

VICTORIA

Auditor General

Victoria

Results of special reviews and other investigations

October 2005

Ordered to be printed

VICTORIAN GOVERNMENT
PRINTER
October 2005

ISBN 1 921060 14 X



AUDITOR GENERAL
VICTORIA

The Hon. Monica Gould MP
President
Legislative Council
Parliament House
MELBOURNE

The Hon. Judy Maddigan MP
Speaker
Legislative Assembly
Parliament House
MELBOURNE

Dear Presiding Officers

I am pleased to forward this report to you for presentation to each House of Parliament, pursuant to section 16AB of the *Audit Act 1994*.

This report sets out the results of a number of special reviews and other investigations undertaken up to the date of preparation of the report.

Yours faithfully

JW CAMERON

Auditor-General

5 October 2005

Foreword

This report contains the results of 3 recently completed audit investigations and 2 special reviews.

The audit investigations examine a number of significant allegations and concerns conveyed to my Office by external parties, about:

- the tender and administration of a major contract for the supply of water treatment chemicals to the Barwon Region Water Authority
- the management of a tender by the Kangan Batman Institute of TAFE of its printing functions
- the possible misuse of court funds at the Geelong Magistrate's Court.

The special reviews examine:

- the evaluation and reporting of Regional Infrastructure Development Fund outcomes
- the administration of grants by 5 local governments.

The report identifies opportunities for improvement in each of the areas examined, and makes recommendations to strengthen the audited agencies' practices and performance. A number of the issues canvassed in the report are common to public sector agencies, for example the tender and administration of contracts, and the administration of grants programs. Recent audits of tendering activities have led to the identification of the need for further audit attention in this area of public administration. This concern has been reflected in my 2005-06 work plan, where a broader study of tendering and contract management practices is scheduled for later this year.



JW CAMERON
Auditor-General

5 October 2005

Contents

FOREWORD	v
1. EXECUTIVE SUMMARY	1
1.1 Introduction	3
1.2 Overall conclusions and recommendations	3
1.3 General.....	16
 SPECIAL REVIEWS AND OTHER INVESTIGATIONS	
2. OPERATION OF THE REGIONAL INFRASTRUCTURE DEVELOPMENT FUND	17
2.1 Audit conclusion	19
2.2 Background.....	21
2.3 Audit objectives and scope	22
2.4 Status of the RIDF	22
2.5 Performance and reporting framework.....	29
2.6 Regional Development Victoria’s compliance with legislation	38
3. STRATEGIC PURCHASING AND BARWON REGION WATER AUTHORITY: CONTRACT FOR THE SUPPLY OF WATER TREATMENT CHEMICALS	43
3.1 Audit conclusion	45
3.2 Introduction	49
3.3 Audit objectives and scope	51
3.4 Tendering arrangements.....	52
3.5 Contract management	67
3.6 Independent analysis of chemicals.....	87
3.7 Impact of PAC23 on public health.....	93
3.8 New regulations governing the supply of drinking water.....	95
4. KANGAN-BATMAN INSTITUTE OF TAFE: ADEQUACY OF PROCESSES TO OUTSOURCE ITS PRINTING FUNCTIONS	97
4.1 Audit conclusion	99
4.2 Background.....	99
4.3 Calling for initial expressions of interest.....	100
4.4 Establishment of tender conditions and conduct of tender process prior to tender lodgement.....	101
4.5 Tender lodgement and evaluation of tenders.....	103

5. GEELONG MAGISTRATE’S COURT: INVESTIGATION INTO ALLEGED MISUSE OF COURT FUNDS	107
5.1 Audit conclusion	109
5.2 Background	112
5.3 Objectives and scope of audit.....	113
5.4 Court systems and processes.....	113
5.5 Alleged misappropriation of court funds.....	134
6. ADMINISTRATION OF GRANTS BY LOCAL GOVERNMENTS	137
6.1 Audit conclusion	139
6.2 Background	140
6.3 Were grant program planning and accountability frameworks adequate?.....	143
6.4 Were grant appraisal and selection processes adequate?	146
6.5 Was grant administration documentation adequate?	148
6.6 Were appropriate grant agreements established?	149
6.7 Were grants effectively monitored and grant programs evaluated?	151
6.8 Were grants adequately acquitted?	153
6.9 Were grant programs adequately reported?.....	155



1. Executive summary



1.1 Introduction

This report sets out the results of 5 special audits examining:

- the operation of the Regional Infrastructure Development Fund and the adequacy of systems and processes established to monitor, evaluate and report on the outcomes of projects funded from it
- the validity of several significant allegations and concerns conveyed by external parties to my Office about:
 - the tender and administration of a major contract for the supply of water treatment chemicals to the Barwon Region Water Authority
 - the tender process used by Kangan Batman Institute of TAFE to outsource its printing functions
 - the possible misuse of court funds at the Geelong Magistrate's Court.
- how well 5 local governments administered grants (including various forms of financial assistance) provided to third parties.

The major conclusions and recommendations from these audits are presented below.

1.2 Overall conclusions and recommendations

1.2.1 Operation of the Regional Infrastructure Development Fund

Operation and performance of the fund

The Regional Infrastructure Development Fund (RIDF, or the fund) was established in 2000 under the *Regional Infrastructure Development Fund Act 1999* to facilitate investment, employment and export opportunities in regional Victoria, by providing infrastructure funding for capital works projects. The government established the RIDF as a trust fund within the Public Account, funded from parliamentary appropriations.

We examined the financial and operational position of the RIDF at 30 June 2005 and assessed whether Regional Development Victoria (RDV)¹, the agency administering the fund, had adequate systems and processes to monitor, evaluate and report on the outcomes of the RIDF.

¹ Regional Development Victoria is a statutory body established under the *Regional Development Victoria Act 2002*. Its primary purpose is to facilitate economic, infrastructure and community development in regional and rural Victoria, and to monitor, evaluate and report on the outcomes of projects funded by the RIDF.

At 30 June 2005, around \$225 million (61 per cent) of the \$370 million committed to the RIDF had been appropriated and paid into the RIDF Trust Account. Of this amount, \$221 million has been approved for expenditure on 100 infrastructure projects throughout regional Victoria, with \$121 million paid to grant recipients. Just over half of the approved projects were completed and \$149 million was available for further infrastructure projects.

Our analysis of the allocations from the fund showed that while RIDF funds have been directed to projects that are consistent with the legislative requirements, more could be done by RDV to influence the distribution of funds to ensure they achieve optimum outcomes against government priorities for rural and regional Victoria.

While RDV's annual report and other publications currently provide information on the overall activities and expenditures of the fund, accountability for the RIDF's management would be improved by providing more public information on the allocation of funds and the status of approved projects.

There is also insufficient public information available on the overall performance of the RIDF, particularly in relation to any impact it may be having on the economic and social development of rural and regional Victoria. RDV's annual report to parliament provides information on the outputs of regional infrastructure development, but does not address outcomes in terms of whether the policy objectives of the RIDF are being achieved.

While RDV has made a number of improvements to its application and project reporting processes since our 2003 audit, its performance evaluation framework is still incomplete. Consequently, RDV cannot effectively measure or report on whether RIDF infrastructure projects are achieving the expected policy outcomes for regional Victoria, or for the RIDF as a whole.

RDV is taking positive measures to improve its evaluation capability and its accountability has been enhanced by recently making the results of its RIDF program evaluations available to the public.

Legislative compliance of RDV grants

During the planning of this audit, we received an allegation from a member of parliament that a number of grants made by RDV were paid to inner-metropolitan councils, despite those councils being ineligible for funding under its governing legislation; the *Regional Development Victoria Act 2002*. Although the grants in question were not made from the RIDF, we also examined this allegation during the audit.

The intention of the *Regional Development Victoria Act 2002* and the *Regional Infrastructure Development Fund Act 1999* is for RDV to provide assistance to organisations in order to facilitate economic and community development in rural and regional Victoria.

We identified 6 metropolitan councils and 2 other organisations that had received financial assistance from the RDV (totalling \$195 050), which it did not have the power to provide, and a further 7 payments made to other organisations (totalling \$253 530) without written ministerial direction. RDV advised us that these payments were made on behalf of the Department of Innovation, Industry and Regional Development (DIIRD), rather than under the authority of the RDV legislation. However, documentation was not available to clearly establish that this was the case.

We acknowledge that the financial assistance provided was not large, but there is a point of principle here, namely that all RDV payments must be supported by legislative authority. We have no reason to believe that RDV, in providing this assistance, deliberately attempted to circumvent the requirements of its Act.

Given that RDV forms part of DIIRD, with its functions and funding integrated with those of DIIRD, there is a need for greater clarity, in future, about the funding provided for RDV programs and, therefore, the legislative authority under which payments are made.

Recommendations

Several recommendations were made focusing on the need for RDV to more strategically manage the allocation of RIDF moneys, and to provide more information to parliament and the public about RIDF activities and outcomes. These included the need for RDV to:

- **establish allocation targets for each of the key infrastructure categories specified in the *Regional Infrastructure Development Fund Act 1999*, and to develop an action plan to deliver the planned allocations**
- **develop relevant performance targets for each funded project that are related to the overall policy objectives of the RIDF, and incorporate these into the reporting requirements of the related project funding agreements**
- **establish a process to validate performance data that is supplied by grant recipients**

- on the completion of each project, undertake an evaluation to determine whether the expected project deliverables and project outcomes were achieved, consistent with both funding agreement requirements and overall RIDF objectives. The extent of the evaluation should be determined by the risk and materiality of the grant
- develop outcome measures and targets for the fund that directly align with the purpose for which the fund was created, and collect relevant data to publicly report on these measures
- obtain written directions from the minister prior to making any payments to interface councils, as required by the *Regional Development Victoria Act 2002*.

1.2.2 Strategic Purchasing and Barwon Region Water Authority: Contract for the supply of water treatment chemicals

Most Victorian water authorities operate drinking water treatment plants that require the use of chemicals in the water purification and disinfection process. As the cost of these chemicals is significant, amounting to millions of dollars annually, the Victorian Water Industry Association² made arrangements early in 2002 for Victorian water authorities to purchase their water treatment chemicals from suppliers as a group, rather than individually, to reduce operating costs. The authorities agreed to use Strategic Purchasing³ to manage the tendering, selection and administrative processes.

We conducted an investigation of the tendering and administrative arrangements for the supply of water treatment chemicals to the Barwon Region Water Authority (Barwon Water) in response to a complaint received by us from an industry participant in October 2004, regarding the probity of the tender arrangements.

² The Victorian Water Industry Association is the representative body of the Victorian water authorities and companies.

³ The MAPS Group (trading as Strategic Purchasing) is a public company owned by local councils and water authorities that negotiates and facilitates supply contracts for common-use goods and services on behalf of its members. The company's 180 Victorian members include local councils, universities, TAFE colleges, water authorities and some government departments.

It was alleged that subsequent to the closure of tenders, Strategic Purchasing inappropriately changed certain tender requirements. Our investigation disclosed that the tenderer selected by Strategic Purchasing to supply the chemicals used specifications that differed in some areas (such as chemical characteristics) to those required in the tender documentation. In these circumstances, we consider that it would have been appropriate for Strategic Purchasing to give the unsuccessful tenderer an opportunity to resubmit a revised tender, based on the same specifications as those used by the successful tenderer. This was not done.

