for-service revenue for 2002.

Exporting Victorian training services

3.98 International students studying onshore have become a growing part of Australia's VET system. In the first half of 2002, nearly 10 000 overseas students were undertaking Australian VET studies onshore in Australian public TAFE institutions. Over 50 per cent of these students were studying with Victorian providers².

3.99 VET providers across Australia developed offshore recruiting of students in the late 1980s after the higher education and VET markets were opened to fee-paying international students. This experience helped them to focus on offering training services offshore.

3.100 Since the mid-1990s, there has been a marked trend towards the establishment of overseas operations by public TAFE providers, especially in Victoria. A survey undertaken by International Development Programs Australia found that in the first half of 2002, over 8 000 students were undertaking Australian VET studies outside Australia with Australian VET providers. According to the survey, nearly 80 per cent of these were studying with Victorian providers.

3.101 Investment in overseas operations by TAFE institutes is taking 2 forms, namely, provision of:

- offshore VET programs in order to create and maintain a foothold in countries where educational providers from other countries are increasing their presence; and
- offshore educational services or projects.

3.102 International Training Australia (ITA) was established in 1996 as a company wholly-owned by Victorian public TAFE providers and the Overseas Projects Corporation of Victoria (OPCV)³, a company fully-owned by the Victorian Government.

3.103 ITA aims to use the resources of the entire Victorian TAFE system to service large international education and training projects, and to "*facilitate the internationalisation of Victorian TAFE Colleges and Victorian Universities with TAFE divisions*"⁴, principally through building system capacity including staff development. It involves the sector through Board membership, assistance in the development of bids, project sub-contracting, delivery of management services such as information technology, and staff secondments.

² Victoria's total share of international VET students was only 26.8 per cent in 2000 compared with New South Wales' 50.9 per cent, this lower Victorian share being due to a much higher international VET provision by private VET providers in New South Wales than in Victoria. (Source: Australian Education International.)

³ OPCV is a significant exporter of Victorian government services. It delivers some education and training services, often in partnership with ITA.

⁴ International Training Australia Pty Ltd, *Prospectus*, 1995, s. 1.2.

Scope of the audit review

3.104 This review focused on the offshore activities of:

- all publicly funded institutes of TAFE and TAFE divisions of universities in Victoria⁵;
- ITA as the institutes' private company provider; and
- the Driver Education Centre of Australia, a publicly funded RTO⁶.

3.105 As part of the review, we conducted:

- an examination of published information and data from government agencies on the TAFE offshore industry;
- a survey of all of the abovementioned organisations covering expenditure and revenue transactions, risk management strategies and quality assurance practices, in relation to their offshore courses and projects; and
- visits to ITA, 3 institutes with large offshore programs and one university with a TAFE division to augment our analysis of data collected during the survey.

3.106 Data collection and analysis during the review was confined to the 2002 calendar year.

Overall conclusion

3.107 While TAFE institutes in Victoria are directing increasing attention to the provision of offshore education and training services, revenue derived from such activities currently represents a very small proportion of their total annual operating revenue.

3.108 Offshore training markets carry higher inherent risks than equivalent onshore operations. Negative outcomes from offshore experiences have the potential to affect program delivery but can also impact adversely on the reputation of the Victorian TAFE system. In particular, risks to the quality of training developed and delivered offshore have the greatest potential to damage the international standing of the TAFE system. Risk strategies adopted by institutes need to be well structured and carefully managed.

3.109 As institutes widen their offshore activities, it is important that their accountability obligations are upgraded accordingly.

3.110 We recommend that institutes be required to incorporate in their annual reports to Parliament information on a range of offshore matters including financial results, progress towards achievement of planned non-financial outcomes and the ongoing calibre of risk management strategies.

⁵ In this report, unless otherwise specified, “institutes” and “public TAFE” both refer to TAFE divisions of universities as well as institutes of TAFE.

⁶ The Centre is Australia's largest provider of driver training and education with locations in Melbourne, Shepparton and New Zealand.

3.111 We also recommend that the Department of Education and Training, through its Office of Training and Tertiary Education, evaluate, in collaboration with other peak bodies within the industry, the adequacy of guidance currently available to TAFE institutes on risk management. The ideal outcome would be the dissemination of best practice guidance on the tailoring of general risk management strategies to the specific issues requiring attention in the provision of offshore services.

Overseas student numbers and locations

3.112 Our survey asked institutes to provide details of overseas student numbers by course and country in calendar year 2002.

3.113 Table 3D summarises the information received on numbers and shows that 7 720 students were enrolled in accredited overseas courses provided by 12 public TAFE providers during 2002.

**TABLE 3D
VICTORIAN TAFE INSTITUTES - STUDENTS
ENROLLED OFFSHORE, 2002**

<i>TAFE provider</i>	<i>Number of offshore students</i>
Bendigo Regional Institute	217
Box Hill Institute	1 145
Chisholm Institute	157
East Gippsland Institute	66
Holmesglen Institute	945
Kangan Batman Institute	609
Northern Melbourne Institute	1 520
RMIT University	1 383
Swinburne University	56
Victoria University	1 582
William Angliss Institute	25
Wodonga Institute	15
Total	7 720

Source: Victorian Auditor-General's Office, 2003, based on data supplied by TAFE institutes.

3.114 Table 3E shows the locations in 2002 of students involved in offshore courses as advised to us by TAFE institutes. It indicates that over half the students were situated in the People's Republic of China.

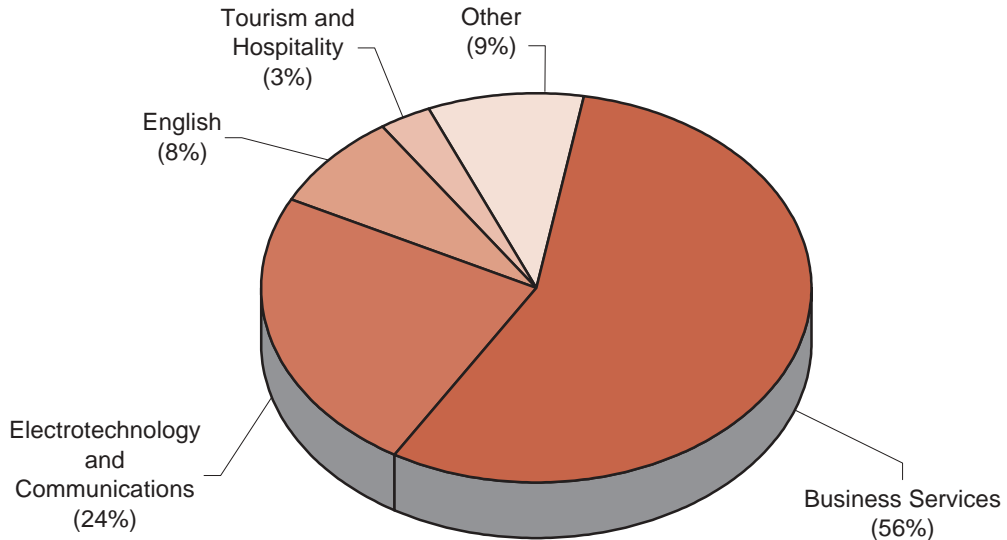
TABLE 3E
LOCATION OF OFFSHORE STUDENTS OF VICTORIAN
TAFE INSTITUTES, 2002

<i>Country</i>	<i>Number of offshore students in accredited courses</i>
People's Republic of China (except Hong Kong)	4 796
Vietnam	748
Fiji	722
Malaysia	313
Indonesia	226
Sri Lanka	221
Singapore	182
New Zealand	170
Hong Kong	116
Korea	87
United States of America	36
Equatorial Guinea	24
Papua New Guinea	17
South Korea	15
Saudi Arabia	14
Kuwait	12
Vanuatu	11
Other Pacific	10
Total	7 720

Source: Victorian Auditor-General's Office, 2003, based on data supplied by TAFE institutes.

3.115 Chart 3F provides a further breakdown of offshore student numbers by type of course undertaken in 2002. It shows that over half the students were studying in the Business Services area. Most of these students were studying at Diploma level in Business.

CHART 3F
ACCREDITED COURSES UNDERTAKEN BY OFFSHORE
VICTORIAN TAFE STUDENTS, 2002
 (per cent)



Source: Victorian Auditor-General's Office, 2003, based on data supplied by TAFE institutes.

3.116 Our survey also requested institutes to provide information about offshore projects, other than accredited courses, conducted in calendar year 2002. Apart from the training courses, 28 offshore projects were undertaken by 8 institutes in that year. These projects included activities such as curriculum development, feasibility studies and technical assistance.

TAFE sector revenue from offshore activities

3.117 Part of our survey asked about the level of revenue generated by TAFE institutes from offshore activities for calendar year 2002. Table 3G sets out the information on offshore revenue supplied by institutes.

TABLE 3G
TOTAL OFFSHORE REVENUE -
VICTORIAN TAFE INSTITUTES, 2002
 (\$'000)

<i>TAFE provider</i>	<i>Offshore-generated revenue in 2002</i>
RMIT University	3 359
Victoria University	2 588
Northern Melbourne Institute	2 004
Kangan Batman Institute	1 570
Box Hill Institute	1 360
Swinburne University	1 100
William Angliss Institute	885
Chisholm Institute	602
Holmesglen Institute	536
Bendigo Regional Institute	215
East Gippsland Institute	150
Central Gippsland Institute	84
South West Institute	38
Gordon Institute	15
Total	14 506

Source: Victorian Auditor-General's Office, 2003, based on data supplied by TAFE institutes.

3.118 The revenue generated for 2002 of \$14.5 million, represented around 1.6 per cent of the aggregate 2002 operating revenue of all TAFEs.

3.119 ITA generated revenue of \$9.9 million from its international activities in 2002. Included in this figure is an amount of \$2.4 million representing revenue derived offshore by the institutes from their involvement in projects with ITA. This amount equates to 17 per cent of offshore revenue.

3.120 Table 3H indicates that the 6 largest providers involved in offshore activities through ITA (based on revenue) were William Angliss, Victoria University, Box Hill, Swinburne University, Kangan Batman and Northern Melbourne. These institutes were also among the 7 providers with the largest total revenue from offshore activities, the other being RMIT University.

TABLE 3H
VICTORIAN TAFE INSTITUTES - REVENUE FROM
OFFSHORE PROJECTS WITH ITA, 2002
 (\$'000)

<i>TAFE provider</i>	<i>Revenue from ITA offshore projects</i>
William Angliss Institute	797
Victoria University	412
Box Hill Institute	341
Swinburne University	181
Kangan Batman Institute	147
Northern Melbourne Institute	142
Holmesglen Institute	141
Bendigo Regional Institute	139
Chisholm Institute	98
South West Institute	38
Total	2 436

Source: Victorian Auditor-General's Office, 2003, based on data supplied by TAFE institutes.

Institutes' assessments of their involvement with International Training Australia (ITA)

3.121 Through our survey, we sought from institutes their assessment of the benefits delivered from involvement on overseas projects with ITA. We found that:

- all institutes reported staff development benefits;
- 64 per cent reported an increase in their capacity to undertake aid-funded work;
- 55 per cent commented on financial benefits to the organisation;
- 18 per cent reported an increased organisational profile in the marketplace; and
- 9 per cent commented on the value of advice from ITA.

3.122 Two institutes felt that the benefits of association with ITA were minimal; one due to little involvement of staff in ITA projects, and the other because the respondent considered that *“the Institute enjoys a high profile in its overseas markets and there is no advantage in having its projects brokered by ITA”*.

3.123 When asked whether their involvement with ITA projects had enhanced the profile of their institute in attracting overseas students, 4 responded that the projects were not relevant to this aim, 5 responded *“not at all”* and 2 *“marginally”*.

3.124 It was clear from these responses that many institutes did not regard ITA offshore projects as marketing opportunities for attracting international students to study in their institutes in Victoria.

The international offshore VET markets

3.125 The current potential markets for offshore Victorian TAFE services are (in approximate order of decreasing size):

- people who want an international qualification but are limited in opportunity to study in Australia;
- aid agency-funded technical/vocational education projects;
- large-scale technical/vocational education projects outsourced by foreign governments;
- offshore English training to prepare students for English language testing and eligibility for Australian student visas; and
- commercial training.

3.126 The first 2 categories, accredited qualifications training and aid-funded projects, make up the majority of current activity.

The offshore qualifications training market

3.127 Based on survey responses, the most common strategy followed by institutes in the international training market is to minimise capital and other initial investment by contracting with education providers who carry the risks associated with in-country facilities, operating licenses and markets. In such arrangements, the institute must, under national standards, develop and monitor a formal agreement outlining the responsibilities of all parties. While financial exposure to TAFE institutes is limited by these partnership arrangements, the quality of the training remains the full responsibility of the institute.

3.128 In its response to my April 2002 report on *International students in Victorian universities*, the Department of Education and Training commented that offshore course attendances and recognition of offshore education consultancy are “... often facilitated through international student word-of-mouth brand recognition”⁷.

3.129 We found that most institutes did not make this potentially valuable marketing feature explicit in their documentation of offshore operations or their strategic or business plans. However:

- one stated in its procedures manual: “*It is imperative that offshore programs be fully self-funded in their operation offshore, and be aimed at developing a recruitment income stream supplementary to the usual agent or direct recruitment channels*”;
- another had diploma programs which provided advanced standing (course credits) into several universities it partnered with in its offshore provision; and
- a third had targeted onshore attendances from one of its offshore courses.

⁷ Auditor-General Victoria, *International students in Victorian universities*, April 2002, p. 12.

3.130 Table 3E showed that China is the largest market for offshore courses. In the survey, institutes reported that the Chinese market still has considerable scope for growth resulting from unmet local demand, population size, rapid economic growth and cultural emphasis on education. Some institutes did cite some factors offsetting this growth potential in that:

- China has taxation and legal complexities;
- imposition of fees by provincial Chinese governments is creating a high volume, low margin market;
- competition from other providers is increasing;
- profit from fee-sharing is limited by networking between potential partner institutions;
- a considerable proportion of revenue (more than 10 per cent was reported) needs to be paid to in-country agents; and
- despite reported rapid improvement in education facilities, the quality of such facilities still varies widely.

3.131 Changes to Australian student visa requirements as a result of a review by the Commonwealth Department of Immigration Multicultural and Indigenous Affairs in 2001 have made it more difficult for VET students from some countries to receive visas for onshore study. A review by that Department following the changes found decreases in VET student visas of 20 per cent in the year ended February 2002. The implications of this trend could be that demand for offshore training will increase.

Aid-funded projects

3.132 According to published data⁸, the major sources of aid funding for education projects are AusAID (the Australian Government's aid organisation), the Asian Development Bank (ADB), the World Bank and the United Nations.

3.133 Our survey indicated that, in 2002, institutes were sub-contractors of ITA in approximately 20 per cent of the aid projects in which they were involved.

3.134 The survey also showed that other institute partners in aid projects included Overseas Projects Corporation of Victoria, Melbourne University Private, RMIT International and private sector managers of international development projects. In most cases, the institute's partner was the principal contractor.