The complainant also alleged that chemicals supplied to Barwon Water repeatedly failed to meet a number of the chemical specifications contained in the contract and the tests undertaken on these chemicals (provided by the supplier) incorrectly stated that they complied with the contract specifications.

Due to the passage of time, it was not possible for us to independently determine whether the chemicals delivered to Barwon Water in the past had complied with the specifications of the contract. However, testing of these chemicals provided by the supplier generally showed that the chemicals met the contract specifications.

We undertook independent tests on samples of chemicals taken from 2 Barwon Water treatment plants to see whether they complied with the specifications of the contract. While these tests largely indicated that the samples tested complied with the contract specifications, we were concerned with the:

- difficulty in finding suitably qualified laboratories (accredited by the National Association of Testing Authorities⁴) to undertake the required testing for impurities in the chemicals
- adequacy of testing methods currently available to undertake the required tests
- variability of the results obtained by the 2 laboratories engaged by us and the laboratory engaged by the supplier.

As a result, it is not possible to determine with certainty that the impurity testing of water treatment chemicals undertaken by laboratories is reliable.

⁴ NATA provide certifications as to a laboratory's competence to produce valid data and results for a defined set of tests and its general technical competence.

Our overall assessment is that the arrangement, to use Strategic Purchasing to tender and engage suitable providers for the supply of water treatment chemicals, has been successful. Over the term of the contract, Barwon Water has achieved significant reductions in chemical usage and operating costs of around 10 per cent, with no apparent negative impact on the effectiveness of its water treatment process or drinking water quality.

However, our investigation identified a number of areas for further improvement, including:

- Strategic Purchasing's tendering procedures, particularly in relation to fairness, accountability and transparency
- contract documentation, monitoring procedures and contract management
- adequacy and appropriateness of representations, made by the chemical supplier in certificates, analysing the composition of chemicals supplied
- clarification of the responsibility for monitoring the performance of the supplier (such as quality assurance audits of the supplier's systems and procedures and inspections of its production processes).

It was pleasing to note that subsequent to our investigation both Barwon Water and Strategic Planning have taken action to address a number of the issues raised in this report.

Recommendations

Several recommendations were made to improve the tendering and administration of contracts for the supply of water treatment chemicals, including that:

- **government agencies using Strategic Purchasing's tendering services ensure that it complies with the government's purchasing guidelines and the Freedom of Information legislation**
- **only tender submissions which are fully compliant with mandatory tender requirements be accepted. If exceptions are permitted, all tenderers must be given an equal opportunity to provide submissions on the same basis**
- **tenders are evaluated against an appropriately weighted mix of selection criteria and a score determined for each tender before tender price is considered**
- **trials of new chemicals used in significant volumes be undertaken prior to, and used in, the tender evaluation process**

- **future contracts for the supply of water treatment chemicals:**
 - **require any chemical testing to be undertaken by laboratories accredited to undertake the required tests**
 - **require certificates of analysis to be provided by suppliers, with or prior to the delivery of the chemicals, and that these certificates contain a statement from the testing laboratory indicating that the chemicals meet the contract specifications and that all quality assurance controls have been carried out.**

We also recommended that Barwon Water:

- **ensure that certificates of analysis, received with chemical deliveries, are complete, appropriately signed and reviewed. Evidence of the reviews, including the disposition of any identified non-conformances, should be included on (or with) the certificates**
- **exercise its rights under supply contracts to obtain detailed audit reports on the suppliers' quality control systems and relevant accreditations, as well as any proposed corrective action taken on matters raised in the reports**
- **based on the results of the above audit reports, undertake, or commission a suitably qualified person, to undertake a periodic audit and inspection of selected supplier facilities, as allowed for in the master contract, where required**
- **develop specific written procedures for dealing with instances where chemicals transported to its water treatment plants do not have intact security seals.**

1.2.3 Kangan Batman Institute of TAFE - Adequacy of processes to outsource its printing functions

Kangan Batman Institute of TAFE (KBIT) undertook a competitive tender process in late 2004 to procure an external supplier for its document design and production services (Managed Print Services). This process resulted in the engagement of FedEx Kinko's to provide these services (excluding graphic design unit services) to KBIT for a period of up to 5 years, at an annual cost of around \$1.5 million.

We examined this tender process in response to concerns raised with our Office about the conduct of the tender, and identified a number of areas in which the process could have been improved.

The acceptance of a late tender by KBIT compromised the integrity of the tender process. Both KBIT's own tender documentation and the Victorian Government Purchasing Board (VGPB) guidelines are explicit, namely, that tenders received after the time allowed are deemed ineligible for consideration⁵.

It is of concern that a single commercial enterprise was initially involved as a supplier in 4 submissions from other tenderers. Although we understand that this is not unusual when tenders involve products and/or services where supply is limited, it raises questions about the potential for a conflict of interest or market failure.

We also concluded that KBIT had established a closing date that was not in accordance with recommended practice. That is, the decision to close the tender period on a day following a public holiday and after a lengthy end of year shutdown, was not in accordance with good practice as recommended by the VGPB. This arrangement increased the potential for tenderers to encounter difficulties in meeting tender lodgement requirements.

Recommendation

That KBIT review and document its tender process so that it is consistent with the VGPB's guidelines. Particular attention should be given to the policy relating to the tender period and closing date, as well as to acceptance of late tenders.

1.2.4 Geelong Magistrate's Court: Investigation into alleged misuse of court funds

We conducted an investigation into an alleged misuse of funds at the Geelong Magistrate's Court, following a referral of this matter to our Office by the Ombudsman under Part 4 of the *Whistleblower Protection Act 2001*. The investigation also included a review of the financial management systems and procedures operating in the court.

⁵ The VGPB has established performance standards for the key processes and minimum standards addressing each stage of the procurement cycle. Public sector agencies, such as TAFE institutes, are required to benchmark their procurement policies and processes against those established by the VGPB in order to ensure a consistent approach to procurement.

Alleged misappropriation of funds

Where magistrates decide that a defendant has broken the law, but do not record a conviction or impose a fine, they can order the offender to make a payment to the court fund (commonly known as the poor box). Money held in this fund is used to provide direct financial assistance to needy persons who present at the court, or to make payments to welfare bodies who then distribute the funds to individuals.

It was alleged by the whistleblower that a number of court staff acting together misappropriated approximately \$200 per week from the court fund during the period from 1995 to 1998. The allegation was also corroborated by a second party.

Our examination of the court's systems and procedures indicated that the alleged misappropriation, as described by the whistleblower, was possible and unlikely to be detected by the court's internal control systems. The manner in which the court fund operates and the way in which the alleged misappropriation may have been undertaken would not allow for external confirmation of the payments or sufficient documentary evidence to be produced which could be used to prove court funds had been misappropriated.

Our investigation did not find sufficient documentary evidence to prove court funds were stolen, however we have referred this matter to Victoria Police's Major Fraud Investigation Division for further investigation.

Court fund operations

The investigation identified a number of inherent (permanent) risks in the operation of the court fund. In these circumstances, we would have expected the court to have established appropriate procedures and strong internal control systems to compensate for these risks. We found that:

- the practice of opening court fund cheques to cash was widely used within the court
- there was a lack of formal policy and guidance provided to court staff on how the court fund should be administered and a lack of external reporting and accountability for funds provided to charitable organisations
- with the magistrate normally approving court fund payments after they have been made, junior court administrative staff effectively had discretion over who received assistance and how much they were paid
- many of the controls required by the registrars' manual were not operating. The most significant of these was the lack of adequate documentary evidence for many court fund payments.

Recommendations

That the court consider discontinuing the practice of making court fund payments to individuals, with payments limited to recognised charities.

That, in administering the court fund, the court:

- **develop appropriate policy and guidelines to assist staff in deciding on who receives financial assistance from the fund and the amount of assistance to be provided**
- **ensure that its staff comply with the registrars' manual**
- **ensure adequate documentation is retained supporting all payments made**
- **provide quarterly reports to the magistrate administering the fund, which provide information on the amount of funding received by the fund, how it was distributed and the balance remaining in the fund.**

That the requirement in the registrars manual that court fund moneys are not to be used for administrative purposes be strengthened to include a requirement for welfare agencies' to periodically report to the court on the use to which court funds have been put.

Kicking Goals Youth Program

In 2001, the court established the Kicking Goals Youth Program, which organised and funded a day out at the football for youth living in the Geelong area. While providing a useful community service, this program was:

- administratively time consuming
- exposed the court to risks resulting from participants in the program becoming sick or getting hurt while involved in the day out
- increased the risk of the court funds being inappropriately used.

While the court can have a useful role in financially supporting charitable programs, we did not consider that its role should extend to directly operating them.

Following receipt of the findings of our investigation, the program was discontinued by the Department of Justice, with its remaining funds paid into the court fund.

Recommendation

That the Department of Justice undertake a review to identify any welfare programs, like the Kicking Goals Youth Program, operating within courts, with a view to discontinuing any such programs.

Trust account operations and other issues

Our investigation also identified a number other matters of concern, including that:

- the court's control over trust account payments and its ability to trace these payments to the recipients of the proceeds was significantly reduced by the practice of opening trust account cheques to cash
- moneys held in the court's trust account for long periods of time were not adequately managed
- there were inadequate controls over the court's accountable documents (eg. receipt forms)
- the court's mail opening procedures were deficient and exposed it to potential loss and/or manipulation of incoming receipts
- there was inadequate segregation of duties within the court.

Recommendations

Several recommendations were made focusing on strengthening the cash collection, banking and management practices and controls at Geelong Magistrate's court. These included the need to:

- **better segregate incompatible functions performed by court staff**
- **improve controls over accountable documents, such as receipt and license books**
- **enhance cash and cheque handling procedures**
- **regularly review amounts held in the trust account and take timely action to appropriately disburse long standing balances**
- **investigate options that enable interest to be paid on the funds held in the trust account.**

We also made several recommendations to the Department of Justice for state wide implementation. These included the need to:

- **ensure all magistrates courts are subject to an audit by its internal audit unit at least once every 3 years**

- **review the operation of court funds, in conjunction with the courts, and consider:**
 - **clarifying the authority to make payments from the court funds (poor box)**
 - **limiting financial assistance provided from court funds to established and reliable welfare agencies.**
- **if the courts continued to operate court funds:**
 - **discontinue the practice of opening of court cheques to cash**
 - **develop guidelines to assist court staff in deciding on which organisations receive financial assistance from these funds and the amount of assistance to be provided**
 - **require organisations requesting assistance from the court funds to provide written submissions supporting their request, which are subsequently assessed against established criteria, and funded agencies to report on the use to which court funds have been put**
 - **require courts to provide regular reports to the department on the operation of their court funds and trust funds, which would allow the department to more effectively overview their operation.**

The department's response to the findings and recommendations of our investigation has been both proactive and positive. We commend the department for this response.

1.2.5 Administration of grants by local governments

Between 1 July 2003 and 31 December 2004, Victoria's local governments provided more than 12 000 grants totalling over \$82 million⁶ to community groups, sporting organisations, cultural bodies and other non-government organisations to support the delivery of various programs and activities to local communities.

Grants are not a large element of local government expenditure. Nevertheless, local communities are keenly interested in the provision of grants (particularly the transparency, equity and value-for-money aspects of these payments), and making grants is an inherently risky activity requiring sound administrative processes and controls.

⁶ Based on information provided by 50 of Victoria's 79 local governments.

Our examination of grant administration across a selection of 5 local governments found that, while each had established formal processes for administering their community grants programs, their administrative frameworks were not fully developed and documented to encompass the range of ways they use to provide financial support to third parties (for example, loans, donations, subsidies, sponsorships and other contributions).

Local governments need to develop sufficiently comprehensive and robust administrative/control frameworks that recognise the differing ways they provide community support and require the consistent management of these activities. This will help ensure that these activities are more effectively managed and the resultant funding outcomes are consistently measured, evaluated, compared and reported, therefore also improving transparency and public accountability.

Local governments also need to develop a better understanding of the risks associated with different grant types and recipients, and apply this understanding to the development of more focused (risk-based) grant monitoring and acquittal regimes. The development of training programs for staff involved in grant administration, clear policies for the management of conflicts of interest, and improved documentation standards and requirements will also further strengthen the administration of local government grant programs.

Finally, local governments need to improve the quality of records kept on grants made, in order to satisfy their legislative requirement to have this information readily available for public inspection.

Recommendations

Several recommendations were made focusing on the need for the selected local governments to improve their administration of grants. These included a need for them to:

- **establish consistent frameworks (including documented policies and procedures) for administering all forms of financial assistance provided to third parties**
- **develop guidelines for the management of potential conflicts of interest**
- **provide training for staff involved in grants administration, particularly on assessing the eligibility of applications**
- **ensure that appropriate agreements are signed before funds are provided to third parties**

- **establish appropriate monitoring procedures for grants, commensurate with the assessed risk characteristics of different grant types and value**
- **require grant recipients to provide appropriate documentation to acquit their grants, and ensure it is received and examined for adequacy**
- **annually evaluate the outcomes of grant programs, and use this assessment to inform the future operation of these programs**
- **maintain adequate information systems to ensure that lists of grants are complete, accurate and up-to-date, and contain the information they are required by legislation to make available to the public.**

1.3 General

The audits included in this report were performed in accordance with Australian auditing standards. The total cost of the audits, including the preparation and printing of this report, was \$460 000.



2. Operation of the Regional Infrastructure Development Fund



2.1 Audit conclusion

2.1.1 Operation and performance of the fund

The Regional Infrastructure Development Fund (RIDF, or the fund) was established in 2000 under the *Regional Infrastructure Development Fund Act 1999* to facilitate investment, employment and export opportunities in regional Victoria, by providing infrastructure funding for capital works projects. The government established the RIDF as a trust fund within the Public Account, funded from parliamentary appropriations.

We examined the financial and operational position of the RIDF at 30 June 2005 and assessed whether Regional Development Victoria (RDV)¹, the agency administering the fund, had adequate systems and processes to monitor, evaluate and report on the outcomes of the RIDF.

At 30 June 2005, around \$225 million (61 per cent) of the \$370 million committed to the RIDF has been appropriated and paid into the RIDF Trust Account. Of this amount, \$221 million has been approved for expenditure on 100 infrastructure projects throughout regional Victoria, with \$121 million paid to grant recipients. Just over half of the approved projects were completed and \$149 million was available for further infrastructure projects.

Our analysis of the allocations from the fund showed that while RIDF funds have been directed to projects that are consistent with the legislative requirements, more could be done by RDV to influence the distribution of funds to ensure they achieve optimum outcomes against government priorities for rural and regional Victoria. There is a need for improved strategic management to drive future RIDF allocations to the key project categories envisaged in the establishing legislation.

While RDV's annual report and other publications currently provide information on the overall activities and expenditures of the fund, accountability for the RIDF's management would be improved by providing more public information on the allocation of funds against the principal project categories specified in the Act, the geographic distribution of funds and more detail about the status of approved projects.

¹ Regional Development Victoria is a statutory body established under the *Regional Development Victoria Act 2002*. Its primary purpose is to facilitate economic, infrastructure and community development in regional and rural Victoria, and to monitor, evaluate and report on the outcomes of projects funded by the RIDF.

There is also insufficient public information available on the overall performance of the RIDF, particularly in relation to any impact it may be having on the economic and social development of rural and regional Victoria. RDV's annual report to parliament provides information on the outputs of regional infrastructure development, but does not address outcomes in terms of whether the policy objectives of the RIDF are being achieved.

While RDV has made a number of improvements to its application and project reporting processes since our 2003 audit, its performance evaluation framework is still incomplete in terms of having the appropriate performance measures for evaluating RIDF outcomes. Consequently, RDV cannot effectively measure or report on whether RIDF infrastructure projects are achieving the expected policy outcomes for regional Victoria, or for the RIDF as a whole.

RDV is taking positive measures to improve its evaluation capability and its accountability has been enhanced by recently making the results of its RIDF program evaluations available to the public.

2.1.2 Legislative compliance of RDV grants

During the planning of this audit, we received an allegation from a member of parliament that a number of grants made by RDV were paid to inner-metropolitan councils, despite those councils being ineligible for funding under its governing legislation; the *Regional Development Victoria Act 2002*. Although the grants in question were not made from the RIDF, we also examined this allegation during the audit.

The intention of the *Regional Development Victoria Act 2002* and the *Regional Infrastructure Development Fund Act 1999* is for RDV to provide assistance to organisations in order to facilitate economic and community development in rural and regional Victoria.

We identified 6 metropolitan councils and 2 other organisations that had received financial assistance from the RDV (totalling \$195 050), which it did not have the power to provide, and a further 7 payments made to other organisations (totalling \$253 530) without written ministerial direction. RDV advised us that these payments were made on behalf of the Department of Innovation, Industry and Regional Development (DIIRD), rather than under the authority of the RDV legislation. However, documentation was not available to clearly establish that this was the case.

We acknowledge that the financial assistance provided was not large, but there is a point of principle here, namely that all RDV payments must be supported by legislative authority. We have no reason to believe that RDV, in providing this assistance, deliberately attempted to circumvent the requirements of its Act.

Given that RDV forms part of DIIRD, with its functions and funding integrated with those of DIIRD, there is a need for greater clarity, in future, about the funding provided for RDV programs and, therefore, the legislative authority under which payments are made.

2.2 Background

The RIDF commenced operating on 1 July 2000 to facilitate investment, employment and export opportunities in regional Victoria. The RIDF provides infrastructure funding for capital works projects, including the extension of reticulated natural gas into regional Victoria.

Since 2000, the government has committed \$370 million² to the RIDF for infrastructure projects across 48 municipal districts in regional Victoria and 9 “interface” municipal councils³ located in the urban boundary of metropolitan Melbourne. At 30 June 2005, a total of \$221 million had been approved for expenditure on 100 infrastructure projects; \$121 million paid from the Fund; and \$149 million was available for further infrastructure projects over future years.

The Department of Innovation, Industry and Regional Development (DIIRD) administered the RIDF from 2000 to 2003. In July 2003, the administration of the RIDF was transferred to RDV, a statutory body established by the *Regional Development Victoria Act 2002*.

² Of the government’s commitment, \$225 million had been appropriated and paid into the RIDF Trust Account at 30 June 2005.

³ Under the *Regional Infrastructure Development Fund Act 1999*, RIDF funds can only be paid to these interface councils for the development and implementation of natural gas extension projects. Interface councils are located between metropolitan Melbourne and rural Victoria.

2.3 Audit objectives and scope

In 2001, we undertook an audit of the RIDF grant application and assessment processes and, in 2003, we examined the status of the RIDF and DIIRD's monitoring of funded projects. These audits identified several aspects of RIDF management that needed improvement. These mainly related to the grant application and assessment processes, the monitoring of infrastructure projects and the performance and reporting framework for the RIDF.

Our inquiries subsequent to those audits identified that action had been taken to strengthen the grant application and processing arrangements, so the objectives of this audit were to determine:

- the financial and operational position of the RIDF at 30 June 2005
- whether RDV had adequate systems and processes to monitor, evaluate and report on the outcomes of funded infrastructure projects.

During the planning for this audit, our Office received a letter from a member of parliament alleging that 13 grants made under the RDV's "Living Regions, Living Suburbs" and the "Council and Regional Development Body" programs were paid to inner-metropolitan councils, despite those councils being ineligible for funding under the Act. Although these grants were not made from the RIDF, we also examined this allegation during the audit.

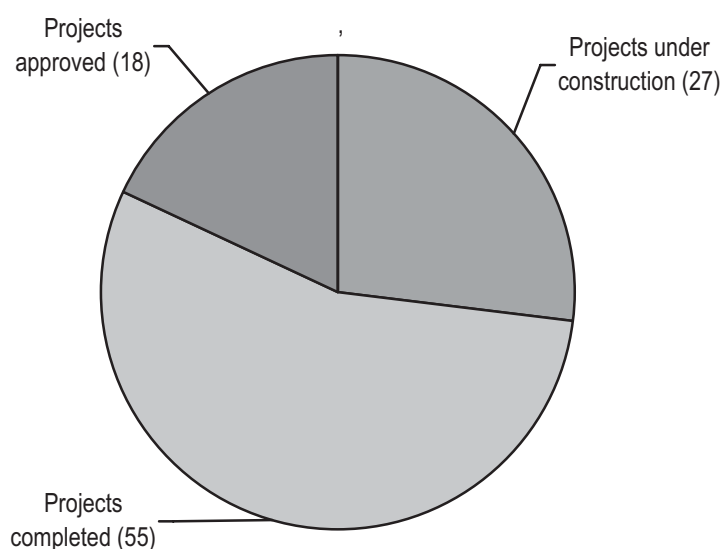
2.4 Status of the RIDF

Between 1 July 2000 and 30 June 2005, \$225 million (61 per cent) of the \$370 million committed to the RIDF had been appropriated and paid into the RIDF trust account. Of this amount, \$221 million had been approved for expenditure on 100 infrastructure projects throughout regional Victoria, with \$121 million paid to grant recipients. These projects have a total construction cost of \$564 million⁴, with over half of the approved projects completed. At 30 June 2005, \$149 million was available for further infrastructure projects.

Figure 2A shows that, since the establishment of the RIDF, just over half of the approved infrastructure projects have been completed and most of the remaining projects have commenced.

⁴ The private sector and other tiers of government (including local and federal government) have contributed \$342.8 million to these projects.

FIGURE 2A: PROJECT STATUS, AT 30 JUNE 2005
(number of projects)



Source: Victorian Auditor-General's Office, from data supplied by RDV.

RIDF grants are provided by RDV through one main program whose objective is to deliver specific infrastructure outputs as required under the *Regional Infrastructure Development Fund Act 1999*. These specific outputs are described in the Act under 5 infrastructure categories. RDV also delivers 8 targeted RIDF programs that benefit or support regional development.

RIDF applicants are required to "*maximize funding support from a range of sources*". Leverage of funding is considered as part of the assessment of each application, however there is not a strict "dollar for dollar" requirement for RIDF grants. The exception to this is a number of RIDF sub-programs, such as the Small Towns Development Fund, where a dollar for dollar contribution is expected.

2.4.1 Were distributions from the RIDF according to legislative requirements?

Under the *Regional Infrastructure Development Fund Act 1999*, financial assistance can be provided from the RIDF for capital works in regional Victoria to:

- develop industries
- improve and link transport infrastructure
- develop and improve tourism facilities
- develop and implement natural gas extension projects⁵

⁵ Projects implemented under the Natural Gas Extension Program (NGEP).