3.135 **It was also evident from the survey that overseas government-funded training appears to be growing in importance in resource-rich developing countries. This trend is most marked in the Middle East, where education is focused on skilling populations to increase national technical capacities.**

⁸ PWC Consulting 2002, *Victorian government business in Asia*, p.14.

Benefits from offshore operations

3.136 The organisations that participated in our survey highlighted the following benefits from offshore operations:

- *“development of international networks which can be leveraged for further commercial and educational developments;*
- *contributions to overheads and infrastructure;*
- *significant source of increasing staff motivation and experience to support career progression;*
- *significant contributions to professional development of staff and organisational capacity;*
- *leverage of position with the Victorian industry and community due to increased international profile;*
- *political benefits for institutes and Victoria resulting from supporting the development of training in other regional countries; and*
- *development of higher quality learning materials.”*

3.137 Many of these cited benefits of overseas operations identified by institutes are currently difficult to quantify. The development of non-financial measures at institute level to capture data on the impact of offshore programs would assist in identifying the extent to which such benefits are progressively realised.

Importance of effective risk management strategies

3.138 It was clear from the survey results that institutes were cognisant of the adverse organisational impacts that can arise from provision of offshore training. Examples cited from actual experiences were:

- *“financial losses arising from pricing that failed to include taxation;*
- *forced termination of arrangements due to low enrolment numbers resulting from the Indonesian economic downturn;*
- *a case of extended offshore staff fraud;*
- *marriage breakdown associated with absence;*
- *forced staff evacuation due to respiratory problems in a heavily polluted city;*
- *payments blockage; and*
- *some losses due to foreign exchange moves for contracts not in Australian dollars”.*

3.139 Negative outcomes from offshore experiences have the potential to affect program delivery and, consequently, the reputation of the Victorian TAFE system and Australian TAFE qualifications. The Australian National Training Authority has recognised the importance of the risks involved in offshore provision by identifying multi-site delivery (including offshore provision) as one of 11 national key risk areas of the VET system. **Risks to the quality of training development and delivery have the greatest potential to damage the international standing of Victorian TAFE provision.**

3.140 We sought, through the survey and associated interviews, to identify the approaches taken by institutes to managing offshore risks.

3.141 Most institutes have developed risk management strategies (as required under section 44B of the *Financial Management Act 1994* and section 23 of the *Victorian Managed Insurance Authority Act 1996*) only in recent years, and have based their risk strategies on the updated relevant standard from the Standards Association of Australia and New Zealand⁹.

3.142 The risk management standard is comprehensive in its processes for identifying, analysing and controlling generic risks, and the handbook accompanying the Standard¹⁰ covers risk-adjusted return as a basis for investment. These publications have general application and require tailoring by institutes to offshore commercial risk management.

Risk management plans

3.143 The risk management plans of 71 per cent of institutes with offshore operations identify those operations as a risk area, but few of the plans identify controls specific to offshore issues. The most effective risk controls were found in contracts, partnership development guides and operational manuals. However, the risk controls in these operational documents did not, in most cases, form part of the institute's risk management plan. The survey results indicated that institutes needed to direct greater attention to this area.

3.144 We did not directly examine the quality of implementation of risk management controls by institutes. However, our analysis of documentation and interviews with institutes showed that the most developed controls are in safeguards against financial and occupational health and safety risks. For example, many of the standard contractual processes and forms within institutions specify:

- due diligence checks;
- payment schedules linking payments to delivery of services;

⁹ Standards Australia and Standards New Zealand, 1999, *AS/NZS 4360:1999 Risk Management*, Standards Association of Australia, Strathfield, New South Wales.

¹⁰ Standards Australia and Standards New Zealand, 1999, *HB 143:1999 Guidelines for managing risk in the Australian and New Zealand public sector*, Standards Association of Australia, Strathfield, New South Wales.

- payments net of tax; and
- minimum enrolment requirements¹¹.

3.145 Other procedural documents of many institutes provided for:

- selection and briefing of staff working overseas; and
- briefing of their family members on topics such as overseas travel, domicile and health and welfare arrangements, including evacuation contingency plans.

3.146 Approximately half of the institutes undertook some form of monitoring or review of their offshore operations in 2002. However, none had undertaken a formal evaluation or cost-benefit analysis of their offshore programs even though in most cases programs had operated for several years. **In a relatively high-risk environment such as offshore provision, formal evaluative processes should be used to draw lessons from how risks have been managed. Provision for such processes should be a key element of risk management plans.**

Risks requiring attention in overseas operations

3.147 Loss of staff involved in overseas operations is a significant potential risk facing institutes. Offshore operations are highly dependent on a small number of key staff who have the necessary experience and possess the required skills. Well developed, cross-cultural and business skills, and willingness to travel and work overseas, and cope with the associated stresses are important staff attributes. This point was made several times during our discussions with institute staff. Prudent risk management practices would include more investment in succession planning including secondments and mentoring.

3.148 In our review, we did not specifically consider any risk of failure of the capacity of the Victorian TAFE system to continue to service offshore business, or the associated flow-on risk to the quality of onshore provision. We were informed during the survey that some of the largest providers, including ITA, were anticipating problems finding staff with the ability and preparedness to service their offshore operations. A greater investment in staff development for internationalisation may be required by institutes in order to mitigate offshore business continuity risks.

3.149 Institutes were requested in the survey to furnish a description of quality assurance processes in place for offshore operations. Our aim was to identify whether there was sufficient adherence to the requirement under the National Standards (Standard 7.4) that persons delivering offshore training are universally:

- fully competent trainers and assessors, satisfying the competencies in Certificate IV under the Australian National Training Authority standards, *Training Package for Assessment and Workplace Training*, or demonstrating equivalent competencies; or

¹¹ The Victorian TAFE Association has developed a model Memorandum of Agreement for partnership arrangements, although it does not include a number of arrangements commonly needed for offshore partnerships, and is not in the form of a contract.

- under the direct supervision of such persons, where direct supervision is defined as: “regular guidance, support and direction from a person designated by the RTO who has the competencies in Standard 7.4 (i) and who monitors and is accountable for the training delivery”. The standard does not require the supervising person to be present during all of the training delivery.

3.150 The documents provided by institutes showed that several institutes had trained or were training staff of their offshore partners to meet the requirements of Certificate IV in assessment and workplace training. Most institutes were also making periodic visits to offshore partners, for example every 6 months, to conduct important quality assurance activities including observation of classes, student interviews, and inspection of training materials.

3.151 However, we found that many offshore personnel delivering accredited courses had not been assessed as trainers and assessors under the national standard. In these instances, the visits by institutes would not be considered as meeting the test of supervision specified in the standard.

3.152 Offshore risks are likely to be increased in situations where there are strong price controls and/or competition, and when institutes have an incentive to increase revenue without a commensurate incentive to assure quality. Based on the survey, both factors are present in the offshore qualifications training market in that:

- competition on price is increasing; and
- most institutes have fee-for-service revenue targets, but there is no independent quality assurance of offshore provision.

3.153 Most institutes made pricing decisions for offshore operations on a cost-plus basis, taking into account staff costs and overheads, travel and accommodation, consumables, insurance premiums, operational overheads, agent fees and legal expenses.

3.154 There was no evidence from any institute that ratings of financial risks (e.g. low student numbers and payments risks) or the underlying value of and risks to intellectual property (e.g. training curricula and materials) vested in the State or Commonwealth were used in pricing decisions.

3.155 In summary, because of the high inherent risks associated with offshore training markets, the Department of Education and Training should evaluate the adequacy of guidance on risk management currently available to institutes. The ideal outcome would be the dissemination of best practice guidance on the tailoring of general risk management strategies to the specific issues requiring attention in the provision of offshore training.

Need for enhanced reporting to Parliament on offshore activities

3.156 Section 11.2(k) of the *Ministerial directions to councils of TAFE institutes and universities with TAFE divisions*, issued under the *Vocational Education and Training Act 1990* requires institutes to include details of overseas travel in their annual report. The directions do not specify reporting requirements for other aspects of offshore operations.

3.157 The Parliament's Public Accounts and Estimates Committee recommended in 1997 that: "*Tertiary institutions should provide relevant financial and other information in their annual reports relating to significant initiatives taken/strategies developed for their international activities*"¹². While most institutes provided descriptive information on offshore activities in their 2001 annual reports, few included financial information specific to their offshore activities.

3.158 We consider that there is a need to strengthen the reporting practices and obligations of TAFE institutes to Parliament in respect of their offshore operations. Information in annual reports of institutes should include:

- relevant financial details such as annual revenue, expenditure and net profits or losses arising from offshore activities;
- the nature of identified strategic and operational risks and the strategies established to manage such risks; and
- the performance measures and targets formulated for offshore operations and the extent to which expected outcomes have been achieved.

3.159 **The current Ministerial directions under the *Vocational Education and Training Act 1990* should be widened to address these matters. Such action would place Parliament in a stronger position to evaluate the offshore performance of institutes.**

RESPONSE provided by Secretary, Department of Education and Training

The Department endorses the Auditor-General's findings and supports their implementation.

¹² Public Accounts and Estimates Committee 1997, *Report on the 1997-98 budget estimates*, report No. 23, chapter 6, recommendation: 6.5.

GOVERNMENT ADVERTISING – MANAGEMENT OF THE MASTER AGENCY MEDIA SERVICE CONTRACTS

3.160 The Victorian Government is one of the largest media buyers in Victoria and has consolidated its media buying function to maximise its purchasing power.

3.161 Whole-of-government contracts, referred to as Master Agency Media Service (MAMS) contracts, have been established between the State and 2 media buying contractors, namely:

- Optimedia Australia Pty Ltd (the campaign contractor) for campaign advertising (i.e. advertising designed to motivate, inform and educate public groups through a series of planned and/or co-ordinated communications, e.g. the “Wipe Off 5” anti-speeding campaign or the “Police Awareness” campaign); and
- HMA Blaze (the non-campaign contractor), formerly HMA George Patterson Pty Ltd for non-campaign advertising (i.e. public notices regarding employment, education information, electoral notices, announcements and statutory notices).

3.162 The total value of media buying through the MAMS contracts is around \$70 million per annum.

3.163 The contracts commenced in January 2001 for a term of 3 years, with 2 one-year extension options. The Department of Premier and Cabinet is responsible for managing the contracts.

3.164 All government departments, statutory authorities, and agencies that receive funding from the Government to provide programs or activities¹³ are expected to use the MAMS contractors for media buying. The MAMS contracts have been established to facilitate:

- media planning and buying;
- rate negotiations;
- expenditure/commitment reporting, individually to agencies and centrally through consolidated reports;
- monitoring/verification of advertisement placement and accounts;
- invoicing and bill consolidation; and
- provision of value-adding services, including access to discounts and other benefits.

¹³ Agencies that receive funding from the Government to provide programs or activities are entitled to use the MAMS contracts for advertising or marketing related to those programs or activities only.

3.165 The current MAMS contracts replaced an earlier MAMS contract between the State and Leeds Media and Communications. The results of our examinations of this contract were reported in the March 1996 special report *Marketing government services: Are you being served?* and the November 2000 *Report of the Auditor-General on the Finances of the State of Victoria, 1999-2000*.

Objective of our review

3.166 The objective of this review was to assess the adequacy of arrangements established to manage the MAMS contracts. The review identified the extent of advertising undertaken by the Victorian public sector between January 1999 and December 2002, and examined:

- the extent of compliance with key contractual provisions, including those associated with utilisation of discounts (rebates); and
- the progressive monitoring of advertising activity and contract utilisation by public sector agencies.

Overall conclusion

3.167 The level of media spending under the MAMS contracts varied over the period examined. It rose before the November 2002 election, but had reached similar levels on other occasions under both the current and the previous Government.

3.168 The MAMS contracts have not been well managed by the Department of Premier and Cabinet, with insufficient guidance on access by non-government agencies, monitoring of usage, value-for-money and rebate usage, and auditing of rebates.

3.169 The MAMS contracts process does not make the fees and penalties charged by the principals under the contracts transparent. Fees for services provided, penalties for late payment of invoices and discounts for prompt payment are netted-off against rebates which are held by the contractors, Optimedia Pty Ltd and HMA Blaze. (Since September 2002, the rebates have not been directly returned to agencies¹⁴.)

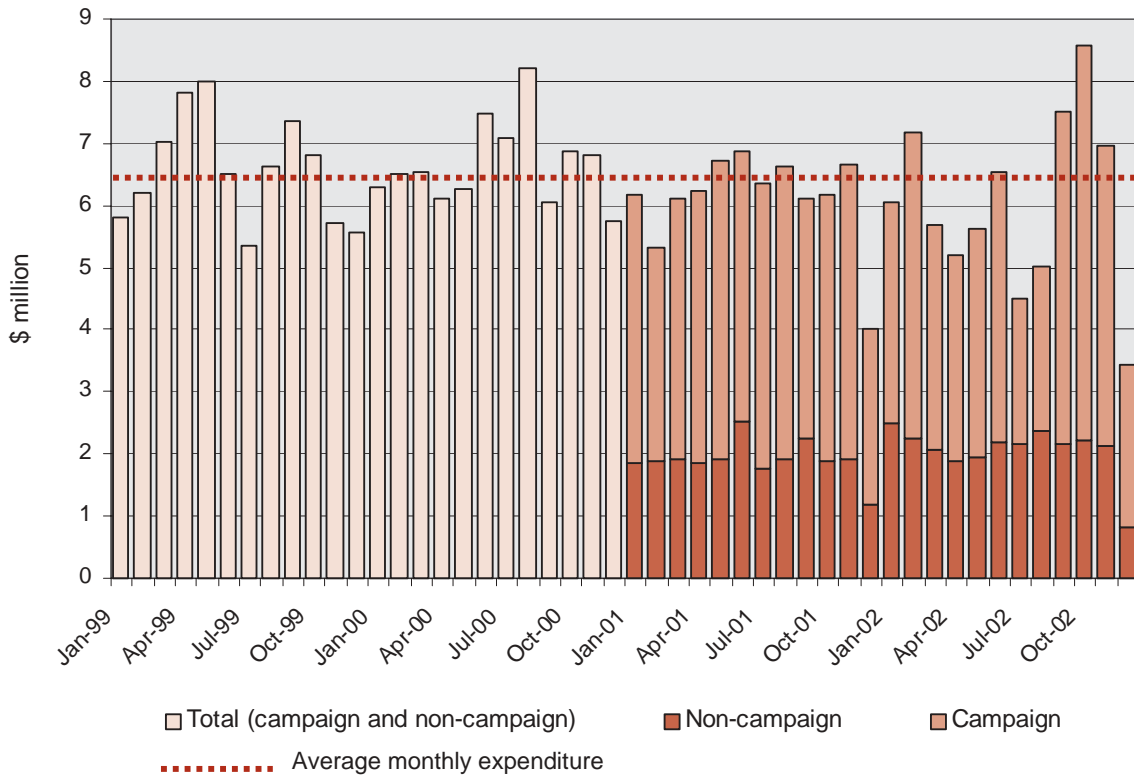
3.170 In effect, the arrangements established by the Government mean that there are insufficient incentives for agencies to maximise the net value of rebates received. The ultimate impact is a higher cost to the State for its advertising, with an accumulation of unused rebates, that could be used to fund other government advertising. Additionally, in the event of a contractual dispute with the contractors, or financial failure, the funds may not be recoverable by the Victorian Government.