- provide access to education and information technology
- generally benefit or support regional development (i.e. a general projects category).

We expected RDV to have:

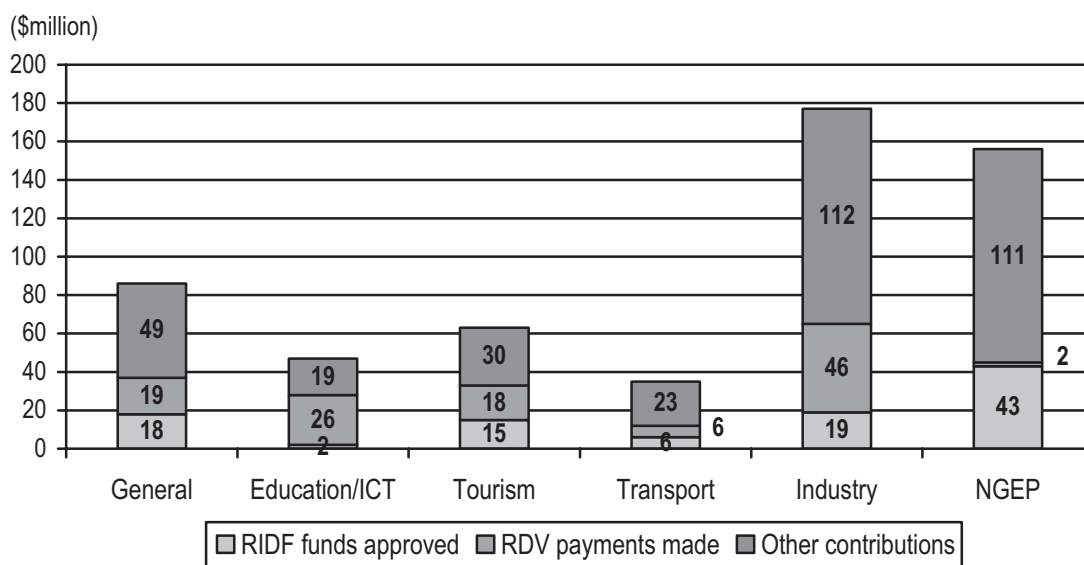
- developed guidance on the type of projects which could be included under the 6 objectives included in the Act
- taken action to determine priority areas for funding or broadly influence how funds were distributed to ensure funding was allocated for the key infrastructure categories specified in the Act.

RDV had not taken either of these actions.

RDV indicated that the types of infrastructure projects funded is largely dependent on a number of factors over which it has limited control, such as the number and type of applications received, and the extent to which applications satisfy RIDF project selection criteria.

While acknowledging these limitations, we consider that RDV has an opportunity to better align RIDF funding with government priorities for rural and regional Victoria. This could be achieved by prioritising applications for certain types of infrastructure works or, through facilitation, encourage organisations to apply for funding in the categories considered to be a high priority for funding.

We examined the distribution of funds from the RIDF according to the above objectives. As shown in Figure 2B, projects to develop industries (30 per cent) and the NGEF (20 per cent) received the greatest proportion of grant funding. The other categories such as tourism (15 per cent), education and ICT (13 per cent) transport (5 per cent) and “general” projects (17 per cent), received less.

FIGURE 2B: DISTRIBUTION OF FUNDS BY RIDF OBJECTIVES, AT 30 JUNE 2005

Source: Victorian Auditor-General's Office, from data supplied by RDV.

Projects classified under the "industry" objective included the establishment of new industrial estates, construction of waste water treatment plants and improvements to the power infrastructure for dairy farmers. Many of the projects in this category did not seem to be directly related to developing industries. For example, projects to revitalise the appearance and access to central business districts, the redevelopment of showgrounds and sports stadiums, and dam improvements may not lead to the development of existing or new industries.

Figure 2B also shows the level of payments from the RIDF for approved projects. The majority of education/information and communication technology (ICT), community and tourism projects have been fully funded, indicating that most of the projects in these categories have been completed or are nearing completion.

For one natural gas extension program (NGEP) project, South Gippsland, additional time had been taken by RDV to award the tender. We were informed by RDV that the initial bid for this project was assessed as being high, resulting in RDV taking additional time to re-tender the project to the market, and seeking and achieving a lower cost bid. At August 2005, the NGEP was generally meeting its planned project timelines.

Figure 2C summarises the status of each of the targeted RIDF programs.

FIGURE 2C: STATUS OF RIDF TARGETTED PROGRAMS, AT 30 JUNE 2005

Program	Description of broad fund allocations
Natural Gas Extension Program (NGEP)	\$70 million RIDF funds to facilitate the extension of the natural gas network in country Victoria. Through the program, the government aims to maximise the number of connections, promote economic development and reduce energy costs for households and businesses. At 30 June 2005, 29 towns have been announced for connection and 5 more were announced in August 2005. Towns in the North Geelong/Barwon area were connected to the natural gas network under an earlier RIDF grant unrelated to this program.
Rural Community Infrastructure Allocation (RCIA)	\$10 million RIDF funds over the 2001-02 and 2002-03 financial years. The RCIA provided grants of up to \$200 000 to local councils to help develop socio-economic infrastructure. The program closed in June 2003.
Small Towns Development Fund (STDF)	\$20 million RIDF funds over 4 years. Small rural towns with a population of less than 10 000 are eligible for funding up to a maximum of \$200 000 on a dollar-for-dollar basis. At 30 June 2005, 162 projects were approved with funding of \$10.61 million for a total project cost of \$24.9 million.
Stock Underpasses/Overpasses	\$8.5 million RIDF funds to construct stock overpasses and underpasses. Applications for grants are on a dollar-for-dollar basis to a maximum of \$20 000. Currently, \$8 million has been approved for expenditure and \$5.9 million has been paid. The program is scheduled to conclude in June 2006.
Dairy Power Infrastructure Upgrades	RIDF funds of \$4 million to assist dairy farmers upgrade their power supply infrastructure from SWER or single phase to 3-phase power. Grants were available on a dollar-for-dollar basis, or equal to half of the farmer's cost of the upgrade. Power distribution companies TXU Networks and Powercor Australia may also make a contribution to the project cost. The program closed on 31 October 2004. At 30 June 2005, expenditure was \$3.4 million.
Customer Access Network (CAN) Demonstration Program	The CAN Demonstration Program provides \$5 million in RIDF funding for 5 demonstration projects throughout regional Victoria to provide improved and competitive CAN telecommunications services. At 30 June 2005, \$4 million had been allocated and expenditure was \$3.1 million.
Re-use Irrigated Private Plantations Program	A program funded with a \$1.5 million grant from the RIDF to promote the use of treated wastewater for the irrigation of private timber plantations. Due to lack of uptake, the majority of grant moneys of \$1.4 million has been returned by the Department of Sustainability and Environment to the RIDF Trust to be made available for other regional projects.
National Livestock Identification System (NLIS)	Funding of \$500 000 from the RIDF was provided for the installation of equipment and facilities at export-focused saleyards to enable the implementation of the NLIS in Victorian saleyards. This program was completed in June 2005.

Source: RDV.

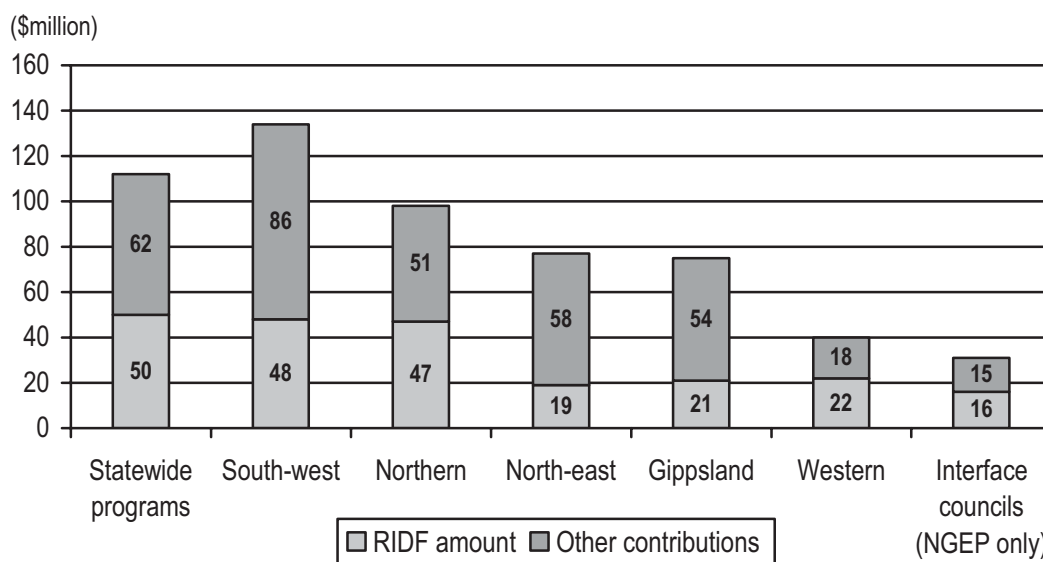


A stock underpass partly funded by the RIDF.

2.4.2 Distribution of RIDF funds across regional Victoria

Figure 2D shows the distribution of RIDF funds across regional Victoria.

FIGURE 2D: DISTRIBUTION OF RIDF AND OTHER CONTRIBUTED FUNDS, AT 30 JUNE 2005



Source: Victorian Auditor-General's Office, from data supplied by RDV.

The south-west and northern regions of the state have received the largest share of grant funds from the RIDF, followed by the western, Gippsland and north-east regions. Grants directed to the provincial centres of Bendigo, Geelong and Ballarat comprise 28 per cent of the grants provided under the RIDF. Grants to interface councils relate to funding provided for the NGEP.

RDV's annual report and other publications provide information on the overall activities and expenditures of the RIDF. However, other useful information (which enhances transparency and accountability over the RIDF's operation) such as the allocation of funds against the principal project categories specified in the Act, the geographic distribution of funds and more detail about the status of approved projects, is not provided.

2.4.3 Conclusions

While RIDF funds have been directed to projects that are consistent with the legislative requirements, we consider that RDV could do more to influence the distribution of RIDF funds, to ensure they achieve optimum outcomes against government priorities for rural and regional Victoria.

Provision of additional information on the operation of the RIDF to parliament and the public, through the RDV annual report or other public documents, would also:

- improve the transparency over the RIDF's operations
- better enable the community to assess the impact of the RIDF on regional and rural Victoria.

Recommendation

1. That RDV:

- **develop guidance on the capital works applicable to each of the infrastructure categories specified in the *Regional Infrastructure Development Fund Act 1999***
- **establish allocation targets for each of the key infrastructure categories specified in the Act, and develop an action plan to deliver the planned allocations**
- **provide more information on the operations and outcomes achieved by the RIDF in its annual report to parliament.**

RESPONSE provided by the Secretary, DIIRD and the Chief Executive, RDV

RDV provides a range of information in its Annual Report and on the RDV website with regard to the operation of the RIDF. RDV and DIIRD will review the recommendations in this report to assess whether there is additional, appropriate information on the RIDF that can be made available through the Annual Report or other mechanisms.

RDV and DIIRD agree that economic leverage should be maximised through RIDF funding, and consequently that the type of infrastructure funded is of importance. However, we also believe that local opportunities and priorities suggest that fully predetermined allocations to project categories may limit the flexibility of the fund to optimise and capture both economic outcomes and local opportunities.

RDV liaises with RIDF applicants to highlight government priorities and objectives, as well as to identify and discuss local opportunities. Nevertheless, RDV is prepared to re-examine the balance between predetermining infrastructure type and maintaining flexibility to meet local needs and opportunities.

RESPONSE provided by the Secretary, DIIRD and the Chief Executive, RDV - continued

It is also worth noting that in a number of areas, other government agencies are the primary deliverers of infrastructure, with large capital budgets. For example, transport and education infrastructure is predominately delivered by other government agencies. The RIDF has a role where certain infrastructure is outside the scope of that normally funded by these agencies, but where the economic impact of that infrastructure is significant for regional Victoria. As such, in a number of project categories, the RIDF is very much a "niche" source of funding for a limited range of economic projects that would otherwise receive no support. For this reason, funding under some categories will be less than under others.

RDV also notes that the geographical distribution of funding is heavily influenced by the nature of the projects funded. As a result, projects in the education and transport categories tend to be physically located in larger regional centres, yet service the broader region. Therefore, while an upgrade to rail access at the Port of Geelong is nominally located in Geelong, the benefit is more widely felt by those regional industries that use the Port as the means of distributing their output.



Centres for Information and Communication Technology were constructed in Bendigo and Ballarat using RIDF funds.

2.5 Performance and reporting framework

For RDV to effectively assess the performance of the RIDF, the following is required:

- measurable objectives for each project, which align with the overall objectives for the RIDF
- funding agreements, which clearly define project objectives, project outcomes and include project milestones

- information systems, which record information on individual project outputs and outcomes
- performance measures and targets for the overall RIDF and the administration of the RIDF
- mechanisms to assess the actual outputs and outcomes generated by projects against the expected outputs and outcomes, and the broader outcomes generated from the operation of the RIDF
- appropriate reporting processes to provide the public and other stakeholders with information on the performance of the RIDF.

Our previous audits of the RIDF⁶ recommended that DIIRD implement a performance and reporting framework to enable the performance of the RIDF to be assessed, with the results reported to the community. In May 2003, we found that while some progress had been made in implementing this recommendation, especially requirements for applicants to identify project objectives that align with the purpose of the RIDF, DIIRD had still not established appropriate measures to assess the performance of the RIDF.

2.5.1 Alignment of legislative objectives

Clear objectives in the legislation or public sector programs are fundamental to determining whether intended policy outcomes are being achieved by public sector agencies. In general, legislated objectives infer the intended outcomes of the legislation that are expected.

The objectives of the *Regional Infrastructure Development Fund Act 1999* are output-focused, for the provision of infrastructure assets such as improved transport links, new industries, facilities for information and communication technology and education, tourism, and the extension of reticulated natural gas supplies. They do not indicate the outcomes desired from the construction of these infrastructure projects.

⁶ Victorian Auditor-General's Office, June 2001, *Report on Ministerial Portfolios*, pp. 360-75, and Victorian Auditor-General's Office, May 2003, *Report on Public Sector Agencies: Results of Special Reviews*, pp. 18-31, Victorian Government Printer, Melbourne.

The outcomes expected by the government for the RIDF were, however, presented to each house of parliament in the second reading of the Regional Infrastructure Development Fund Bill 1999⁷. They include the creation of jobs, attraction of investment, improving the competitive capacity of regional Victoria, enhancing its development and improving environmental management. These outcomes are reflected in the criteria used by RDV to evaluate each project proposal and, generally, are included in the objectives established for each project.

RDV acknowledges these RIDF objectives by assessing RIDF grant applications against selection criteria categorised under the following headings:

- socio-economic
- state and regional priority
- project feasibility and delivery
- financial.

There are 8 criteria for the socio-economic category: creating jobs and stimulating regional economic growth, consistency with ecologically sustainable development, building on key regional strengths, adding value and benefit to existing products and services, attracting and complementing other regional investments, integration of the region into global markets and enjoying local community and industry support.

Under the state and regional priority category, each applicant is required to indicate how the proposed project is consistent with the objectives and key outputs of the government's local and regional development strategies and its stated policy commitments to regional Victoria.

Grant applications are required to identify the objectives and beneficial outcomes expected to be generated by the proposed project.

2.5.2 Project funding agreements

Funding agreements between the minister and grant recipients are established for all approved RIDF projects.

RDV funding agreements include:

- the purpose of the project and expected project deliverables
- project milestones, which largely relate to the staged completion of the project, against which RDV assesses the performance of the project in order to make progress payments

⁷ Second reading speeches, Regional Infrastructure Development Bill, 11 November 1999, Legislative Assembly, Mr J. Brumby, Minister for State and Regional Development, 8 December 1999, Legislative Council, Ms C. C. Broad, Minister for Energy and Resource, Parliamentary Hansard.

- information on the benefits expected to be generated by the project
- funding conditions, including a requirement to refund grant moneys if the project is not completed.

While the (2003-04) funding agreements reviewed provide some information on the outcomes expected from each project, we found the objectives in some agreements were difficult to interpret in terms of the specific outcomes being sought. For example, project objectives such as “to improve economic growth”, “to facilitate industry exports”, or “to benefit social wellbeing” require more information on project-specific outcomes if these projects are to be effectively evaluated.

Although the funding agreements require grant recipients to provide performance information for each project, this information is also often insufficient to enable the outcomes of projects to be effectively evaluated. For example, funding agreements for the establishment of industrial estates require grant recipients to supply reports on the “names of new tenants and any other benefits to the region”.

2.5.3 Monitoring and evaluation of RIDF projects

We expected the RDV would have:

- developed an evaluation strategy and methodology for RIDF projects
- allocated resources, responsibilities and set time frames for undertaking evaluations
- reviewed staff program evaluation training needs and established an appropriate staff training and development program
- evaluated completed RIDF projects to ensure that project deliverables and project outcomes were achieved, consistent with both funding agreement requirements and overall RIDF objectives
- evaluated the performance of the program once a number of projects, relating to that specific program, had been completed.

Evaluation structure

Our past audits found that DIIRD lacked a capability to evaluate individual projects or the overall performance of the RIDF. Although external parties were engaged to undertake evaluations, DIIRD still needed the capability to adequately manage the evaluation process. It also needed to establish an ongoing program of evaluations for the infrastructure projects it facilitated, the results of which would enable the overall performance of the RIDF to be assessed.

In early 2004-05, RDV undertook several initiatives to develop a structure, which would allow it to undertake evaluations of the performance of the RIDF. These initiatives included:

- identification of RIDF evaluation priorities for 2005 and the development of an evaluation strategy, methodology and timetable
- formation of an RIDF evaluation team to lead and develop the evaluation process
- provision of staff training in program evaluation through the Centre for Program Evaluation, The University of Melbourne
- engagement of consultants and commencement of the evaluation of 3 RIDF programs, incorporating staff mentoring in evaluation techniques.

Monitoring and assessment of projects

We found that RDV adequately monitored projects to ensure that infrastructure outputs, such as construction milestones, were delivered on time and on budget.

RDV ensured that RIDF recipients supplied written reports on specific project outcomes, as required under their RIDF funding agreements. We expected RDV to have established procedures to check the accuracy and validity of the project outcomes as self-reported by fund recipients. However, we found that RDV had not established any processes to validate or confirm the accuracy of the project outcomes reported by fund recipients.

In early 2004, RDV published the outcomes of 12 completed RIDF projects and 5 RIDF programs in its January 2004 report *Regional revival - shared growth, Regional Infrastructure Development Fund*⁸. This report was based on an evaluation undertaken in 2002-03 of the economic outputs of 49 RIDF projects, grouped under the following categories reflecting the major policy objectives of the RIDF:

- community infrastructure
- direct industry support for physical infrastructure
- tourism
- knowledge economy.

⁸Regional Development Victoria, *Regional revival - shared growth. Regional Infrastructure Development Fund*, January 2004, Melbourne.

The consultants who undertook the evaluation projected that the RIDF investment relating to the 49 projects reviewed was likely to generate greater than anticipated benefits to rural and regional communities over 20 years. The consultants did, however, indicate that the accuracy of their assessment was impacted by the fact that many of the projects evaluated had not been completed at the time of their review.

RDV's evaluation program for 2005–06 includes reviews of the following RIDF programs:

- Rural Community Infrastructure Allocation
- National Livestock Identification System
- Dairy Power Infrastructure Upgrades
- Stock Underpass/Overpasses.

The RDV evaluation team is also aiming to conduct evaluations in 2005–06 of completed industrial development, tourism and education projects.

2.5.4 Performance information

RDV's information systems record the performance data supplied by grant recipients, and information on the administration of the RIDF.

Information relevant to the overall outcomes the government is expecting from the operation of the RIDF could include data on:

- the growth of regional populations
- employment trends in regional Victoria
- building activity and tourism.

Of these, RDV maintains data on regional employment, however, this information is not used by the RDV in assessing the performance of the RIDF.

2.5.5 RIDF performance measures and targets

RDV has developed a number of output-based performance measures and targets for the RIDF, as shown in Figure 2E. These measures and targets, except for those relating to the amount of funds leveraged, are set by the government⁹. The actual results of the performance of the RIDF against these targets are reported in the DIIRD annual report.

⁹ Output targets are published annually by the Department of Treasury and Finance, e.g. see Department of Treasury and Finance, 2005, Budget Paper No. 3, Service Delivery 2005–06, Innovation, Industry and Regional Development, p. 137.

FIGURE 2E: RIDF OUTPUT-BASED PERFORMANCE MEASURES, 2004-05

Major outputs/deliverables	Target
Number of RIDF projects funded (excluding Small Towns Development Fund and Natural Gas Extension Program)	(annual) 5
Number of Small Towns Development Fund projects funded (Government's 2005-06 output target)	(annual) 60
Minister's acceptance of RIDF Committee recommendations	90%
Advice to RIDF applicants after receipt of applications	90 days
Funds leveraged (a)	2:1

(a) This target it is not a government Budget output target, but used internally by RDV.

Source: RIDF Monthly Performance Report, RDV.

Since the establishment of the RIDF in 2000, the government's output targets have generally been met.

RDV has not established any outcome measures to assess whether RIDF infrastructure projects have produced the expected regional outcomes.



Victorian Goldfields Railway – upgraded with RIDF funds.

2.5.6 Reporting on RIDF performance

Given the significant investment in rural and regional infrastructure financed by the RIDF and the public interest in the RIDF, we expected that RDV would:

- periodically provide DIIRD¹⁰ with detailed reports on the operation of the RIDF
- publicly report on the performance of the RIDF against its overall objectives.

¹⁰ RDV operates as if it is a division of DIIRD and reports directly to the secretary of DIIRD rather than to an independent board.

RDV provides DIIRD with monthly reports on the operations of the RIDF, including performance information related to the efficiency of the RIDF's application process and the achievement of its targets.

As noted previously, RDV also intends to assess the outcomes of several RIDF programs and projects to DIIRD in 2005-06.

In its first annual report (2003-04), RDV provided information on the achievement of output targets for regional infrastructure development, as established by the government. The following RIDF performance outputs were reported:

- number of projects funded for the main program and small towns sub-program
- number of towns provided with access to natural gas reticulation
- percentage of RDV committee recommendations accepted by the minister
- time taken to advise applicants on the acceptance or otherwise of their applications.