¹⁴ In this article, “agency” refers to any government or other entity funded by government, e.g. community groups, transport operators, education providers etc. accessing the MAMS contracts.

Expenditure under the MAMS contracts

3.171 Chart 3I shows the media buying activity by month over the period January 1999 to December 2002, adjusted to January 2003 dollars.

CHART 3I
GOVERNMENT MEDIA BUYING ACTIVITY UNDER THE MAMS CONTRACTS,
BY MONTH AND TYPE (a)



(a) Data for the period from January 1999 to December 2000 were not available to distinguish between campaign and non-campaign activity.

Note: Non-campaign advertising includes public notices regarding employment, education information, electoral notices, announcements and statutory notices.

Source: Monthly expenditure data from the Department of Premier and Cabinet, adjusted to January 2003 dollars by the Consumer Price Index, using data from the Australian Bureau of Statistics, ABS Catalogue 6401.0.

3.172 The total expenditure under the MAMS contracts in 2002 was just over \$71 million. Chart 3I shows that the average monthly expenditure over the 4 year period was \$6.34 million with the highest expenditure of over \$8.6 million in October 2002. Expenditure also exceeded \$8 million in May 1999 and August 2000.

3.173 An April 2002 internal audit conducted for the Department of Premier and Cabinet identified that, during the period from January to December 2001, the media buying contract arrangements had resulted in negotiated savings of \$24.7 million.

Media buying rebates

3.174 Under the terms of the MAMS contracts, an agency purchasing media is entitled to receive a rebate from the contractor on the total cost of the media bought.

3.175 The MAMS contractors buy media placements¹⁵ from media providers, such as newspaper and television proprietors. The contractors are invoiced by each provider for 90 per cent of the cost of the placement, on the basis of a guarantee that payment of the invoiced amount will be made in 45 days. Despite paying only 90 per cent, the contractors invoice agencies for 100 per cent of the cost of the placement to cover both the media providers' charges and the MAMS contractors' fees for purchasing that placement.

3.176 The fee chargeable by a MAMS contractor to an agency varies depending on the level and type of services provided by the contractor, e.g. media placement only or design and production of advertisement as well as media buying; the type of media placement involved (e.g. campaign or non-campaign); and the time taken by agencies to pay invoices. The maximum fee chargeable is 10 per cent of the full cost of the media placement. However, most fees of the 2 contractors fall below the 10 per cent level. The difference between the fee chargeable and the 10 per cent of the placement cost already paid to the contractor is payable back to the agency as a rebate.

Payment of rebates

3.177 While the contracts provide for media rebates to be paid, the contract for campaign advertising does not specifically address how such "payment" should take place, i.e. whether the amount should be physically repaid to the agency or held as a credit to be used against future media buys. The non-campaign advertising contract provides for media rebates to be processed as either an adjustment credit note to offset the cost of present or future media placement, or an electronic transfer of funds to the agency. Each agency has been asked by the contractors to nominate whether it wishes rebates to be paid by cheque (or electronic funds transfer) or by credit note. In the event that a credit note is preferred, the contractor processes an adjustment credit note directly to the agency for use for future media placement.

¹⁵ A media placement is the appearance of a government advertisement on a commercial medium, such as a timeslot on radio or television.

3.178 The Department of Premier and Cabinet advised that its intention at the time of preparing the contracts was that rebates would be paid in cash. However, subsequently, the Department requested that contractors retain the rebates for offsetting against each agency's future media buys.

3.179 In September 2002, the process for administering rebates was modified. A direction from the Department of Premier and Cabinet to the contractors advised that all rebates owed and accrued by "core government agencies" were to be held by the contractors on behalf of the Department. This change meant that the options available to these agencies to receive rebates in cash or as credits ceased. Four agencies, i.e. Tourism Victoria, the Transport Accident Commission, the Urban and Regional Land Corporation and the Victorian WorkCover Authority were exempted from this new arrangement.

3.180 We found that the 2 contractors have interpreted the term "core government agencies" differently and so their practices for holding or paying rebates vary. The Department of Premier and Cabinet advised that it was unaware of the different practices adopted by the contractors. Clear definitions of the agencies to which the directive applies are required.

3.181 The change in the process for administering rebates was made to allow the Department of Premier and Cabinet to use the rebates for whole-of-government communications activities, although at the time of our review there had been no draw-down for this purpose.

3.182 **Since the changes to the process, total rebates held by the contractors have increased. At 30 April 2003, the contractors were holding rebates totalling \$2.3 million from media buying activities undertaken to 31 January 2003.** Rebates for media buying activities after January 2003 have yet to be determined as they are not calculated until 90 days after the period of activity.

3.183 Payment of rebates to agencies that are not "core government agencies" is not constrained by the September 2002 directive from the Department of Premier and Cabinet. We found that some amounts payable to these agencies are included in the above total. In these cases, agencies may have been notified of the amounts payable to them, but not yet claimed their entitlements from the contractors. Because the accounting practices used by the 2 contractors differ, we were unable to determine the total amount of unclaimed rebates at the time of the audit. The Department was unable to provide the relevant information. However, we determined that of the \$3.08 million rebates generated in 2001 for campaign advertising, \$291 000 (or 9 per cent) remains unclaimed.

3.184 We also found that \$37 500 in rebates earned by agencies under the Leeds Media contract during 2000 remained outstanding, despite a July 2001 internal audit recommendation that the relevant current contractor pursue this outstanding rebate on behalf of the State. A further \$37 500 was outstanding from 2001. The contractor advised that these amounts have been recently recovered.

3.185 Given that media providers only invoice the MAMS contractors for 90 per cent of the costs, it is unclear what value is derived from the current rebate approach. In a simpler arrangement, the agencies could directly benefit from the media discount by paying only the discounted media rates and paying contractors directly for their fees. While rebates are held by the contractors, this money is not available for other uses, and yields no interest to the Government. Additionally, in the event of a contractual dispute with one of the contractors, or financial failure, the funds may not be recoverable by the Victorian Government. The contractual arrangements are complex and do not have proven benefits. They should be reviewed.

Administration of rebates

3.186 Our examination of the administration of rebates revealed that:

- In 1997, the Department of Premier and Cabinet implemented an annual process of consolidating and collecting agency rebates which had remained unclaimed for over 12 months, from the previous contractor. However, the current contractors do not recall being advised of this process and have continued to contact individual agencies about unclaimed rebates; and
- A number of exemptions to the September 2002 direction to withhold rebates have been made. While some exemptions by the Department may be made in writing, others are made on verbal authorisation. However, the agencies exempted, or reasons for their exemption have not been documented by the Department.

3.187 Our examination of the management of rebates by the Department of Premier and Cabinet highlighted a number of weaknesses, namely that:

- Contractors were not required to report to the Department the amount of rebate generated by individual agencies¹⁶ or the length of time rebates had been held. We were advised that quarterly presentations of data were made by the contractors but that no documentation had been retained;
- The accuracy and completeness of rebates returned was not monitored;
- There were no guidelines to advise agencies or the Department about the appropriate treatment of rebates to ensure compliance with legislative requirements; and
- Late payment of the contractors' invoices was not monitored and had led to significant additional fees being incurred by agencies. Over the first 2 years of the current MAMS contracts, \$6.2 million in rebates were earned by agencies accessing the MAMS contracts. However, our analysis revealed that if all invoices had been paid in a timely manner, the total rebate amount for this period would have been around \$7.5 million. Late payment of invoices has reduced the total amount of rebates receivable by around \$1.3 million, or 17 per cent, over this 2 year period.

¹⁶ Rebates are only reported by portfolio. Non-government entity rebates are reported under the portfolio that originally funded the activity for which they are authorised to advertise under the MAMS contract.

Access to the MAMS contracts

3.188 By combining its media purchasing, the Government has been able to negotiate favourable contract rates for its media purchasing activities, resulting in significant benefits to agencies using the contracts. The contracts were negotiated on the basis of estimates of the level of expenditure to be processed through them annually. Extensive use of the contracts by entities could lead to requests from media providers for revision of contractual rates. It is therefore important that the Department of Premier and Cabinet ensures use of the contracts only by the intended entities.

3.189 The MAMS contracts outline the “departments and agencies” that may use the contracts, namely:

- all government departments, agencies and statutory authorities;
- entities with 51 per cent government funding;
- entities contracted to the Victorian Government for the provision of government services and initiatives; and
- “other entities” at the discretion of the Department of Premier and Cabinet.

3.190 However, the contract does not define the term “other entities” and there is no guidance available to the contract manager in the Department of Premier and Cabinet to outline the circumstances in which that discretionary power may be exercised. The Department indicated that it verbally advises the contractors about who is authorised to use the contract, as the need arises. Documented evidence of this advice is not held.

3.191 The Department of Premier and Cabinet does not maintain a record of the agencies that have accessed the contracts. From data obtained from the campaign contractor it was possible to identify the government agencies that had accessed the contract. However, it was not possible to determine whether the non-government agencies that had used the contract were entitled to do so.

3.192 The Department of Premier and Cabinet advised that it relies on its contractors and the media providers, such as newspaper or television proprietors, to monitor whether the contracts are accessed by appropriate agencies, as both the contractors and the media proprietors have a financial interest in ensuring appropriate use of the contracts. **The Department should establish guidance on when “other entities” may access the contract and develop a means of effectively managing and monitoring access to the contracts.**

3.193 Under the contract provisions, an agency wishing to purchase services from a contractor is required to place a Media Order, which establishes a Media Order Contract between the agency and the contractor. The contracts also provide that when an unincorporated body, such as a community group or environmental group, purchases media, the State and the contractor are the parties to the Media Order Contract. Legal advice that we obtained during our review indicated that the State becomes liable for any debts or contract penalties incurred under that Media Order Contract. **To avoid potential liability, such Media Orders need to satisfy the requirements of the *Financial Management Act 1994* and appropriate contractual arrangements for liability for debts need to be made between the State and unincorporated bodies.**

Contract management and administration

3.194 Processes established in the Department of Premier and Cabinet for managing and administering the contracts were minimal and relied on a relationship of trust with the contractor. Some day-to-day arrangements were in place to address contract administration matters, such as access to the contracts. However, some improvements in practice are needed.

3.195 Despite media buying contracts having been in place for many years, no contract management guidelines have been developed to assist officers in the Department of Premier and Cabinet in oversight of the contracts. The presence of guidelines would be of assistance, particularly given that the current holders of positions of contract manager and contract administrator are recent appointees.

Guidelines for users

3.196 Manuals and information bulletins available to agencies using the MAMS contracts include:

- a contract users' manual, prepared by the contractors, outlining the primary functions of the contract and the administrative process for placing advertisements;
- a communications manual, prepared by the Department of Premier and Cabinet, outlining processes and standards for marketing and advertising by government agencies; and
- electronic information bulletins on the Department's website.

3.197 The manuals and bulletins outline several processes and procedures but are not comprehensive. For example, they do not contain sufficient information on:

- the service obligations of the contractor;
- penalty charges applicable for late payment of invoices; and
- processes for claiming rebates.

3.198 The Department of Premier and Cabinet advised that it is currently revising its communications manual by updating existing guidelines.

Monitoring contractor performance

3.199 We examined recent reports provided by the contractors, held by the Department of Premier and Cabinet, including quarterly expenditure reports. We identified that the reports did not address some key reporting requirements of the contracts. Omissions included reporting of:

- actual performance of the contractors against performance measures established in the contracts;
- compliance with pricing levels, levels of service provided to agencies utilising the MAMS contracts and information about rebate remittances; and
- monthly expenditure by departments (i.e. expenditure by each agency accessing the MAMS contracts); compliance of Victorian Government advertising with any standards, policy or regulatory requirements, and implementation of relevant recommendations resulting from customer surveys.

3.200 The MAMS contracts required the contractors to provide details of proposed audit arrangements to the Department of Premier and Cabinet within the first 6 months of the contract term, i.e. by the end of June 2001. However, the Department subsequently determined that it was the most appropriate party to develop audit arrangements. In August 2002, the Department commenced development of an audit framework but this work lapsed in late 2002. The Department advised that it still plans to develop and implement an audit framework.

3.201 An internal audit of the media rebates managed by the campaign contractor was undertaken in March 2003 on behalf of the Department of Premier and Cabinet, and a number of recommendations were made addressing late payment of invoices by agencies, monitoring the accuracy of rebate amounts returned, and policies and procedures on acceptable uses of rebates by government departments. We concur with the recommendations made by the internal auditor relating to management of rebates. An internal audit of the management of rebates by the non-campaign contractor should also be undertaken.

3.202 **Given the need for improvement in management and administration of the contracts identified in this review, and the omissions in reports provided by the contractor, it is important that:**

- **a framework for independent audits of contractor performance and compliance with contract requirements is established promptly; and**
- **attention is given to establishing performance monitoring practices that provide for monitoring of contractor performance against the performance measures specified in the contracts.**

RESPONSE provided by Secretary, Department of Premier and Cabinet

Thank you for providing a report of your recent audit into government advertising and specifically the Master Agency Media Services (MAMS) contract.

I note your assessment of the arrangements in place to manage the MAMS contract, including your overall conclusion that more effort is needed to ensure complete accountability and transparency in some aspects of the process.

You will note that a significant amount of effort has been put into initiating, revising and upgrading processes for the future management of the MAMS contract.

As some of these changes are quite detailed, I have furnished you with a comprehensive response to the audit report. Your report will add to the required improvements already identified by the Department of Premier and Cabinet.

Para. 3.167

The statement that media spending “rose before the November 2002 election” is misleading to the extent that it focuses on a single month’s activity and does not acknowledge that advertising activity can and does vary significantly – both up and down – from month-to-month. If one were to look at the 4-month period prior to the election, one would notice that total advertising expenditure fell substantially when compared with the equivalent period in the previous year. Taken over the full year, there were 7 months during 2002 when total monthly advertising expenditure was actually lower than for the equivalent month in the previous year.

It happens to be the case that in October 2002, expenditure did rise to \$8.467m compared with the monthly average of \$6m, but the reasons for this are entirely legitimate. A number of essentially one-off campaigns were launched simultaneously, and accounted for some \$1.6m of incremental expenditure. None of these could, in any way, be construed as an inappropriate use of taxpayers’ funds. They were:

- *Water authorities – Statewide water restriction advisories;*
- *Victorian Electoral Commission – enrolment campaign;*
- *Essential Services Commission – gas de-regulation advisories;*
- *Tennis Australia – Australian Open ticket sales campaign;*
- *Grand Prix Corporation – Formula One ticket sales campaign; and*
- *Quit Campaign.*

There was a further \$2.2m of ongoing expenditure in 6 program areas, which continues throughout the year and generally increases in the second half. These were:

- *Interstate Tourism Promotions;*
- *Problem Gambling;*
- *Galleries and Museum Marketing;*
- *Urban and Regional Land Corporation;*
- *TAC; and*
- *Worksafe.*

The remaining \$2.4m of campaign expenditure in October was spread between some 44 different government entities as diverse as VicRoads and the Zoo. The monthly total also incorporates \$2.2 million of non-campaign activity that remained steady in October, as it had for most of the previous 6 months.

RESPONSE provided by Secretary, Department of Premier and Cabinet - continued

Para. 3.168

The Department of Premier and Cabinet acknowledges some management shortfalls but does not accept responsibility for the failure of many departments and agencies to take proper care to pay accounts on time and, thereby, avoid loss of rebates. Accounts payable practices on the part of contract users are solely responsible for the forfeit of rebates, a factor not adequately explored by the Auditor-General in our view.

Efforts to rectify many of the other problems identified began in July 2002, and the Department of Premier and Cabinet took the important step of seeking an internal audit of processes by PricewaterhouseCoopers in late 2002 prior to the Auditor-General's involvement. The Department has worked openly and diligently with the Auditor-General's Office since January 2003 to identify and address management problems and has ensured access to all relevant documents, including the report of the PricewaterhouseCoopers audit.

Para. 3.169

The MAMS contract follows many of the conventions of equivalent private sector master media contracts. The lack of transparency in relation to fees has been the result of an insistence on confidentiality by the contractors, not the Department. This is a function of the highly competitive nature of the media industry.

Many of the contract terms relating to rebate accrual, and in particular late payment incentives, were carried over from the previous MAMS contract between the State and Leeds Media Pty Ltd, and these were examined by the Auditor-General in 1996.

Para. 3.170

It is true that loss of rebates causes the cost of advertising to be higher, but only for those departments and agencies with lax accounts payable practices. Even then, the extent of the total loss is \$1.29m over 2 years, spread across literally hundreds of entities. This is more than offset by the fact that the contract saved Victorian taxpayers \$24.7m in 2001 alone as acknowledged in section Para 3.173.

The value of rebates accrued and the inadvisability of allowing such a large sum to be held by an outside entity is a concern to the Department. In July 2002, the Department began a process of reviewing the relevant administrative arrangements and recommending a course of action to the Government.

Para. 3.171

The Department of Premier and Cabinet believes this chart to be of little value unless a breakdown of the components of expenditure by Department is incorporated. The Department is particularly concerned to ensure that readers do not assume that the Department, as contract manager makes all major media expenditure decisions. In fact, expenditure levels are the cumulative outcome of independent and autonomous purchasing transactions by as many as 1 500 authorised public officials during the course of a typical year.

Para. 3.172

The actual figure for total expenditure in October 2002, in nominal dollars, was \$8 467 168. It is this figure and not the inflation-adjusted amount of \$8.6m that is reconciled in the Department's response to paragraph 3.167.

The other period over which expenditure exceeded \$8m during the term of the current Government was September 2000 when media rates temporarily "spiked" as a result of the Olympic Games. The Games caused heavy demand for advertising media and resulted in limited supply and, therefore, higher short-term prices, which had the effect of elevating total expenditure levels even though activity levels were not appreciably higher.

RESPONSE provided by Secretary, Department of Premier and Cabinet - continued

Para. 3.173

Independent auditors have confirmed the savings data as part of annual contractor performance monitoring procedures.

Para. 3.178

The Department of Premier and Cabinet is in the process of obtaining advice to establish an appropriate and transparent means of disbursing the funds. When complete, this advice will be formally communicated to all relevant parties to ensure that a proper, long-term and consistent basis for handling rebate monies is established.

Para. 3.180

The Department recognises that the September directive used a term that has a variety of interpretations within government and that this has created some transitional issues. However, considerable effort has been put into ensuring a clear definition of all government entities in new "Guidelines for the Management of MAMS Rebate" which were adopted by the Government in late May 2003.

Para. 3.183

The continued payment of rebate to "non-core" agencies is the result of differing interpretations of the definition of eligible contract users over time and between those who have been responsible for the management of the contract. This is why Guidelines have been adopted.

The different accounting practices of the contractors is also a source of inefficiency in some respects, although the appointment of new contract management staff within the Department of Premier and Cabinet has resulted in a more active approach to the supervision of financial matters that should significantly improve the situation. The co-operation of the contractors has been more than satisfactory.

The amount of unclaimed rebate from 2001 is a genuine concern for the Department and was one of the factors that led to action in July 2002. For some time prior to then, the accrual of some unclaimed rebate had been regarded as desirable to offset bad debtors. However, departmental management recognised in July 2002 that the amount that had been allowed to accrue was excessive for this purpose and took action. The suspension of all rebate re-crediting was requested to allow a clear picture to emerge of the exact quantum of rebate to be managed in the future.

Para. 3.185

While net billing of media invoices might appear to be a desirable option, it creates the difficulty of how to remunerate the contractors given that a simple fee-for-service model would almost certainly result in small entities subsidising larger ones. This is because the amount of administrative effort required to plan and buy media does not vary in direct proportion to the total media spend.

Para. 3.186

The process of contacting individual agencies was discontinued in September 2002 when the contractors were notified of the change in rebate policy.

The Department has made only a handful of exemptions to the rebate policy and only in exceptional circumstances. These were made by email and a written record therefore exists. In cases where verbal authority was given, it was followed-up by email and each contractor also maintained a written record of all exemptions granted.

The Department recognises that, in the past, record-keeping practices by the then contract manager have been inadequate and has, with the appointment of new contract management staff, taken steps to address the concerns expressed here.

RESPONSE provided by Secretary, Department of Premier and Cabinet - continued

Para. 3.187

Weaknesses highlighted in the first 3 points are being acted on by the Department of Premier and Cabinet with some urgency.

On the final point, the Department of Premier and Cabinet is responsible for the management of the MAMS contract but is not responsible for the accounts payable policies of individual departments. Nor does it have the resources to actively manage the payment compliance of the hundreds of entities listed on the debtors report. In our view, the cost of doing so would negate any resulting benefit.

Nevertheless, the Department of Premier and Cabinet is pleased to report that:

- Debtor ageing is now the subject of a monthly report to the contract manager and the Department of Premier and Cabinet will now pursue amounts of more than \$10 000, which have not been paid as at 30 days from the date of invoicing. The number of transactions that fall into this category make this approach the optimal cost-benefit trade-off;
- Monthly financial reports by each contractor will, from the start of 2003-04, contain full details of rebate accruals, including ageing; and
- Management of the rebate accrual process will be included in the annual performance audit of contractors mandated in the contract documentation;
- Guidelines providing complete governance principles and processes for appropriate handling of rebates were adopted by the Government in late May 2003.

Paras 3.190 to 3.192

The Department of Premier and Cabinet is currently conducting a review of all entities using the contracts. It is expected that this review will result in a number of entities being excluded. The draft Guidelines referred to elsewhere in our response will also provide clearer guidance on eligibility to access the contract.

As many as 1 000 individual entities may have accessed the contract in 2002. To address the issue of control and verification of users, an on-line database of government entities developed by the Department of Treasury and Finance will now be shared by the Department of Premier and Cabinet. This will be the definitive reference point for recording all decisions about eligibility and other relevant contract-related data.

Para. 3.193

Our aims over the course of 2003-04 are to reduce the number of unincorporated bodies that currently access the contract, limit the level of expenditure that such bodies can make through the contract and place restrictions on the type of bodies that are granted access to the contract in future.

Paras 3.194 to 3.195

In December 2002, PricewaterhouseCoopers was engaged to audit the contract management processes and the firm recommended a number of relevant changes that are now in the process of implementation. These initiatives, which should address all of the concerns in these sections, are scheduled to be in place by 1 August 2003.

Contract Management Guidelines have also been drafted and will be issued when the Department of Premier and Cabinet is satisfied that all of the substantive issues arising from this audit and its own internal audit processes have been considered and appropriately addressed.

RESPONSE provided by Secretary, Department of Premier and Cabinet - continued

Para. 3.200

Work on this project lapsed in late 2002 due to the loss of both experienced contract management personnel within a short period. Work on the audit framework is well underway for the 2003 calendar year, recognising that the contract must be reviewed this year.

Para. 3.201

The recommended actions arising from the internal audit of the campaign contractor will be applied to both contractors. The Department does not believe that the overarching management issues vary significantly between the 2.

Part 4

Status of recommendations made in performance audit reports tabled during 2000-01

OUTLINE OF OUR APPROACH

4.1 My Office undertakes performance audits to independently evaluate whether Victorian public sector agencies are effectively meeting their objectives, and using resources economically and efficiently. The audits can cover all or part of the activities of an agency or a group of agencies. Audit topics are selected in accordance with my Annual Plan which is tabled in Parliament. Performance audits seek to improve resource management and add value to an agency through recommendations for enhancing operations and procedures.

4.2 Each performance audit report tabled in Parliament includes the views of audited agencies to matters raised and recommendations made. Shortly after tabling a report, my Office conducts an *agency survey* to determine the extent of the agency's initial agreement with the recommendations. On average, agencies have accepted 95 per cent of audit recommendations.

4.3 In late 2002 and early 2003, my Office wrote to a selection of the agencies referred to in performance audit reports tabled during 2000-01. These agencies were asked about progress in implementing the recommendations. After 2 years, we expected to see significant progress towards implementing the recommendations made in our reports. It is, however, too early to conduct a follow-up audit as most agencies are not sufficiently advanced in implementing our recommendations. We, therefore, undertook limited additional investigations to assess the accuracy of the information provided.

4.4 The performance audit reports tabled during 2000-01 are shown in Table 4A.

**TABLE 4A
PERFORMANCE AUDIT REPORTS
TABLED IN PARLIAMENT, 2000-01**

<i>Performance audit report title</i>	<i>Date tabled in Parliament</i>
<i>Grants to non-government organisations: Improving accountability</i>	Nov. 2000
<i>Services for people with an intellectual disability</i>	Nov. 2000
<i>Non-metropolitan urban water authorities: Enhancing performance and accountability</i>	Nov. 2000
<i>Teaching equipment in the Technical and Further Education sector</i>	May 2001
<i>Implementing Local Priority Policing in Victoria</i>	May 2001
<i>Managing Victoria's growing salinity problem</i>	June 2001
<i>Post-acute care planning</i>	June 2001

Note: All reports may be accessed on the Victorian Auditor-General's Office's website at www.audit.vic.gov.au

4.5 To help Parliament assess the status of the recommendations, this section summarises the focus of each audit, the significance of the subject area and the progress made to date.

GRANTS TO NON-GOVERNMENT ORGANISATIONS: IMPROVING ACCOUNTABILITY, November 2000

Significance of the area reviewed

4.6 Significant grant funding is provided by various State Government agencies and municipal councils to non-government organisations such as community groups, sporting organisations and cultural bodies. We estimated that in 1999-2000, funding in excess of \$600 million (excluding funding provided by the Department of Human Services under service agreements) was provided across more than 400 individual program areas.

4.7 We recognised that the provision of funds to non-government organisations brings with it risk that organisations delivering services are not directly accountable to government or taxpayers for their overall operations. It was, therefore, important that funding agencies had in place a sound approach to the management of these arrangements, and were open and accountable for their stewardship.

Main focus of the audit

4.8 The audit assessed whether recipients had applied grants:

- for the purposes for which they were given; and
- in an economic, efficient and effective manner.

4.9 Particular attention was paid to assessing whether agencies had a sound administration and accountability framework, and the provision of grants had contributed to the achievement of the broad objectives of the programs to which they related.

4.10 Approximately 22 per cent of our estimate of all budget sector and local government grant expenditure was subject to examination in the audit. Nine departments and municipal councils were examined.

Agency progress with audit recommendations

4.11 Recommendations in the report were directed at 2 key areas ;

- the accountability framework for the budget (now general government) and local government sectors, primarily the responsibility of the Department of Treasury and Finance (general government sector agencies) and the Department of Infrastructure (local government sector); and
- management of grant programs by departments and municipal councils.

Accountability framework

4.12 The audit recommended a review of guidelines issued by the Department of Treasury and Finance for use by the budget sector and, in the local government sector, improvements in disclosure requirements for grants in municipal councils' annual reports.

4.13 **Some progress has been made on these recommendations.**

4.14 The Department Treasury and Finance incorporated the broad accountability framework for the financial administration of grants in the draft revised Standing Directions of the Minister for Finance under the *Financial Management Act 1994*. The Minister for Finance is currently considering the content of the Directions and it is anticipated that these Directions will come into force from 1 July 2003. We are of the view that agencies would also benefit from more comprehensive guidance on best practice principles which would address specific recommendations in the 2000 audit.

4.15 The Department of Infrastructure responded by amending disclosure requirements for municipal councils in the Local Government Regulations 2001 to make such information available for public inspection. Since December 2002, a new Department for Victorian Communities has been assigned responsibility for local government.

RESPONSE provided by Secretary, Department of Treasury and Finance

A new draft Direction has been developed which encompasses discretionary financial benefits broader than just grants.

The draft Direction is in support of proposed amendments to the Audit Act 1994, which defined a financial benefit as:

“... any form of financial benefit, other than a financial benefit received by a person or body as consideration for goods or services provided by them under an agreement entered into on commercial term.”.

Thus the new draft Direction includes other financial benefits such as sponsorships and donations.

There has been a need for guidelines to provide guiding principles rather than prescriptive rules, in light of the current output framework. The Direction has been drafted with this in mind and has included a planning and evaluation aspect consistent with the output budgeting framework.

In developing the Direction, care was taken to clarify that the definition of a discretionary financial benefit does not include a financial benefit received by a person or body as consideration for goods or services provided by them under an agreement entered into on commercial terms or a transfer of funds to a government entity for the purpose of funding non-contestable output delivery. These types of transaction are already covered by other Directions under the Financial Management Act 1994.

The Direction and the Procedure are the mandatory components and are relatively high-level, with further detail being provided in the Guidelines, which are not mandatory. The Direction specifies the requirement for entities to maintain effective financial management controls to ensure that a transparent process delivers measurable, efficient and effective financial management and accountability outcomes sought by government policy. The procedure indicates that policies and procedures must be developed and implemented, where applicable and be consistent with the requirements of the Financial Management Act 1994 and the Directions.

RESPONSE provided by Secretary, Department of Treasury and Finance - continued

Two broad guidelines are provided to assist entities in applying the high-level requirements in terms of the types of policies and procedures that should be developed and elements to consider in the management and administration of these benefits. The high-level nature of the Direction and the Procedure is in keeping with the spirit and intent of the revised Directions, which are now based on financial management principles and are no longer prescriptive.

Management of grants programs

4.16 It was clear from our examination that, while significant improvements had occurred since our earlier 1994 report on *Grants and subsidies to non-government organisations*, the planning, monitoring and evaluation of grant programs needed further attention. It was to these areas that 20 recommendations were directed.