However, the annual report did not provide information on the outcomes generated from the operation of the RIDF. For example, while the annual report indicated that the state has a target of a regional population growth of 1.25 per cent per annum by 2006, there are no regional population trend statistics included in the report.

We were advised that, at 30 June 2005, an evaluation of the outcomes of 3 RIDF programs was almost complete and, in August 2005 a review of the economic impact of the Natural Gas Extension Program was made publicly available on the internet¹¹.

2.5.7 Conclusions

While RDV has made a number of improvements to its application and project reporting processes since our 2003 audit, its performance evaluation framework is still incomplete in terms of having the appropriate performance measures for evaluating RIDF outcomes. Consequently, RDV cannot effectively measure or report on whether RIDF infrastructure projects are achieving the expected policy outcomes for regional Victoria, or for the RIDF as a whole.

RDV is taking positive measures to improve its evaluation capability and its accountability will be enhanced when it makes the results of its program evaluations for the RIDF available to the public.

¹¹ See <http://www.business.vic.gov.au/regional_Victoria/infrastructure_development/programs/natural_gas_extension_program>.

There is insufficient public information available on the overall performance of the RIDF, particularly in relation to any impact it may be having on the economic and social development of rural and regional Victoria. RDV's annual report to parliament provides information on the outputs of regional infrastructure development, but does not address outcomes in terms of whether the policy objectives of the RIDF are being achieved.

Recommendation

2. That RDV:

- **develop relevant performance targets for each project that are related to overall policy objectives of the RIDF and incorporate these into the reporting requirements of project funding agreements**
- **establish a process to validate performance data that is supplied by grant recipients**
- **on the completion of each project, undertake an evaluation to determine whether the project deliverables and project outcomes were achieved, consistent with both funding agreement requirements and overall RIDF objectives. The extent of the evaluation should be determined by the risk and materiality of the grant**
- **develop outcome measures and targets for the RIDF that directly align with the purpose for which the RIDF was created, and collect relevant data to publicly report on these measures. These measures could include changes in regional population and employment, regional tourism and building activity.**

RESPONSE provided by the Secretary, DIIRD and the Chief Executive, RDV

RDV continues to improve its reporting framework for the RIDF. As indicated by the Auditor-General in this report, progress has been made in terms of RDV's evaluation capacity, methodology and level of information available on the performance of the RIDF. Through the adoption of a "Project Logic Model" approach to monitoring, improvements are also being made to individual project reporting requirements. DIIRD and RDV will review the recommendations of this report with a view to further improving its reporting framework.

2.6 Regional Development Victoria's compliance with legislation

As indicated earlier in this part of the report, a member of parliament alleged that 13 grants were inappropriately paid by RDV to inner-metropolitan councils.

The RDV was established on 1 July 2003 following the proclamation of the *Regional Development Victoria Act 2002* on 3 March 2003. The main purpose of RDV is to facilitate economic and community development in rural and regional Victoria. RDV manages 19 programs in addition to the RIDF program, which provide a range of services including investment facilitation, information, advice and referral services for business, assistance with developing export markets, establishment of regional business networks, and assistance in the co-ordination of government programs and services in rural and regional Victoria.

One of the major means used by RDV to achieve its objectives is the provision of grant funding to public and private sector organisations for the benefit of rural and regional Victoria. Rural and regional Victoria is defined in the Act as having the same meaning as "regional Victoria" in the *Regional Infrastructure Development Fund Act 1999*, which is the municipal districts of:

- 48 councils set out in Schedule 1 of the Act
- alpine resorts within the meaning of the *Alpine Resorts Act 1983*.

The functions of the RDV are outlined in section 5(1) of the *Regional Development Victoria Act 2002*. Under this section, 10 functions are specified, with each function indicating that it is to benefit regional and rural Victoria. This means that RDV can only provide financial assistance to organisations for the benefit of people living within the municipal districts of the abovementioned councils and alpine resorts.

The *Regional Development Victoria Act 2002* also allows RDV, following written directions from the Minister for State and Regional Development, to provide assistance to the organisations located within 9 metropolitan councils bordering regional and rural councils. Projects undertaken by these organisations are to provide benefits to communities in rural and regional Victoria.

During 2003-04, RDV paid grants totalling \$142 045 to 6 councils for the benefit of people living in metropolitan Melbourne, rather than for the benefit of people living in the municipal districts listed in the Schedule of the Act. These councils and the payments made are shown in Figure 2F.

FIGURE 2F: METROPOLITAN COUNCILS IN RECEIPT OF RDV FUNDS

Municipal council	RDV program	2003-04	Date approved by minister
		(\$)	
Banyule	Council and Regional Development Body	19 515	3/06/2002
Brimbank	Living Regions, Living Suburbs	21 598	27/08/2002
Melbourne	Council and Regional Development Body	12 500	4/06/2002
Monash	Living Regions, Living Suburbs	47 250	5/06/2002
Frankston	Living Regions, Living Suburbs	22 682	3/05/2002, 9/10/2002
Maribyrnong	Council and Regional Development Body	18 500	15/10/2002
Total		142 045	

Source: DIIRD annual report, 2003-04.

These grants were made under the “Living Regions, Living Suburbs”¹² and “Council and Regional Development Body”¹³ programs, and are consistent with the objectives of these programs. These programs were transferred from DIIRD to RDV on the establishment of RDV. Funding for the programs is via parliamentary appropriations to DIIRD.

Figure 2F shows that, while the payments were made by RDV in 2003-04, the minister approved these grants before the establishment of RDV. A further \$53 000 was paid to 2 organisations for the benefit of metropolitan Melbourne in 2004-05.

RDV also made another 7 grant payments totalling \$253 530 under the same programs to councils or other organisations located in the municipal districts of councils referred to in the Schedule to the *Regional Development Victoria Act 2002*. While the minister approved the respective projects for funding, the minister did not give written directions to authorise the chief executive to make payments to the organisations located in these districts, as required by the Act. These grant payments are shown in Figure 2G.

¹² The Living Regions, Living Suburbs Program provides financial support for initiatives promoting economic and social renewal in rural, regional and suburban communities throughout Victoria.

¹³ Under the Council and Regional Development Body Program, assistance is provided to regional and interface councils and development bodies to work together. The program also funds individual projects on a broader regional basis to promote and facilitate economic development. Grants, issued on a dollar-for-dollar basis, are made to individual councils for priority projects that have an economic focus.

FIGURE 2G: PAYMENTS TO ORGANISATIONS WITHIN INTERFACE COUNCIL DISTRICTS, 2003-04 AND 2004-05

Grant recipient	Program	2003-04	Date approved by minister	2004-05	Date approved by minister
		(\$)		(\$)	
Melbourne's Northern Economic Wedge Inc.	Council and Regional Development Body	60 000	5/09/2002	-	-
Greek Orthodox Community of Frankston and Peninsula Inc.	Living Regions, Living Suburbs	50 000	29/07/2003	-	-
Western Melbourne Regional Economic Development Organisation	Living Regions, Living Suburbs	10 230	3/05/2002	-	-
Melton Shire Council	Council and Regional Development Body	25 160	3/06/2002	164 572	4/06/2002, 6/02/2004
Melton Shire Council	Living Regions, Living Suburbs	83 500	25/05/2004, 18/09/2002	15 750	25/05/2004, 18/06/2004, 30/04/2005
Wyndham City Council	Living Regions, Living Suburbs	14 640	25/05/2004	-	-
200th Anniversary of Victoria's first European Settlement Sorrento	Living Regions, Living Suburbs	10 000	30/09/2003	-	-
Total		253 530		180 322	

Source: DIIRD annual report 2003-04.

Figure 2G shows that of the \$253 500 provided to interface councils, 4 of the 7 grants were approved by the minister before the establishment of RDV. A further \$180 322 was granted to Melton Shire Council in 2004-05.

In addition to the functions, outlined in Section 5 (1) of the *Regional Development Victoria Act 2002*:

- the Minister has powers under Section 5 (1) (k) of the Act to direct RDV (in writing) to perform "any other function"
- Section 5(2) of the Act allows RDV to do all things necessary or convenient to be done for or in connection with the performance of its functions, outlined in Section 5(1).

RDV advised us that Section 5(2) of the Act allowed it to provide the financial assistance to the:

- 6 metropolitan councils included in Figure 2F
- 7 organisations included in Figure 2G.

In the event that this section did not allow it to provide this assistance, RDV indicated that in signing the approval documents and project funding agreements, the Minister was implicitly providing written directions, as required by the Act.

We asked the Victorian Government Solicitor's Office to provide us with advice on this issue. They advised us that, for the payments made to:

- the 6 metropolitan councils included in Figure 2F, the Minister does not have the power to direct the RDV to perform functions in relation to projects in these municipal areas
- the 7 organisations included in Figure 2G, payments could have been made by the RDV exercising its powers, if the Minister had given written directions to the RDV's Chief Executive. However, the Minister's action in signing the respective approval documents and funding agreements relied on by RDV as constituting the approval of the Minister, could not constitute a direction as required by the Act.

However, the legal advice identified that the staff undertaking RDV functions were all DIIRD employees. It could, therefore, be assumed that when payments were made to the benefit of regional and rural Victoria, staff were performing functions in accordance with RDV legislative requirements. Alternatively, when these staff made payments to metropolitan councils, it could be assumed that they were doing on behalf of DIIRD.

The difficulty with the administrative arrangements in place was that:

- in the making of payments to metropolitan councils, it was unclear under what authority these payments were made
- when RDV made recommendations to the Minister for the provision of grants in 2004-05, the recommendations did not specifically identify the portion of the grants to be made under the legislative authority of RDV and the portion made by the authority of DIIRD.

In this sense, the RDV payments made to the metropolitan councils represented a technical breach of the Act.

RDV and DIIRD have agreed that, in future, recommendations to the Minister from RDV to approve funding to metropolitan councils, will clearly indicate that the financial assistance provided is made under the authority of DIIRD.

2.6.1 Conclusion

The intention of the *Regional Development Victoria Act 2002* is for RDV to provide assistance to organisations in order to facilitate economic and community development in rural and regional Victoria.

We concur with the conclusions reached by the Victorian Government Solicitor and consider that:

- where the financial assistance outlined above was not made to organisations for the benefit of rural and regional Victoria, Section 5(2) does not apply
- in signing approval documents and project funding agreements, the Minister is not explicitly endorsing the performance of functions, additional to those specified in the Act.

We acknowledge that the financial assistance provided was not large, but there is a point of principle here, that all RDV payments must be in accordance with its legislative provisions. Nevertheless, we do not believe that RDV, in providing this assistance, deliberately attempted to circumvent the requirements of its Act.

Given that RDV forms part of DIIRD, with its functions and funding integrated with those of DIIRD, there is a need for greater clarity, in future, about the funding provided for RDV programs and, therefore, the legislative authority under which payments are made.

Recommendation

- 3. That, where RDV provides financial assistance to organisations which are located in interface council districts, the minister should provide written directions to the Chief Executive Officer to permit these payments, as required by the *Regional Development Victoria Act, 2002*.**

RESPONSE provided by the Secretary, DIIRD and the Chief Executive, RDV

RDV now accepts the necessity to obtain a ministerial direction for the payment of grants to interface councils and it is working with DIIRD in adopting an appropriate administrative procedure which accords with the requirements of the Regional Development Act 2002. In regard to metropolitan councils that receive grants from programs administered by RDV, approval of grants and payments will in future be made through the authority of DIIRD.