4.17 Information on the progress of these recommendations was sought from 2 of the 9 agencies examined in 2000.

4.18 **It is pleasing to report good progress has been made on most of the recommendations, with the exception of procedures for dealing with, and declarations of, conflict of interest.**

4.19 One respondent had not taken action to develop guidelines on what constitutes a conflict of interest and the action to be taken in such circumstances. A related recommendation, that relevant staff, board or council members be *required* to complete an annual return declaring any pecuniary interests, had been actioned by one respondent only to the extent that such declarations are *requested* on an annual basis. This supports the need for specific guidance (or legislation) on these matters.

RESPONSE provided by Chief Executive Officer, Maroondah City Council

As you would be aware, Maroondah City Council has been involved in a number of reviews undertaken by your Office in regard to this audit.

The report summarises the key elements of the audit with particular recommendations directed at key areas.

I am pleased to note that significant improvements have occurred within the industry since the 1994 report.

This Council prides itself on the successful management and administration of its Community Grants Program, which has been in operation for over 5 years, and is grateful of the opportunity for involvement in this performance review.

It is important that reviews such as the one conducted in 2000 are undertaken on a regular basis to ensure effective management and administration of systems and processes are sustained.

Once again, thank you on behalf of Council for the opportunity of involvement in the initial audit and recommendation process.

RESPONSE provided by General Manager, Adult Community and Further Education Board

Thank you for providing me with a copy of your report – Follow-up review of performance audit Grants to Non-Government Organisations.

Informal advice has been received that the respondent identified under the heading "Management of grants programs" is in fact the Adult, Community and Further Education (ACFE) Board. Can I take this opportunity to indicate that:

- On appointment all members of the ACFE Board are required to complete a Declaration of Private Interest & Probity form;*
 - Board members are provided with a statement of "duties of statutory officers" as part of a briefing kit. The ACFE Division, on behalf of the Board, will now review the statement of duties of a statutory officer with a view to providing more guidance on the area of conflict of interest; and*
 - Declaration of any conflict of interest is a standing item on the agenda for each meeting of the ACFE Board.*
-

SERVICES FOR PEOPLE WITH AN INTELLECTUAL DISABILITY, November 2000

Significance of the area reviewed

4.20 There are approximately 40 000 people in Victoria with an intellectual disability. Many require some degree of direct care or other support and assistance for most or all of their lives. While most support is provided by families with assistance from generic health and social services, the Department of Human Services funds a range of specialist services for people with both intellectual and other disabilities. At the time of the report, the Department's budget for disability services as a whole was \$668 million. In 2002-03, the budget was \$766 million. Approximately three-quarters of the budget relates to the provision of services for people with an intellectual disability.

4.21 Specialist services provided by the Department include case management services, accommodation support including shared supported accommodation in approximately 700 group houses across the State, community access programs, respite services and behaviour intervention support services. Services are delivered by either the Department or non-government organisations contracted by the Department. Funding to non-government organisations for direct service delivery represents approximately half of the annual budget for disability services.

4.22 While significant resources are allocated to the provision of services for people with disabilities, including those with an intellectual disability, there is a substantial level of unmet demand for services.

Main focus of the audit

4.23 The audit examined the Department of Human Services' management of services for people with an intellectual disability, and addressed resource allocation processes in terms of:

- equity and consistency with legislative requirements;
- safeguards in place to protect clients;
- the quality of services;
- adequacy of monitoring arrangements; and
- accountability mechanisms.

4.24 The audit focused on case management, shared supported accommodation and community access services. These services impact on the lives of people with an intellectual disability receiving services from the Department and represent approximately 78 per cent of the Department's 1999-2000 expenditure on disability services.

4.25 Our report concluded that, although most of the key elements of an effective service system were in place, improvement was required in the service framework and its implementation. Departmental emphasis on access to appropriate community-based care resulted in services being focused on satisfying essential minimum standards of care and accountability. We recommended higher priority for, and monitoring of, skills development, community integration and advocacy for clients.

Agency progress with audit recommendations

4.26 Recommendations in the 2000 report were directed at 3 key areas:

- planning for individuals and protecting their rights;
- providing resources for services; and
- service quality, monitoring and public accountability.

Planning for individuals and protecting their rights

4.27 Recommendations focused on reduction of time to determine eligibility for service access, improvements in case management, planning and quality, client safety and legislative review.

Reduction of time to determine eligibility

4.28 We recommended that the Department reduce the length of time taken to determine eligibility and measure performance in completing eligibility assessments.

4.29 The Department acknowledged that the length of time taken to determine eligibility needed to be reduced.

Departmental actions

4.30 The Department has allocated non-recurrent funds in 2000-01 and 2001-02, and recurrent funds in the 2002-03 budget, to enhance regional capacity and to address the backlog of eligibility assessments. In addition, a revised Assessment for Eligibility Report pro forma and operational guidelines have streamlined eligibility assessment processes. Since April 2002, the percentage of eligibility assessments undertaken within 30 days has remained close to or above 90 per cent, compared with 32 per cent at the time of the audit.

Case management, planning and quality improvement

4.31 We recommended amendment to the case management model used by the Department to better match the needs of people with an intellectual disability, including those at risk of regularly returning to case management because of circumstances or personal characteristics.

4.32 We also recommended:

- the review of legislatively prescribed assessment and planning processes;
- adoption of a risk-based approach to the frequency and extensiveness of general service plan reviews to give greatest attention to those that may require crisis intervention later;
- promotion of client and family members' participation in the development and review of individual program plans; and
- establishment of quality improvement strategies to support providers in integrating individual program plans into the service delivery process.

Departmental actions

4.33 In January 2002, revised instructions on planning for services were incorporated into the Department's Disability Client Services Manual to emphasise the importance of reviews at major life transition points.

4.34 A revised case management framework has been developed which identifies key transition points when people are likely to require additional support. The framework, which is anticipated to be made available to departmental staff by June 2003, will:

- emphasise the importance of monitoring the implementation of the individual program plan and timely review to ensure that crises are prevented and changed needs are addressed early;
- recognise and value the experience of people with a disability, their parents, families and carers as partners in developing and implementing their personal plans; and
- form a basis for quality improvement to case management services, including improved training and supervision, revision to information systems, and development of outcome measures and review systems.

4.35 Other departmental responses include the development of a resource kit, a practice quality audit tool and an individual support team to address a broad range of strategies for planning for individuals.

Client safety

4.36 It was recommended that, in consultation with service providers, the Department strengthen procedures for:

- reporting and monitoring incidents; and
- the identification and response to indicators of possible abuse and neglect.

Departmental actions

4.37 While the Department considered that it had effective policies and procedures to respond to instances of abuse and neglect, it informed us of the following actions:

- implementation of a revised Departmental Instruction on Incident Reporting in December 2002 to enhance the response to incidents across the Department;
- establishment of an interim database system for:
 - managing and monitoring the response to individual incident reports and complaints as well as notifications from the National Abuse and Neglect Hotline; and
 - providing integrated reporting and feedback systems for all adverse events brought to the attention of Disability Services;
- development of a framework for data analysis; and
- implementation of an independent review of services.

Legislative review considerations

4.38 A review of legislation was recommended to address:

- statutory provisions relating to use of restraint and seclusion;
- the monitoring role of the Intellectual Disability Review Panel;
- the scope of reviewable decisions; and
- support mechanisms for the protective framework, particularly to enable people with an intellectual disability to exercise their rights to participate in decisions, make a complaint or have decisions reviewed if dissatisfied.

Departmental actions

4.39 The Department undertook an extensive consultation process with the Victorian community as part of the development of the Victorian State Disability Plan. The Plan was launched on 3 September 2002 and provides the framework which will underpin the review of the legislation. The Plan states that this legislative review will provide the basis for an integrated approach to disability in Victoria, and will also support a reorientation of the disability support system. The Victorian State Disability Plan Implementation Plan 2002-2005 also states that the discussion paper on a review of the *Intellectually Disabled Persons' Services Act 1986* and the *Disability Services Act 1991* will include consideration of the requirement to support a complaints investigation and resolution system.

4.40 The Intellectual Disability Review (IDR) Panel aims to protect the rights of people with an intellectual disability. In response to the 2000 audit report, the President of the Panel stated that fundamental issues relating to the empowerment and protection of service users cannot occur without an urgent overhaul of the existing legislation.

4.41 Legislative review was reaffirmed as a policy commitment of the Government at the recent State election. A discussion paper is due for release by the Department in the first half of 2003.

4.42 The Victorian State Disability Plan has a section in Promoting and Protecting People's rights. The Plan foreshadows a number of measures:

- strengthening advocacy (additional funding has been allocated from 2002-03);
- developing an independent complaints and dispute resolution mechanism; and
- developing an independent, open and transparent means of authorising, reviewing and regulating practices that restrict people's rights.

4.43 A referral was made to the Victorian Law Reform Commission in December 2001 requesting the Commission to:

- review existing provisions for the compulsory care and treatment of persons with an intellectual disability who are at risk to themselves and the community; and
- make recommendations on the development of an appropriate legislative framework for that compulsory treatment and care.

4.44 The Commission published a discussion paper in July 2002, with comments due by September 2002. The recommendations from the Commission's report will inform a broader review of the disability legislation.

4.45 Our discussions with the President of the IDR Panel in March 2003 indicated that the slow progress of the legislative review, including the release of the Department's discussion paper, has hampered the implementation of service quality improvements.

Providing resources for services

4.46 We reported that the regional equity formula provided a stable and transparent mechanism for long-term adjustment to funding allocations, but that the resulting changes were moving too slowly towards an equitable distribution of funding. It was recommended that the Department allocate higher proportions of new initiatives funding to regions where budgets are substantially below equity share.

4.47 Specific recommendations were also made concerning shared supported accommodation and day programs. These were to:

- introduce reliability testing in day programs in respect of inputs for the support needs assessment process;
- clarify definitions used in the assessment process to remove the potential for misinterpretation; and
- introduce more explicit investigation and treatment of developmental needs in the assessment and funding process for day programs.

4.48 These recommendations built upon audit support for the use of tools to provide a more consistent approach to the assessment of client needs and linking that assessment to funding.

Departmental actions

4.49 The Department has responded that many services are provided to clients over a significant period of time which prevents rapid adjustments to funding allocations. Nevertheless, an accelerated equity formula was adopted in March 2001 and is now being applied to shared supported accommodation and day programs. Those regions with more than 20 per cent above equity share receive half the growth funds for these services, with the other half of the funds distributed to those regions with more than 10 per cent below equity share.

4.50 The Support Needs Assessment (SNA) has been used by the Department since 1992. The report supported departmental initiatives to refine the tool, but also drew attention to:

- the lack of confidence among practitioners in the tool's ability to represent both support and development needs; and
- Victorian legislation that places particular emphasis on catering for a client's development needs, not just their needs for basic care. This was not an aspect explicitly addressed in the SNA, nor in other assessment tools examined by audit.

4.51 The Department acknowledged in 2000 that further development of the SNA and some refinement of its implementation were needed.

4.52 In response to the concerns of practitioners, the Department commenced a project to confirm the validity and reliability of the Support Needs Assessment version 4 (SNAv4). The project development stage included the drafting of the technical requirements of the brief in consultation with a project reference group comprising key stakeholders and an independent academic from NSW.

4.53 The Department engaged Royal Melbourne Institute of Technology to undertake the work. This has involved the recruitment of a sample of 120 people with intellectual, physical, sensory and multiple disabilities across both day support and accommodation services. As a result of delays experienced in recruiting participants, the RMIT project is now due to be completed by mid-2003.

Service quality, monitoring and public accountability

Service quality

4.54 We recommended the establishment of common minimum competency standards for staff in both government and non-government services.

Departmental actions

4.55 A Learning and Development Strategy is currently being implemented to provide a minimum competency level for staff in the government sector and provide directions for the non-government work force development. The Department advises that 1 358 competency-based traineeships have commenced – a 580 per cent increase over the last 12 months.

Service agreements

4.56 We recommended the following actions:

- strengthen the monitoring of compliance with service agreements with a more formally reported service review process, using a risk-based program, supported by audit tools and a wider range of monitoring information;
- incorporate the results of service quality self-assessments by individual providers, independent verification and monitoring, and more direct measures of output and performance into the service agreement review process;
- develop a service agreement framework between regions and government service outlets, similar to that for non-government agencies; and
- improve measures of service quality reported to government, including the use of quality self-assessment results.

Departmental actions

4.57 The Department is undertaking a Partnership Flagship Project to strengthen skills and procedures for monitoring service agreements, corporate governance, financial management performance and quality of service delivery across the whole Department, and an agency performance monitoring and improvement framework to incorporate the above recommendations.

4.58 The disability self-assessment system is being realigned to allow agencies and regional contract managers to assess and report on service quality. Agencies will report on intended quality improvements through quality plans. This will be incorporated into the Partnership Flagship Project exercise and 3-year service agreements.

Monitoring of service performance

4.59 We recommended:

- independent verification of service quality self-assessments prepared by service providers to give stakeholders confidence in the validity and consistency of results; and
- evaluation of what form of independent scrutiny of quality in government services and non-government service providers would be most suitable to the needs of Victoria.

Departmental actions

4.60 The Department has commenced a program of quality monitoring and review, including:

- The development of a monitoring model for both government and non-government service providers; and
- An independent review process which commenced in 2001-02 using external contracted organisations. The Department advises it is implementing 56 higher-level comprehensive independent reviews of both government and non-government services in addition to the regular monitoring activities of 360 non-government providers.

Public accountability

4.61 The main published information sources through which the Department is accountable for its activities in relation to services for people with an intellectual disability are the Victorian State Disability Plan, its annual report to Parliament, the State Government's annual *Budget Papers* and, more recently, the internet website.

4.62 State Plans for Intellectual Disability Services have been published every 3 years since the Act was passed in 1986. At the time of the audit report, there had been no published reviews to establish whether the objectives included in previous State Plans have been achieved.

4.63 Audit recommended that the Department:

- ensure there is no inconsistency between the current responsibility to plan for services to all disability groups and the legislative requirement to produce a 3-year plan for intellectual disability services alone; and
- develop a capability to identify and report on all services provided to individual clients and to groups of clients with particular disabilities, as an aid to planning and accountability.

4.64 We also recommended that the Department improve its public accountability. In particular, the Department's annual report should outline:

- explicit links between performance targets and strategic plans;
- explicit links between outputs for major services and costs or performance measures over time; and
- breakdowns of usage or demand for services by clients with an intellectual disability, or other disability groups.

Departmental actions

4.65 The State Disability Plan was launched on 3 September 2002 and meets the legislative requirements to produce a 3-year plan for services for people with intellectual disability. The Department considers that the Plan, the formation of the Victorian Disability Advisory Council and State Budget initiatives offer opportunities to advance this recommendation.

4.66 The Department considers that its annual report meets the accountability requirements of the *Financial Management Act 1994*, and refers to a separate report, *Victorian Services for People with Disability*, which contains a breakdown of service usage by disability groups.

Summary of agency progress

4.67 The Department has made progress in:

- reducing the time taken to determine eligibility for service access;
- establishing common minimum competency standards for government and non-government support staff;
- revising the case management framework;
- addressing a number of planning and client safety issues;
- adopting an accelerated equity funding formula; and
- enhancing quality monitoring and improvement processes.

4.68 Partly reflecting the Department's focus on broad consultations, progress has been slow in:

- achieving equity in funding for regional services;
- refining the Support Needs Assessment tool; and
- completing reviews of the *Intellectually Disabled Persons' Services Act 1986* and the *Disability Services Act 1991*. These reviews have the potential to provide for an integrated approach to disability in Victoria.

RESPONSE provided by the Secretary, Department of Human Services

The Department of Human Services acknowledges the work done by the Auditor-General in this review and is pleased that the report acknowledges the progress the Department has made in a number of areas.

I also note that the summary of your report comments that "Partly reflecting the Department's focus on broad consultations, progress has been slow in" relation to 3 areas.

I wish to provide comments on each of the 3 areas identified.

RESPONSE provided by the Secretary, Department of Human Services - continued

1) Achieving equity in funding for regional services;

The Department moved quickly in responding to the recommendations of your report by introducing an accelerated equity formula in March 2001. Your November 2000 report recommended, "The Department of Human Services should allocate higher proportions of new initiatives funding to regions whose budgets are substantially below equity share".

This action responds to the recommendation made in the performance audit and you have also noted in your summary that the Department "has made progress in ... adopting an accelerated equity formula".

Given that the recommendation in the performance audit was about allocating higher proportions of new funding to some regions, your final comment that the Department has been slow in achieving equity is not a reasonable conclusion in the context of the focus of the recommendation in the performance audit.

2) Refining the Support Needs Assessment tool.

The Department has undertaken an exhaustive process to ensure the validity and reliability of the SNA tool will be accepted by practitioners and people with disabilities and their families in the future.

The time taken in finalising this issue is not as stated in your summary due to the Department's focus on broad consultations, but rather to ensure that the SNA tool is valid and reliable. Some delays were experienced by RMIT which are undertaking the validation of the SNA tool in recruiting a sample of people with a disability, which has delayed the confirmation of the SNA tool until June 2003. I note that the recommendation in the performance audit was in part to introduce reliability testing to the SNA tool and, therefore, consider that your summary conclusion is not a reasonable reflection of the action taken by the Department.

3) Completing reviews of the Intellectually Disabled Persons' Services Act 1986 and the Disability Services Act 1991. These reviews have the potential to provide for an integrated approach to disability in Victoria.

The Victorian State Disability Plan, which was released on 3 September 2002, is the policy document that underpins the review of legislation. A discussion paper on the legislative review is due to be released in June 2003. The consideration of the legislative review was scheduled to be finalised following the release of the Victorian State Disability Plan.

In addition, the broad issues relating to compulsory care and treatment were referred to the Law Reform Commission in December 2001 for consideration. In this context it is not reasonable to conclude that progress has been slow, particularly given that the Department is undertaking a comprehensive review of the legislation following release of the State Disability Plan.

NON-METROPOLITAN URBAN WATER
AUTHORITIES: ENHANCING PERFORMANCE AND
ACCOUNTABILITY, November 2000

Significance of the area reviewed

4.69 Water and wastewater services are essential services that need to be managed by water authorities to achieve quality outcomes in terms of public health, economic development and protection of the environment in a cost-effective manner.

Main focus of the audit

4.70 The audit sought to examine and enhance performance and accountability among regional water authorities (formally known as non-metropolitan regional water authorities) which provide services to around 1.5 million Victorians.

4.71 We examined the practices employed by Victoria's 15 regional water authorities in customer service, water management, environmental management, commercial practices and corporate governance, primarily to identify good practices.

Agency progress with audit recommendations

4.72 Key recommendations were made in the report on:

- Pricing and water quality, both of which are being addressed through the Water Legislation (Essential Services Commission and Other Amendments) Bill currently before Parliament. The Bill provides for the water industry to be regulated under the Essential Services Commission.

Unlike other essential services regulated by the Essential Services Commission, an explicit pricing framework for the Victorian water industry does not currently exist. There are a number of key pricing, service quality and other related matters where an overarching long-term regulatory framework under which the Commission can conduct its regulatory role is desirable. The Bill introduces a number of initiatives to underpin this process;

- The appropriateness, accuracy and completeness of performance indicators. These indicators are being audited by my Office for the 2001-02 financial year. We will assess whether the performance information has been correctly calculated and reported in accordance with the relevant Ministerial directive, and whether the systems and procedures established by authorities are appropriate to ensure the accuracy and completeness of information reported; and
- Drivers of good performance and observed good practices, which were reported for the performance areas listed above to serve as a practical guide for regional water authorities. Given the advisory nature of this work, we have not requested information from authorities on progress in the adoption of these practices.

RESPONSE provided by Secretary, Department of Sustainability and Environment

I note your comments concerning agency progress with the audit recommendations. I offer the following response regarding comments made in respect of the Water Legislation (Essential Services Commission and Other Amendments) Bill. In particular, I want to clarify that the Bill does not provide a regulatory role for the Essential Services Commission in respect of water quality.

The Water Legislation (Essential Services Commission and Other Amendments) Bill currently before Parliament provides for the Essential Services Commission to assume responsibility for the regulation of the water industry in matters of price and service quality. Drinking water quality is a technical regulatory function that will be carried out by a specialist regulator established for this purpose. The Safe Drinking Water Quality Bill, also currently before Parliament, provides for the establishment of an Office of Drinking Water Quality Regulator to oversee implementation of the proposed drinking water quality framework and for the setting of drinking water quality standards.

In setting prices, the Essential Services Commission is required to have regard to the obligations of water businesses, including drinking water quality obligations.

The Water Legislation (Essential Services Commission and Other Amendments) Bill introduces the framework to enable the Essential Services Commission to be the economic regulator of the water industry. The more detailed economic regulation arrangements are being progressed this year as part of a broad review of the water industry being undertaken by the Water Legislation (Essential Services Commission and Other Amendments) Bill.

TEACHING EQUIPMENT IN THE TECHNICAL AND FURTHER EDUCATION SECTOR, May 2001

Significance of the area reviewed

4.73 Vocational education and training is aimed at developing skills needed to work within a range of industries. National policy, goals and objectives are developed at a Commonwealth level, whereas the State has prime responsibility for training delivery. Technical and Further Education (TAFE) institutes deliver 80 per cent of training through certificate, diploma, apprenticeship and traineeship courses, with the remainder delivered by other registered training organisations.

4.74 Effective training is directly linked to achieving the State Government's policy objective of developing a strong skills base within Victoria. In terms of setting training priorities, both the Commonwealth and State Governments have indicated that particular attention needs to be given to courses in information and communications technology.

4.75 The delivery of high quality teaching outcomes is dependent, to a large extent, on the skills of the teaching staff delivering the courses. However, the availability of teaching equipment that is aligned to industry standards is also a key element of ensuring students are well prepared for the workplace. At 31 December 2002, the plant and equipment of TAFE institutes (at cost) totalled \$282 million.

Main focus of the audit

4.76 Our 2001 audit assessed whether the funding model and practices adopted in managing equipment used in delivering vocational education and training were conducive to achieving desired short-term and long-term outcomes. It also assessed whether the equipment currently used to deliver information and communications technology courses, in particular, was appropriate in terms of meeting the expectations of students, graduates and teachers.

4.77 Recommendations in the report were directed at:

- funding;
- asset management practices; and
- meeting the needs of stakeholders.

4.78 Information on the progress of these recommendations was sought from the Department of Education and Training as well as from one of the 3 institutes examined in 2001.

Agency progress with audit recommendations

Funding

4.79 In its 2001 response to the audit report, the Department advised that the recommendation to include the full cost of training delivery (including the cost of equipment replacement) would require a substantial change to the present funding model. The Office of Training and Tertiary Education is currently investigating ways of improving costing of vocational education and training (VET) delivery. Equipment replacement *could* be included in that investigation. Our view is that equipment replacement *should* be included in that investigation and look forward to the outcome of the review.

4.80 The Department has reviewed allocation of equipment funds for 2003 and negotiated for greater flexibility with the Commonwealth equipment grant.

Asset management practices

4.81 We recommended that funding to institutes for course delivery should be conditional on the provision of equipment of a type suitable to the delivery of courses and the upgrading or replacement of equipment to maintain its relevance to the curriculum.

4.82 The Australian Quality Training Framework (a set of nationally agreed arrangements designed to ensure the quality of vocational education and training) was approved in June 2001. All institutes are required to comply with the requirements of the Framework. Audits are conducted to verify the integrity of training delivery and that training providers have equipment appropriate to the course being delivered. Our view is that there is a reasonable framework in place for monitoring fitness for purpose of equipment.

Meeting the needs of stakeholders

4.83 The May 2001 audit report recommended that greater attention should be given at a central and institute level to periodically monitoring the adequacy of the equipment provided to support all vocational education and training courses, from an employer, student and teacher perspective. In response to the audit, in 2001 the Department undertook to expand its use of surveys of employers, students and teachers to better gauge the views of stakeholders as to the adequacy of training equipment in the areas recommended. More recently, the Department advised that surveys of employers and students are undertaken annually by TAFE institutes. The Department also undertakes stakeholder research in response to specific policy initiatives. However, little progress appears to have been made in conducting surveys of TAFE teachers.

RESPONSE provided by Secretary, Department of Education and Training

Funding

The 2003-04 State Budget allocated \$12 million to update TAFE teaching equipment. This will include the modernisation of training equipment across priority industry areas and will result in students training and learning on state-of-the-art equipment which will be more attractive to employers and more valuable in the workplace.

RESPONSE provided by Secretary, Department of Education and Training - continued

Asset management practices

The additional 2003-04 State Budget allocation of \$12 million for teaching equipment will greatly enhance the asset management practices of TAFE institutes in allowing the institutes to plan for replacement of teaching equipment in line with industry trends.

Meeting the needs of stakeholders

The Department disagrees that little progress on understanding the needs of stakeholders has been made. Client satisfaction surveys are conducted by TAFE institutes annually. This is a requirement in their Performance Agreement with the Victorian Learning and Employment Skills Commission (VLESC) and of the National Centre for Vocational Education Research Ltd in its role as manager of the Vocational Education and Training sector's statistical collection.

During 2002 consultation was undertaken with a range of Vocational Education and Training stakeholders' as part of the strategic planning process within the Office of Training and Tertiary Education of the Department of Education and Training. A review was also conducted by the VLESC on industry advisory arrangements for the Vocational Education and Training sector in Victoria. These have resulted in a reorganisation of the Office designed to improve its capacity to meet stakeholder needs.

Finally, preparation of the Ministerial Statement on Skills and Knowledge for the Innovation economy included intensive research involving stakeholders and client groups.

IMPLEMENTING LOCAL PRIORITY POLICING IN VICTORIA, May 2001

Significance of the area reviewed

4.84 Over the past 20 years, Victoria Police has introduced a series of programs, such as Neighbourhood Watch and Crime Stoppers, which have sought community input to crime prevention and public safety. Through such programs, Victoria Police has aimed to improve its effectiveness in preventing and detecting crime within Victoria.

4.85 Following consideration of policing models, known as “community policing”, applied in several overseas countries and its experience with past programs, in September 1998 Victoria Police embarked on a major initiative known as Local Priority Policing (LPP). This initiative is designed to employ a whole-of-government approach to addressing community safety utilising input from local service providers and the community to identify policing priorities and establish strategies to address those priorities. The fundamental principle of LPP is that police services are tailored to meet local community needs and expectations. Local Safety Committees are a key strategy for implementing this principle.

Main focus of the audit

4.86 LPP is being implemented in 3 phases. Phase 1 (Statewide Management Model) and Phase 2 (Service Delivery Model) are complete and have introduced a regional model of policing, and reorganised specialist police services at the local level. Phase 3 (Community Consultation Model) which was not fully implemented at the time of the 2001 audit, aims to establish strategic partnerships with allied service providers. The 2001 audit of LPP was undertaken prior to the completion of Phase 3, so we could not comment on its success or otherwise. However, the audit provided timely advice to Victoria Police to assist with LPP’s implementation.

4.87 Our 2001 audit assessed whether Victoria Police effectively managed the implementation of Phases 1 and 2 of LPP. It also examined systems, strategies and processes critical to support the effective implementation of LPP, including human resource management strategies, marketing and communications strategies, planning processes, performance measurement, and risk and project management.

4.88 Recommendations in the report were directed at:

- establishment of a community consultation model;
- activities supporting Local Priority Policing; and
- strategic management.

Agency progress on recommendations

4.89 Victoria Police advised that significant progress has been achieved towards implementing the recommendations made in the audit report, with a considerable proportion of recommendations being absorbed into common business practices. Progress is continually monitored by the Executive Command LPP Steering Committee.

4.90 Victoria Police developed, and disseminated Statewide in April 2002, the Local Safety Committee Resource Kit. The Kit contains Victoria Police policy and guidelines (including reporting requirements) on the establishment and maintenance of Local Safety Committees, as well as a series of templates that can be customised to suit local needs.

4.91 LPP is designed to ensure that police services are tailored to meet local community needs and expectations, with Local Safety Committees as the strategic vehicle for implementing this principle. Under Victoria Police's Statewide Management Model, the 17 Statewide Police Districts were rationalised into 5 Regions, each managed by a Commander. Regions and associated geographic Divisions and Districts are aligned with local government boundaries to facilitate closer links and better integration with community groupings.

4.92 Currently, a network of 64 Local Safety Committees operates across the State. Each Local Safety Committee is required to develop an annual action plan which specifies the safety outcome and relevant objectives to be achieved. District Police Inspectors are responsible for nominating the strategies Victoria Police will contribute towards achieving the plan's objectives. District Action Plans are derived as far as possible from community consultation arrangements within the district, including the Local Safety Committee. Each District Inspector is required to submit 2 reports each year detailing the progress of the Community Safety Plan. Victoria Police recently advised that progress reports due in December 2002 were received from District Inspectors which identified opportunities for improvement.

4.93 Further, the major performance evaluation mechanism Victoria Police has adopted in determining the effectiveness of LPP is the use of performance indicators (such as the suite of indicators that incorporates information on community perceptions of safety in the *Report on Government Services* produced by the Productivity Commission). It is important that performance indicators are supported by a rigorous evaluation framework that:

- informs whether the overall aim of LPP is being met;
- provides medium and long-term direction for LPP;
- determines whether policies and procedures that underpins LPP are implemented; and
- provides a basis for refinement of policy development.

4.94 In order to gain community perspective, recent discussions were undertaken by audit with 4 Local Safety Committee nominees (including community and local government council representatives of both metropolitan and rural Local Safety Committees). These nominees both confirmed that LPP provides an invaluable community partnership and conduit for local issues through:

- providing a forum for residents or community groups to refer community safety issues for consideration;
- promoting co-ordinated action by local agencies and organisations that can influence community safety; and
- developing strategies to address identified community safety problems.