RDV agrees with the conclusion of the report which found that RDV did not deliberately attempt to circumvent the requirements of its Act. It is further noted that the allegation that funds which were allocated for regional and rural purposes have been inappropriately provided to inner-metropolitan councils is not substantiated.



3. Strategic Purchasing and Barwon Region Water Authority: Contract for the supply of water treatment chemicals



3.1 Audit conclusion

Most Victorian water authorities operate drinking water treatment plants that require the use of chemicals in the water purification and disinfection process. As the cost of these chemicals is significant, amounting to millions of dollars annually, the Victorian Water Industry Association¹ made arrangements early in 2002 for Victorian water authorities to purchase their water treatment chemicals from suppliers as a group, rather than individually, to reduce operating costs.

The authorities agreed to use Strategic Purchasing to manage the tendering, selection and administrative processes.

This article outlines the results of our investigation of the tendering and administrative arrangements for the supply of water treatment chemicals to the Barwon Region Water Authority (Barwon Water). This investigation was in response to a complaint received by us in October 2004, regarding the appropriateness of these arrangements.

It was alleged that subsequent to the closure of tenders, Strategic Purchasing inappropriately changed certain tender requirements. Our investigation disclosed that the tenderer selected by Strategic Purchasing to supply the chemicals used specifications that differed in some areas (such as chemical characteristics) to those required in the tender documentation. In these circumstances, we consider that it would have been appropriate for Strategic Purchasing to give the unsuccessful tenderer an opportunity to resubmit a revised tender, based on the same specifications as those used by the successful tenderer. This was not done.

The complainant also alleged that chemicals supplied to Barwon Water repeatedly failed to meet a number of the chemical specifications contained in the contract and the tests undertaken on these chemicals (provided by the supplier) incorrectly stated that they complied with the contract specifications.

Due to the passage of time, it was not possible to independently determine whether the chemicals delivered to Barwon Water in the past had complied with the specifications of the contract. However, testing of these chemicals provided by the supplier generally showed that the chemicals met the contract specifications.

¹ The Victorian Water Industry Association is the representative body of the Victorian water authorities and companies.

We undertook independent tests on samples of chemicals taken from 2 Barwon Water treatment plants to see whether they complied with the specifications of the contract. While these tests largely indicated that the samples tested complied with the contract specifications, we were concerned with the:

- difficulty in finding suitably qualified laboratories (accredited by the National Association of Testing Authorities²) to undertake the required testing for impurities in the chemicals
- adequacy of testing methods currently available to undertake the required tests
- variability of the results obtained by the 2 laboratories engaged by us and the laboratory engaged by the supplier.

As a result, it is not possible to determine with certainty that the impurity testing of water treatment chemicals undertaken by laboratories is reliable.

Our overall assessment is that the arrangement, to use Strategic Purchasing to tender and engage suitable providers for the supply of water treatment chemicals, has been successful. Over the term of the contract, the authority has achieved significant reductions in chemical usage and operating costs of around 10 per cent, with no apparent negative impact on the effectiveness of its water treatment process or drinking water quality.

However, our investigation identified a number of areas for further improvement, including:

- Strategic Purchasing's tendering procedures, particularly in relation to fairness, accountability and transparency
- contract documentation, monitoring procedures and contract management
- adequacy and appropriateness of representations, made by the chemical supplier in certificates, analysing the composition of chemicals supplied
- clarification of the responsibility for monitoring the performance of the supplier (such as quality assurance audits of the supplier's systems and procedures and inspections of its production processes).

It is pleasing to note that subsequent to our investigation both Barwon Water and Strategic Purchasing have taken action to address a number of the issues raised in this report. Action specifically taken by Strategic Purchasing included a review of its contract documents, clarification of its role and that of its clients and facilitation of industry workshops focused on standardising specifications and developing best practice.

² NATA provide certifications as to a laboratory's competence to produce valid data and results for a defined set of tests and its general technical competence.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

Strategic Purchasing partially agrees with this overall conclusion. The joint tendering process between the water authorities and Strategic Purchasing has been successful in that it has resulted in:

- *a general reduction in prices for all chemicals and established new pricing benchmarks*
- *uniform product specifications across all water authorities*
- *suppliers investing more time and effort in their QA procedures and processes*
- *improvements in delivery arrangements*
- *a greater emphasis on security tagging and safety.*

Strategic Purchasing acknowledges that:

- *the findings of the audit report that the arrangement to use Strategic Purchasing to tender and engage suitable providers of water treatment chemicals has been successful in achieving significant reductions in usage and operating costs, with no apparent negative impact on the effectiveness of the water treatment process or drinking water quality*
- *testing of the chemicals supplied to Barwon Water generally showed that they met the contract specifications*
- *it may have been appropriate for Strategic Purchasing to give the unsuccessful tenderer the opportunity to resubmit a revised tender however re tendering or seeking a revised tender based on minor specification differences would not have addressed the other selection criteria and requirements of the project and therefore would not have changed the final outcome.*

It should also be noted that NSF Standard 60, an independent accreditation which was developed in the United States by International regulatory agencies, establishes minimum requirements for the quality of products added to drinking water during the treatment process. The recommended tenderer had achieved this certification whereas the claimant had not.

It is agreed in general that Strategic Purchasing processes can improve, however we disagree with the inference that Strategic Purchasing processes are unfair and lack accountability and transparency.

During the course of this audit, Strategic Purchasing provided all of its contract files, tender assessment documents, working files and all other available documents for scrutiny by the Auditor-General's office. There was no information, either documented or verbal that was withheld. These are not the actions of an organization lacking in accountability and transparency.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing - continued

Re tendering or seeking a revised tender from the unsuccessful tenderer based on minor specification differences would not have addressed the other selection criteria and requirements of the project and therefore would not have changed the awarding of contracts.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Barwon Water welcomes the key finding of this audit report that public health has been protected, at all times, through the provision of safe drinking water. The supply of safe drinking water is ensured through a multi-barrier drinking water quality risk management system that spans from catchment to tap. An analysis of chemical supply management practices requires consideration of the combined effect of these barriers.

Water treatment chemicals are an essential input to the water supply process. In accordance with Barwon Water's multi-barrier risk management approach, a number of systems are in place to minimise the potential risks associated with chemical addition. Public health risks associated with water treatment chemicals are negligible due to the extremely low concentrations of application and stringent supply specifications, which are several orders of magnitude below health limits as defined by the Australian Drinking Water Guidelines 2004.

The inherent difficulties associated with testing water treatment chemicals are addressed through a comprehensive drinking water monitoring program that monitors water quality throughout the water supply system to a high level of accuracy.

Barwon Water has worked continuously throughout the term of the contract to ensure chemical supply arrangements reflect best practice. This has included immediate implementation of improvement opportunities as they have been identified through the audit process.

The Strategic Purchasing process has provided significant economic efficiencies and highly compliant, high performance chemical products backed by competent technical support. Future chemical supply contracts entered into by Barwon Water will incorporate the agreed recommendations of this report.

3.2 Introduction

Most Victorian water authorities operate drinking water treatment plants that require the use of chemicals in the water purification and disinfection process. As the cost of these chemicals is significant, amounting to millions of dollars annually, the Victorian Water Industry Association³ made arrangements early in 2002 for Victorian water authorities to purchase their water treatment chemicals from suppliers as a group rather than individually to reduce operating costs.

The authorities agreed to use the MAPS Group Ltd (trading as Strategic Purchasing) to manage the tendering, selection and some administrative processes for some of their commonly used chemicals. MAPS is a public company owned by local councils and water authorities that negotiates and facilitates supply contracts for common-use goods and services on behalf of its members. The company's 180 Victorian members include local councils, universities, TAFE colleges, water authorities and some government departments.

On its engagement, the authorities indicated to Strategic Purchasing that the main purpose of the arrangement was to generate cost savings from the purchase of water treatment chemicals.

Strategic Purchasing established a steering committee to set directions and monitor its tender process. Working groups, comprising Strategic Purchasing personnel and staff from water authorities with technical expertise in water treatment, were also formed to develop tender and chemical specifications and the master contract for the supply of the chemicals.

From the chemical supply requirements provided by participating authorities (which included chemical specifications, volumes, quality assurance requirements and delivery arrangements), Strategic Purchasing developed a set of tender documents.

The tender was advertised in *The Age* newspaper on 26 October 2002. When the tender closed on 20 November 2002, 12 tenders had been received for the supply of 26 chemicals.

Following the tender process, 4 suppliers were selected to provide the chemicals required. Strategic Purchasing then entered into a master contract with each supplier and sub-agreements were established, between individual water authorities and the suppliers.

³ The Victorian Water Industry Association is the representative body of the Victorian water authorities and companies.

While these sub-agreements outlined each authority's specific requirements and allowed them to purchase chemicals at the prices established in the tender process, authorities were under no obligation to purchase chemicals. A total of 9 water authorities signed sub-agreements under the master contract.

A private sector company became the preferred supplier for a wide range of commonly used water treatment chemicals, including polyaluminium chloride (PAC23).

Both the master contract and sub-agreements for the purchase of PAC23 were for a 2-year period ending on 28 February 2005, with the option of another year. In February 2005, this option was exercised and the extended contract will expire on 28 February 2006.

PAC23 is a coagulant, which is added to water as the water enters the treatment plant, prior to filtration. This chemical is used to gather impurities in the water into clusters, so that they can be removed by filters. PAC23 is a highly refined coagulant that reduces the requirement to add chemicals downstream of the treatment process and produces low residuals and sludge volumes.

This article focuses on the PAC23 supply sub-agreement between the supplier and the Barwon Region Water Authority.

Barwon Water was constituted in February 1994 as a statutory authority under the provisions of the *Water Act 1989*. As Victoria's largest regional urban water authority it provides water and sewerage services to more than 250 000 residents living in an area of 8 100 square kilometres. It manages approximately \$1 billion worth of assets, including more than 5 000 kilometres of pipes, 10 major reservoirs, 10 water treatment plants and 9 water reclamation plants.

Barwon Water advised us that transferring the tendering and administrative functions to Strategic Purchasing delivered a number of benefits:

- it saved individual authorities money they would have spent on tendering and contract development
- to February 2005, Barwon Water had saved \$277 500 (around 10 per cent of total PAC23 purchases) on the purchase of chemicals, with an estimated additional saving of \$70 000 for the remaining term of the contract
- dosing optimisation (the use of less volumes of chemicals) should save an estimated \$113 000 over the whole term of the contract
- the new supplier provided a better service than the previous one.

3.3 Audit objectives and scope

On 29 October 2004, we received a letter of complaint from an industry participant raising a number of concerns about the arrangement between Strategic Purchasing, Barwon Water and the supplier for the supply of water treatment chemicals. The concerns related to Strategic Purchasing's tender processes and Barwon Water's management of its arrangement with the supplier, with particular emphasis on the supply of PAC23.

The complainant alleged that:

- subsequent to the closure of tenders, Strategic Purchasing inappropriately relaxed certain tender specifications
- chemicals provided by the supplier repeatedly failed to meet a number of the chemical specifications contained in the contract
- certificates of analysis on chemicals acquired by Barwon Water incorrectly stated that the chemicals complied with the contract specifications.