4.95 These representatives also indicated that the effectiveness of the LPP initiative depends upon the level of commitment from the respective District Inspectors. Further, positive value could be gained by engaging the community more thoroughly.

4.96 A small number of recommendations are still outstanding, including finalising Memoranda of Understanding with key agencies to encourage collaborative relationships leading to enhanced community safety. At the time of the 2001 audit, Victoria Police was still developing the Memoranda of Understanding. These need to be finalised. However, in the short-term, the local service agreements (in the form of District Action Plans) are considered satisfactory.

RESPONSE provided by the Chief Commissioner of Police

I appreciate the opportunity to reply and the following comments are in response to the findings contained within your review.

It is considered that acknowledgment should be included of the fact that Phase 3 (Community Consultation Model) of Local Priority Policing (LPP) has been fully implemented and was recently reviewed by the Corporate Management Review Division. Recommendations from this review are currently being progressed within Victoria Police.

Strategic planning processes with specific focus on Community Policing and Partnership Policing will continue to enhance organisational and individual commitment to LPP. Community engagement at local level is a key focus in all of our planning processes. This will lead to further positive outcomes. To this end, community safety action plans are now key component parts and appended to District Inspectors' action plans. This will facilitate greater accountability in linking up with partners at the local level.

Victoria Police has been working towards the development of Memoranda of Understanding. With the recent creation of the Department of Victorian Communities, it is now clear that better progress will be achieved if we work through the development of this process in collaboration with other government departments. This will ensure future development of memoranda of understanding is cohesive with the strategic direction of all government departments and, that of the Growing Victoria Together Strategy. We believe this is the preferable direction to take. It is in this context that I will establish consultation with my fellow Departmental Secretaries. It is important to note that this process will not inhibit further embedding of the LPP philosophies, as local level arrangements are currently proving suitable.

RESPONSE provided by the Chief Commissioner of Police - continued

In a similar manner, Victoria Police has been working collaboratively with Crime Prevention Victoria in community consultation processes to determine the effectiveness of local crime prevention infrastructure. Crime Prevention Victoria is to make recommendations regarding involvement of local government in crime and safety planning process. A collaborative approach in the future development of mechanisms to support LPP will ensure incorporation of the changing landscape.

Finally, I would like to convey my appreciation to the members of your audit team for their efforts on this occasion.

MANAGING VICTORIA'S GROWING SALINITY PROBLEM, June 2001

Significance of the area reviewed

4.97 The salination of land and the associated degradation of water resources are the cumulative result of over 100 years of land use practices where native vegetation was cleared to create open country for the establishment of broadacre grazing and cropping. Land salination usually occurs in response to the rise of saline moisture from a shallow watertable and comes in 2 forms:

- irrigation salinity – irrigated agricultural land affected by salting, either through natural or induced causes, or a combination of the 2; and.
- dryland salinity – all non-irrigated agricultural land affected by salting, either through natural or induced causes, or a combination of the 2.

4.98 Some 460 000 hectares of irrigated land (74 per cent of the Victoria's total irrigated area) are currently at risk of salinity, while 665 000 hectares (5.5 per cent of Victoria's total dryland agricultural area) are at risk of dryland salinity.

4.99 Both forms of salinity arise through rising groundwater levels, which leach salts out of the soil and concentrate them in surface water systems. Official predictions are that there will be a five-fold increase in the area affected by salt by 2050. Official estimates put the direct cost of salinity in Victoria currently at \$50 million per year. Independent reviews predict that the annual cost of salinity due to lost agricultural production will increase to between \$77 million and \$166 million by 2050. Salinity also impacts on rural and regional infrastructure (such as roads) and the environment (such as plants, animals, rivers, soils, aquifers and wetlands).

Main focus of the audit

4.100 The objectives of our 2001 audit were to determine whether:

- the broad thrust of the recommendations reported in our 1993 performance audit of salinity had been adequately addressed; and
- the Department of Natural Resources and Environment (now the Department of Sustainability and Environment), Catchment Management Authorities (CMAs) and the community are adequately prepared to implement the State's 2000 Salinity Management Framework.

4.101 The extent of the salinity problem and trends in salinity levels had been quantified in a number of reports by government bodies and were not duplicated in the audit. The audit included undertaking inquiries with the (former) Department of Natural Resources and Environment, CMAs and various other stakeholder groups.

4.102 Recommendations in the report were directed at revegetation targets, cost-benefit analyses, structural re-adjustment and land retirement, knowledge base and research capacity, accountability mechanisms and strategic management issues.

Agency progress with audit recommendations

4.103 The Department is undertaking a range of initiatives which address the recommendations in the 2001 report and has signified its commitment to review Salinity Management Plans on a 5-year cycle. Among the initiatives are:

- cost-benefit analysis - a range of tools (such as the Central Integrated Catchment Salinity Risk and Prioritisation) to improve decision-making is under development;
- structural adjustment and land retirement - policy development and incentive systems for private forestry and the development of policy tools such as Land Stewardship to affect the wider socio-economic and environmental impacts of land use change and land retirement are under consideration;
- knowledge base and research capacity - work is in progress (e.g. development of second generation salinity plans based around asset values) to address the issues raised by the 2001 audit;
- institutional arrangements – CMAs have reviewed their governance arrangements and a draft operating agreement is being prepared between the CMAs and the Department. Second generation salinity plans are in preparation to better enable CMAs to respond to local salinity needs;
- community participation - further development of the Landcare approach and investigation of alternative approaches are underway;
- cost sharing arrangements - further actions include negotiations with third party providers of on-ground- works.

4.104 The issue of appropriate and effective performance indicators for natural resource management has been a subject for consideration by the (former) Department of Natural Resources and Environment. Relevant and appropriate performance information (based on tangible rather than aspirational measures) and good practice program management guidelines (strategy development though monitoring, reporting and re-design) now need to be developed by the Department of Sustainability and Environment to enable better monitoring and reporting of progress and conduct of future evaluations.

RESPONSE provided by Secretary, Department of Sustainability and Environment

The information contained in the review on the significance of salinity highlights the reason for it being a major focus of programs of this Department and of investment by Government and other organisations and individuals.

I note the comments regarding the agency progress with audit recommendations, and the examples you have cited of initiatives. While acknowledging that these are intended only as examples of initiatives being undertaken to address the recommendations in the 2001 report, I would make a couple of brief comments.

RESPONSE provided by Secretary, Department of Sustainability and Environment - continued

The initiative cited as an example of the use of cost-benefit analysis is a broader evaluation approach being trialled for use in assessing catchment management projects. As such it includes consideration of social and environmental, as well as financial, costs and benefits and the key risks involved in projects.

In relation to performance indicators for monitoring progress in natural resource management, the Department of Sustainability and Environment now has this as a major responsibility of one of its senior Executives. This initiative, together with the establishment of the Commissioner for Environmental Sustainability, are seen as key aspects of delivering outcomes in this area.

POST-ACUTE CARE PLANNING, June 2001
(Tabled in the
Report on Ministerial Portfolios, June 2001)

Significance of the area reviewed

4.105 The Victorian health system continues to experience increasing pressures, with growing demand for services but finite resources. These demands are due to a range of factors, including population ageing and growth, changes in clinical practice and treatment patterns, advances offered by new technologies, the introduction of new drug treatments and increased consumer expectations. Response to these pressures is requiring a rebalancing of the health system, with attention to priorities for resource allocation. The 3 categories of acute care provided within the Victorian health system comprise:

- Acute care - which is generally provided to admitted and non-admitted patients in a hospital or institutional setting, but may be provided in the home under the care of hospital staff;
- Post-acute care - which is defined as “*a time limited short term intervention designed to assist patients to recuperate following an acute, sub-acute admission or emergency department presentation and to facilitate their independence or transition to continuing care where required*”. In some cases, advances in medical technology and treatments mean that, compared with the past, the inpatient experience is less intrusive and care requirements are less after discharge from hospital; and
- Sub-acute care - which has both an inpatient and community focus on rehabilitation, restorative care and community support. Because it occurs after the discharge of patients from the acute setting, sub-acute care was regarded as “post-acute” for the purposes of this audit.

4.106 Over the past decade, there have been significant changes in acute health care, including declining patient length of stay in acute hospitals. As a result of leaving hospital earlier, patients are increasingly receiving care in the community, subsequent to discharge, or “post-acute” treatment.

4.107 Where services are required during the post-acute phase, they may include personal care, allied health services including physiotherapy and occupational therapy, home help from community support agencies or home nursing for treatments such as wound management. These services can be accessed from a range of service providers, including hospitals (ambulatory care services), primary care sector (general practitioners, allied health providers, community health services etc.) and home and community care providers including local government.

Main focus of the audit

4.108 The 2001 audit assessed whether the Department of Human Services adequately managed its response to the pressures on post-acute and sub-acute care services resulting from changes in the nature of health service delivery. The audit examined changes over the previous decade, but data availability limited analysis in many cases to more recent years.

4.109 The audit described the context and trends in post-acute and sub-acute services in Victoria and reviewed the strategic planning, program monitoring and evaluation practices of the Department.

4.110 Recommendations in the report were directed at:

- performance indicators;
- integrating evaluations into program design; and
- co-ordination and documentation.

Agency progress with audit recommendations

Performance indicators

4.111 In response to audit's recommendation to address its inadequate monitoring of the effectiveness of the service delivery models for the provision of post-acute care, the Department undertook to implement performance indicators for client and carer satisfaction and an indicator for timeliness. These performance indicators are expected to be introduced in 2003-04.

Integrating evaluations into program design

4.112 Our examination of the selected programs and initiatives in 2001 revealed that the Department's evaluation practices and expenditure on evaluation vary considerably. The audit recommended that the Department should establish a more consistent approach to program evaluation that requires integrating evaluations into the design of programs, timing them to support decision-making, and using them to develop effective performance measuring and monitoring regimes, and allocate funds to evaluation activities.

4.113 The Department recently advised that the major performance evaluation mechanism it has adopted are performance indicators. We believe that performance indicators need to be supported by a robust evaluation framework for every program that would:

- inform whether the overall aim of the program is being met;
- provide medium and long-term direction for the particular program;
- determine whether departmental and post-acute care services staff are implementing policies and procedures that underpins the program; and
- provide a basis for refinement of policy development.

4.114 There has been little progress in integrating evaluations into program design.

Co-ordination and documentation

4.115 The Department advised that it is actively working to improve communications links with other programs to streamline processes for both service providers and service users, including implementation of Primary Care Partnerships datasets. The Department is also reviewing and developing policy with the aim of streamlining the number and type of programs providing post-acute care type services.

RESPONSE provided by the Secretary, Department of Human Services

Firstly, I would like to indicate that the follow-up review is an accurate reflection of current progress against the 3 areas identified. I am pleased to note that the follow-up review acknowledges the progress the Department is making in the development and implementation of performance indicators, and in improving co-ordination and documentation.

However, the follow-up review also notes that the Department has not made progress in integrating evaluation into program design. While evaluation is not built into the design of the Post Acute Care program as recommended, the Department did commission an independent evaluation in 2001 to ascertain whether or not the overall aim of the program was being met. This review found that provision of post-acute care services was beneficial to recipients. In addition, new programs and projects funded by the Department, such as the Interim Care Program and the Hospital Admission Risk Program, have had evaluation integrated into their program design.

I would like to thank you for the opportunity to comment on the issues identified in the follow-up review.

Appendix A

Status of financial statement audits

EDUCATION AND TRAINING

<i>Entity</i>	<i>Financial statements signed</i>	<i>Clear opinion issued</i>	<i>Auditor-General's report signed</i>
COMPLETED AUDITS – 31 DECEMBER 2002 BALANCE DATES			
EDUCATION			
Telematics Course Development Fund	2 May 2003	J	5 May 2003
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Australasian Human Resources Institute Pty Ltd	26 March 2003	J	31 March 2003
Australian Alpine Institute Pty Ltd	28 March 2003	J	4 April 2003
Australian International Health Institute Ltd	7 March 2003	J	13 March 2003
Australian Music Examination Board (Vic.) Ltd	10 Feb. 2003	J	26 Feb. 2003
Australian National Academy of Music Ltd	24 Feb. 2003	J	26 Feb. 2003
Brain Sciences Institute Trust	31 March 2003	J	16 April 2003
Callista Software Services Pty Ltd	26 March 2003	J	28 March 2003
Centre for Innovation and Enterprise Pty Ltd	31 March 2003	J	16 April 2003
Institute for Innovation and Enterprise Ltd	31 March 2003	J	16 April 2003
Citytech Pty Ltd	27 March 2003	J	2 April 2003
Deakin Networks Pty Ltd	26 March 2003	J	28 March 2003
Deakin Prime USA	26 March 2003	J	31 March 2003
Deakin University	26 March 2003	J	28 March 2003
Hawthorn English language Centres (Canada) Ltd	3 March 2003	J	3 March 2003
Hawthorn Edinburgh Limited	11 Feb. 2003	J	28 Feb. 2003
Ingenko	4 April 2003	J	1 May 2003
Inquirion Pty Ltd	31 March 2003	J	3 April 2003
Inskill Ltd	28 March 2003	J	28 March 2003
La Trobe International Pty Ltd	12 March 2003	J	13 March 2003
La Trobe Marketing Pty Ltd	27 March 2003	J	28 March 2003
La Trobe University	8 April 2003	J	10 April 2003
La Trobe University Housing Ltd	27 Feb. 2003	J	5 March 2003

EDUCATION AND TRAINING - *continued*

<i>Entity</i>	<i>Financial statements signed</i>	<i>Clear opinion issued</i>	<i>Auditor-General's report signed</i>
COMPLETED AUDITS – 31 DECEMBER 2002 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Land and Food Services Ltd	3 March 2003	J	4 April 2003
Meanjin Company Ltd	14 March 2003	J	14 March 2003
Melbourne Enterprises International Ltd	4 March 2003	J	5 March 2003
Melbourne Enterprises International (New Zealand) Ltd	12 Feb. 2003	J	3 March 2003
Melbourne Enterprises International (Taiwan) Ltd	12 Feb. 2003	J	3 March 2003
Melbourne Information Management Pty Ltd	14 Feb. 2003	J	3 March 2003
Melbourne University Private Ltd	4 March 2003	J	11 March 2003
Monash Digital Media Pty Ltd	31 March 2003	J	2 May 2003
Monash International Pty Ltd	6 Feb. 2003	J	21 March 2003
Monash IVF Pathology Services Trust	27 March 2003	J	14 April 2003
Monash IVF Pty Ltd	27 March 2003	J	14 April 2003
Monash Property Management Pty Ltd	9 April 2003	J	1 May 2003
Monash Reproductive Health Enterprises Pty Ltd	27 March 2003	J	14 April 2003
Monash Reproductive Pathology and Genetics Pty Ltd	27 March 2003	J	14 April 2003
Monash Southern Africa Pty Ltd	9 April 2003	J	29 April 2003
Monash Ultrasound Pty Ltd	27 March 2003	J	14 April 2003
Monash Ultrasound Trust	27 March 2003	J	14 April 2003
Monash Unicomm Pty Ltd	24 March 2003	J	15 April 2003
Monash University	9 April 2003	J	15 April 2003
Monash University Foundation Pty Ltd	11 March 2003	J	15 April 2003
Monash University Foundation Trust	24 March 2003	J	7 April 2003

EDUCATION AND TRAINING - *continued*

<i>Entity</i>	<i>Financial statements signed</i>	<i>Clear opinion issued</i>	<i>Auditor-General's report signed</i>
COMPLETED AUDITS – 31 DECEMBER 2002 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Monash University South Africa	7 March 2003	J	29 April 2003
Montech Medical Developments Pty Ltd	31 March 2003	J	1 May 2003
Montech Pty Ltd	31 March 2003	J	2 May 2003
MUP Services Pty Ltd	27 Feb. 2003	J	27 Feb. 2003
National Institute of Circus Arts Ltd	31 March 2003	J	10 April 2003
Neurometric Systems Pty Ltd	31 March 2003	J	16 April 2003
Prostate Diagnostics Pty Ltd	10 April 2003	J	6 May 2003
RMIT Foundation	27 March 2003	J	2 April 2003
RMIT Innovation Ltd	2 April 2003	J	2 April 2003
RMIT International Pty Ltd	25 March 2003	J	25 March 2003
RMIT (Malaysia) SDN BHD	4 April 2003	J	15 April 2003
RMIT Resources Limited	27 March 2003	J	2 April 2003
RMIT University	16 April 2003	Qualified	17 April 2003
<i>Reason for qualification of financial statements: Inability to obtain all the information and explanations required to form an opinion on certain balances and inappropriate disclosure of non-reciprocal grants.</i>			
School of Forestry Creswick Ltd	1 March 2003	J	7 March 2003
School of Mines and Industries Ballarat Ltd	28 March 2003	J	28 March 2003
Sir John Monash Business Centre Pty Ltd	4 Feb. 2003	J	13 March 2003
Spatial Vision Innovations Pty Ltd	13 May 2003	J	19 May 2003
Swinburne Graduate School of Integrative Medicine Pty Ltd	31 March 2003	J	16 April 2003
Swinburne Intellectual Property Trust	1 April 2003	J	16 April 2003
Swinburne Ltd	31 March 2003	J	10 April 2003
Swinburne University of Technology	1 April 2003	Qualified	10 April 2003
<i>Reason for qualification of financial statements: Inappropriate disclosure of non-reciprocal grants.</i>			
Swinburne Ventures Ltd	1 April 2003	J	16 April 2003

EDUCATION AND TRAINING - *continued*

<i>Entity</i>	<i>Financial statements signed</i>	<i>Clear opinion issued</i>	<i>Auditor-General's report signed</i>
COMPLETED AUDITS – 31 DECEMBER 2002 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Unilink Ltd	26 March 2003	J	28 March 2003
University of Ballarat	26 March 2003	Qualified	28 March 2003
<i>Reason for qualification of financial statements: Inappropriate disclosure of non-reciprocal grants.</i>			
University of Melbourne	8 April 2003	Qualified	10 April 2003
<i>Reason for qualification of financial statements: Inappropriate disclosure of non-reciprocal grants.</i>			
Victoria University Enterprises Pty Limited	13 March 2003	J	13 March 2003
Victoria University International Pty Ltd	11 March 2003	J	13 March 2003
Victoria University of Technology	20 March 2003	J	27 March 2003
Victoria University of Technology (Singapore) Pty Ltd	20 Feb. 2003	J	27 March 2003
Victoria University of Technology Foundation Ltd	14 March 2003	J	17 March 2003
Victoria University of Technology Foundation Trust	14 March 2003	J	17 March 2003
Victorian College of the Arts	5 March 2003	Qualified	11 March 2003
<i>Reason for qualification of financial statements: Inappropriate disclosure of non-reciprocal grants.</i>			
INSTITUTES OF TECHNICAL AND FURTHER EDUCATION AND ASSOCIATED COMPANIES AND PROVIDERS OF ADULT EDUCATION			
Adult Multicultural Education Services	28 Feb. 2003	J	3 March 2003
Angliss Consulting Pty Ltd	18 March 2003	J	19 March 2003
Angliss Multimedia Pty Ltd	28 Jan. 2003	J	26 Feb. 2003
Angliss Solutions Pty Ltd	28 Jan. 2003	J	26 Feb. 2003
Bendigo Regional Institute of TAFE	25 March 2003	J	26 March 2003
Box Hill Institute of TAFE	27 Feb. 2003	J	27 Feb. 2003
Box Hill Enterprises Ltd	27 Feb. 2003	J	27 Feb. 2003
Central Gippsland Institute of TAFE	20 March 2003	J	25 March 2003
Chisholm Institute of TAFE	23 March 2003	J	28 March 2003
Centre for Adult Education	18 March 2003	J	18 March 2003
Driver Education Centre of Australia Ltd	3 March 2003	J	17 March 2003
East Gippsland Institute of TAFE	5 March 2003	J	19 March 2003
Gordon Institute of TAFE	12 March 2003	J	13 March 2003

EDUCATION AND TRAINING - *continued*

<i>Entity</i>	<i>Financial statements signed</i>	<i>Clear opinion issued</i>	<i>Auditor-General's report signed</i>
COMPLETED AUDITS – 31 DECEMBER 2002 BALANCE DATES			
<i>INSTITUTES OF TECHNICAL AND FURTHER EDUCATION AND ASSOCIATED COMPANIES AND PROVIDERS OF ADULT EDUCATION</i>			
Goulburn Ovens Institute of TAFE	11 March 2003	J	17 March 2003
Holmesglen Institute of TAFE	12 March 2003	J	14 March 2003
Holmesglen International Training Services Pty Ltd	13 March 2003	J	14 March 2003
International Fibre Centre Ltd	14 March 2003	J	18 March 2003
International Training Australia Pty Ltd	28 March 2003	J	4 April 2003
John Batman Training and Consulting Pty Ltd	26 Feb. 2003	J	27 Feb. 2003
Kangan Batman Institute of TAFE	25 Feb. 2003	J	27 Feb. 2003
Northern Melbourne Institute of TAFE	12 Feb. 2003	J	14 Feb. 2003
South West Institute of TAFE	26 Feb. 2003	J	20 March 2003
Sunraysia Institute of TAFE	7 March 2003	J	17 March 2003
William Angliss Institute of TAFE	24 March 2003	J	24 March 2003
Wodonga Institute of TAFE	11 March 2003	J	12 March 2003
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
<i>EDUCATION</i>			
Victorian Tertiary Admission Centre (financial year ended 30 June 2002)	12 Feb. 2003	J	25 Feb. 2003
<i>POST-COMPULSORY EDUCATION INSTITUTES</i>			
<i>Universities and associated companies</i>			
Monash English Language Centre Pty Ltd (a)	5 Feb. 2003	J	24 March 2003
RMIT (Malaysia) SDN BHD (31 December 2001)	4 April 2003	J	15 April 2003
Victoria University International Pty Ltd (13 July 1997 to 30 June 1998)	11 March 2003	J	13 March 2003
Victoria University International Pty Ltd (1 July 1998 to 30 June 1999)	11 March 2003	J	13 March 2003
Victoria University International Pty Ltd (1 July 1999 to 31 December 2001)	11 March 2003	J	13 March 2003

(a) Period ended 9 July 2002.

EDUCATION AND TRAINING - *continued*

<i>Entity</i>	<i>Financial statements signed</i>	<i>Clear opinion issued</i>	<i>Auditor-General's report signed</i>
INCOMPLETE AUDITS – AS AT 23 May 2003 (a)			
Copyrat Pty Ltd (1 January 2001 to 16 October 2001)	<i>Audited financial statements yet to be finalised.</i>		
Maccine Pty Ltd (1 January 2001 to 30 November 2001)	“	“	“
ACN 056 641 420 Pty Ltd	“	“	“
Dealdrum Pty Ltd	“	“	“
Dentire Pty Ltd	“	“	“
International Education Network (Hong Kong) Ltd	“	“	“
Kerbridge Pty Ltd	“	“	“
Meltech Services Ltd	“	“	“
Monash Commercial Pty Ltd	“	“	“
Monash ED Pty Ltd	“	“	“
Monash Learningfast Pty Ltd	“	“	“
Montores Pty Ltd	“	“	“
Monyx	“	“	“
Rinal Pty Ltd	“	“	“
RMIT International University Vietnam (RIUV) (for 2001 and 2002)	“	“	“
RMIT Training Pty Ltd	“	“	“
RMIT Union	“	“	“
RMIT Vietnam Holdings Pty Ltd	“	“	“
Rondole Pty Ltd	“	“	“
SouthWal Pty Ltd	“	“	“

(a) Financial statements with 31 December 2002 balance dates, unless otherwise indicated.

HUMAN SERVICES

<i>Entity</i>	<i>Financial statements signed</i>	<i>Clear opinion issued</i>	<i>Auditor-General's report signed</i>
COMPLETED AUDITS – 30 SEPTEMBER 2002 BALANCE DATES			

HEALTH

Medical Practitioners Board of Victoria	13 Feb. 2003	J	19 Feb. 2003
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COMPLETED AUDITS – 31 DECEMBER 2002 BALANCE DATES			
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HEALTH

Anti-Cancer Council of Victoria	20 March 2003	Qualified	20 March 2003
<i>Reason for qualification of financial statements: Unable to attest to the completeness of cash donations.</i>			
Psychologists Registration Board of Victoria	26 March 2003	J	26 March 2003
Public cemeteries -			
Anderson's Creek Cemetery Trust	16 April 2003	J	23 April 2003
Ballarat General Cemeteries Trust	27 March 2003	J	1 April 2003
Bendigo Cemeteries Trust	17 March 2003	J	26 March 2003
Cheltenham and Regional Cemeteries Trust	31 March 2003	J	3 April 2003
Geelong Cemeteries Trust	7 March 2003	J	24 March 2003
Keilor Cemetery Trust	25 March 2003	J	25 March 2003
Mildura Cemetery Trust	8 April 2003	J	9 April 2003
Preston Cemetery Trust	2 April 2003	J	8 April 2003
Templestowe Cemetery Trust	8 April 2003	J	23 April 2003
Trustees of the Fawkner Crematorium and Memorial Park	3 April 2003	Qualified	4 April 2003
<i>Reason for qualification of financial statements: Value assigned to land is understated in the Statement of Financial Position.</i>			
Trustees of the Lilydale Memorial Park and Cemetery	1 May 2003	J	6 May 2003
Trustees of the Memorial Park	12 Feb. 2003	J	24 Feb. 2003
Trustees of the Necropolis Springvale	20 March 2003	J	23 March 2003

COMPLETED AUDITS – WITH OTHER BALANCE DATES (a)			
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Rural Northwest Health	16 Feb. 2003	J	23 Feb. 2003
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INCOMPLETE AUDITS – AS AT 23 MAY 2002 (b)			
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Mildura Base Hospital (a)	<i>Audited financial statements yet to be finalised.</i>		
Wyndham Cemeteries Trust	“	“	“

(a) Financial statements with 30 June 2002 balance dates.

(b) Financial statements with 31 December 2002 balance dates unless otherwise indicated.

SUSTAINABILITY AND ENVIRONMENT

<i>Entity</i>	<i>Financial statements signed</i>	<i>Clear opinion issued</i>	<i>Auditor-General's report signed</i>
COMPLETED AUDITS – 31 OCTOBER 2002 BALANCE DATES			
Falls Creek Alpine Resort Management Board	9 May 2003	J	12 May 2003
Lake Mountain Alpine Resort Management Board	11 Feb. 2003	J	17 Feb. 2003
Mount Baw Baw Alpine Resort Management Board	11 Feb. 2003	J	28 Feb. 2003
Mount Buller Alpine Resort Management Board	31 Jan. 2003	J	6 Feb. 2003
Mount Hotham Alpine Resort Management Board	25 Feb. 2003	J	7 March 2003
Mount Stirling Alpine Resort Management Board	22 Jan. 2003	J	28 Jan. 2003

COMPLETED AUDITS – WITH OTHER BALANCE DATES (a)			
First Mildura Irrigation Trust	18 Feb. 2003	J	19 Feb. 2003

(a) Financial statements with 30 June 2002 balance dates, unless otherwise indicated.

INCOMPLETE AUDITS – AS AT 23 MAY 2002	
Victorian Dairy Industry Authority (b) (period 1 July 2000 to 29 Sept. 2000)	<i>Audited financial statements yet to be finalised.</i>

(a) Financial statements with 31 October 2002 balance dates, unless otherwise indicated.

(b) Victorian Dairy Industry Authority ceased operation on 29 September 2000.

PREMIER AND CABINET

COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATE			
<i>Entity</i>	<i>Financial statements signed</i>	<i>Clear opinion issued</i>	<i>Auditor-General's report signed</i>
ARTS			
Australian Centre for Moving Image	20 Feb. 2003	J	21 Feb. 2003
Film Victoria	20 Feb. 2003	J	21 Feb. 2003

TREASURY AND FINANCE

<i>Entity</i>	<i>Financial statements signed</i>	<i>Clear opinion issued</i>	<i>Auditor-General's report signed</i>
COMPLETED AUDITS – 31 DECEMBER 2002 BALANCE DATES			
TREASURER			
Gascor Pty Ltd	25 Feb. 2003	J	26 Feb. 2003
Gas Release Co. Pty Ltd	25 Feb. 2003	J	26 Feb. 2003
Securities Finance Corporation Ltd	26 March 2003	J	28 March 2003
Tricontinental Corporation Ltd	26 March 2003	J	28 March 2003
Tricontinental Holdings Ltd	26 March 2003	J	28 March 2003
Twin Waters Resort Pty Limited	26 March 2003	J	28 March 2003

COMPLETED AUDITS – OTHER BALANCE DATES			
TREASURER			
Latrobe Regional Hospital Pty Ltd (a)	5 May 2003	J	5 May 2003

INCOMPLETE AUDITS – AS AT 23 MAY 2002 (b)			
Arada Trust	<i>Audited financial statements yet to be finalised.</i>		
Roslin Pty Ltd (c) (financial year ended 30 June 2001)	“	“	“

(a) Final audit – Company deregistered 5 May 2003.

(b) Financial statements with 30 June 2002 balance date, unless otherwise indicated.

(c) Final audit.

VICTORIAN COMMUNITIES

<i>Entity</i>	<i>Financial statements signed</i>	<i>Clear opinion issued</i>	<i>Auditor-General's report signed</i>
INCOMPLETE AUDITS – AS AT 23 MAY 2002 (a)			
Melbourne 2002 World Masters Games Limited	<i>Audited financial statements yet to be finalised.</i>		

(a) Financial statements with 30 June 2002 balance date, unless otherwise indicated.



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