The objectives of our investigation were to:

- determine whether the allegations made by the complainant were true
- establish whether there was any risk to public health from the current arrangements
- provide guidance to the industry in relation to the future purchase of water treatment chemicals.

In investigating these allegations, we:

- reviewed the tendering and contract administration processes undertaken by Strategic Purchasing
- examined Barwon Water's management of its arrangement for the purchase of the water treatment chemical PAC23 and water quality processes
- took 2 samples of PAC23 delivered by the supplier to Barwon Water treatment plants and undertook an independent analysis of their chemical composition to compare the sample results with the specifications stipulated in the contract.

We examined a variety of relevant documents:

- tender documents, including tender specifications
- the contract between the supplier and Strategic Purchasing and other relevant documents held by Strategic Purchasing
- the sub-agreement between Barwon Water and the supplier

- documents provided by the supplier to Barwon Water about delivery of the chemicals, and certificates detailing the chemical composition of the chemicals
- Barwon Water's procedure manuals and other supporting documents.

We held discussions with the complainant, staff of Barwon Water, other water authorities and representatives from the National Association of Testing Authorities (NATA). We visited Barwon Water's offices in Geelong and its water treatment plants at Wurdee-Boluc and Moorabool. We visited and held discussions with staff of Strategic Purchasing. We also engaged the services of the Department of Primary Industries' specialist staff to provide specialist advice on scientific issues.

3.4 Tendering arrangements

Water treatment basically has 2 purposes: to remove impurities from water supplies, and to disinfect the water.

Adding chemicals to drinking water is essential for these treatment processes to occur, however, in doing so there are a number of potential risks that need to be managed, including:

- Public health – Impact on the individuals drinking the water
- Impact on the treatment process – Where chemicals do not meet the required specifications, the efficiency of the treatment process may be adversely affected and water treatment equipment may be damaged
- Occupational health and safety issues – Water treatment chemicals can become hazardous to individuals handling them.



Computerised equipment in use in the water treatment process at the Wurdee-Boluc water treatment plant. The efficient function of such equipment is at risk if poor quality chemicals are used in the treatment process.

Robust tendering arrangements, which include specific standards for water treatment chemicals are, therefore, an important component of an authority's control processes, established to manage the above risks.

The complainant had alleged that, subsequent to the closure of tenders, Strategic Purchasing inappropriately relaxed certain tender specifications. Our review of the tender process for the supply of the water treatment chemicals disclosed the following.

3.4.1 Purchasing guidelines and FOI requirements

Before it began using Strategic Purchasing, Barwon Water and other water authorities separately and directly undertook tendering processes for the provision of water treatment chemicals, and for other goods and services. In selecting suppliers, authorities were bound to comply with the Victorian Government Purchasing Board's guidelines and their tender documentation and processes were open to public scrutiny under Freedom of Information (FOI) legislation.

Once the supplier started providing chemicals to Barwon Water, the complainant made a request (under FOI) for Barwon Water to provide him with the results of chemical testing undertaken on the PAC23 delivered to the authority. Barwon Water referred the tendering process portion of the request to Strategic Purchasing, which responded by indicating to the authority that it is a public company limited by shares and not a government agency and as such, it is not subject to FOI requirements.

Following further discussions, both Barwon Water and Strategic Purchasing decided that the information should not be provided. Barwon Water subsequently wrote to the complainant to inform him of the decision.

Over many years, government guidelines and FOI legislation have helped ensure that government purchasing is competitive, equitable, transparent and accountable.

Conclusion

If Strategic Purchasing is not bound to comply with these guidelines and FOI legislation its tendering and contract management processes are not open to public scrutiny. Consequently, the company's 180 Victorian members, the majority of which would normally be subject to public tendering and FOI requirements, may bypass these mechanisms by undertaking their purchases through Strategic Purchasing.

In these circumstances, private sector entities may lose confidence in the equity and transparency of the tender processes where Strategic Purchasing is involved. This, in turn, may reduce the number of organisations that are willing to bid for the provision of government goods and services, which will adversely impact on the quality and cost of the goods and services supplied to government agencies.

Recommendation

- 1. That government agencies using Strategic Purchasing's tendering services ensure that it complies with the state government's purchasing guidelines and FOI legislation.**

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

For future contracts Strategic Purchasing will consult with participating water authorities on the extent and appropriateness of information which may be disclosed in future FOI requests.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing - continued

There is no evidence to date of private sector entities having lost confidence in the equity and transparency in Strategic Purchasing's tender processes.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Barwon Water is committed to ensuring that any tendering process it utilises complies with the Victorian Government Purchasing Board guidelines.

Barwon Water has conducted previous compliance reviews of Strategic Purchasing's stated practices against these guidelines. Anomalies identified through this audit process will be addressed prior to committing to any future Strategic Purchasing contracts.

In relation to FOI legislation, Barwon Water will seek agreement with Strategic Purchasing on appropriate responses to future FOI requests. In this case, the information requested by the complainant was exempt from FOI requirements as it contained proprietary business information regarding the constituents of the supplied chemical product.

3.4.2 Compliance with tender specification

The tender documents released by Strategic Purchasing, in October 2002, for the supply and delivery of drinking water treatment chemicals:

- allowed applicants to submit non-conforming tenders, in addition to conforming tenders
- indicated that Strategic Purchasing had the right to negotiate with tenderers, after the close of the tender, about tenders lodged, as well as about terms, conditions and any other matter related to the establishment of a contract.

The tender specifications included both specifications for the chemical composition of the product (chemical specifications) and other specifications. The chemical specifications had 2 components. The first related to the physical and chemical attributes of the product such as appearance, pH and basicity. The second related to the impurities contained in the product such as arsenic, phosphorous and lead.

The supplier submitted only one tender for PAC23, which did not conform to the tender chemical specification, in respect of the pH and Turbidity requirements. A comparison of the non-conforming specifications included in the supplier's tender and the specifications required is shown in Figure 3A.

FIGURE 3A: COMPARISON OF TENDER SPECIFICATION WITH THE SUPPLIER’S NON-CONFORMING TENDER

Parameter	Tender specification	Supplier’s specification
pH	3.5-4.5	3.0-4.0
Turbidity	5-10 NTU	<20 NTU, average 10 NTU

Note: NTU- Nephelometric turbidity units, a measurement of the cloudiness of the chemical due to suspended particles in the chemical.

Source: Strategic Purchasing tender documentation.

The tender specification required that all chemical testing be conducted by a NATA-accredited laboratory. The supplier’s tender provided for the testing related to the physical and chemical attributes of the product to be undertaken in its own laboratory and only the testing for impurities to be undertaken by a NATA-accredited⁴ laboratory.

After evaluation of the tenders against predetermined criteria, Strategic Purchasing decided to accept the supplier’s tender. It considered that:

- lower standards for pH and turbidity in the supplier’s tender were acceptable as the product proposed would not adversely impact on the water treatment process or public health
- allowing the supplier to undertake the testing of the physical and chemical attributes of the product provided adequate assurance that the product was meeting the chemical specifications required
- the supplier’s tender represented the best value-for-money.

Strategic Purchasing did not:

- disqualify the supplier’s tender despite it not complying with the tender specifications. The tender documentation indicated that alternate tenders would only be accepted, if accompanied by a conforming tender. The tender stated, *“tenderers are at liberty to submit alternative tenders together with a conforming tender bid”*
- notify the unsuccessful tenderer that it had allowed a non-conforming tender and give the tenderer the opportunity to resubmit a revised tender, based on the same specifications as those used by the supplier in its non-conforming tender.

The complainant was concerned that Strategic Purchasing had accepted a tender that offered a product with a quality lower than that stipulated in the tender specifications. It was alleged that as this product was much cheaper to manufacture than that required in the specification, the selected tenderer had an unfair advantage.

⁴ The laboratory is required to be accredited by the National Association of Testing Authorities (NATA).

We discussed this important issue with Strategic Purchasing. The company advised us that they considered:

- the non conformances were minor in nature
- the unsuccessful tenderer also failed to submit a conforming bid
- a major requirement of the tender was to select suppliers which could provide a broad range of chemicals to a number of sites. The unsuccessful tenderer only tendered for the supply of one chemical and was not willing to supply all of the sites required
- once the tenders had been evaluated, the size of the gap separating the supplier's tender from its competitors was such that a further tender submission by the unsuccessful tenderers, based on price alone, would not be able to bridge that difference. Consequently, it would have been futile and a waste of resources to re-open the tender process⁵.

Audit findings

Given that water authorities established the chemical specifications, based on what they considered to be appropriate requirements to protect public health and ensure an efficient treatment process, it would seem reasonable to expect tenders would have to comply with these specifications. If it was intended that tenderers could negotiate their specifications, there would have been no reason to establish them in the first place.

We were told by Strategic Purchasing that the unsuccessful tenderer failed to meet the requirement to provide testing results for impurities on each batch delivered, by proposing to provide these results on a quarterly basis. Our examination of the unsuccessful tenderer's bid disclosed that they were prepared to provide test results on impurities "at least quarterly, or by specific arrangement with individual customers". In these circumstances, we do not consider that the unsuccessful tenderer submitted a non-conforming tender.

Strategic Purchasing may have considered the supplier's ability to provide a broad range of chemicals to a number of sites as a major requirement of the tender. However, the importance of this requirement was not clearly communicated in the tender documentation.

⁵ Subsequent to the establishment of the arrangement, Barwon Water had discussions with the supplier regarding the chemical composition of the PAC23 supplied. Following these discussions, the supplier agreed that from August 2004, all PAC23 supplied would comply with the original tender specifications, at no additional cost.

Our review of the assessment process indicated that the tenders submitted for the PAC23 contract were given the same rating with the exception of price and the sub-criteria, product and service diversity. This meant that the difference in the rating assigned to each tender was largely due to price.

Conclusion

We acknowledge that with complex tenders for high dollar value purchases, the need may arise for some clarification of requirements and settlement of contractual arrangements subsequent to the closure of the tender.

However, the tender documents clearly specified that tenderers were required to submit a conforming tender. As the supplier's tender did not comply with all the tender specifications, there were grounds for rejecting the tender.

It is inequitable to accept non-conforming tenders without providing other tenderers with the opportunity to bid on the same basis. Such practices can benefit particular tenderers and if they are not disclosed, or communicated to all tenderers, the whole tender process lacks transparency and integrity.

We are not suggesting that the chemicals provided by the successful supplier are in any way inferior to the chemicals provided by the unsuccessful tenderer or that better outcomes would have been achieved by selecting the unsuccessful tenderer. Our concern is with the lack of due process.

Making changes to tender specifications and contract conditions after tenders have closed can also create the situation where tenderers deliberately submit low-priced, non-conforming tenders with the intention of winning the tender and then renegotiating the terms and conditions.

The allegation that Strategic Purchasing inappropriately relaxed certain tender specifications subsequent to the closure of tenders proved to be correct.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

We do not agree that rejecting the successful tenderer's offer would have been of any value. There is no guarantee that repeating the tender process or seeking a revised tender from the unsuccessful tenderer would have resulted in the submission of fully conforming tenders from all participants.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing - continued

The conclusion insinuates that a low-priced, non-conforming tender was submitted with the intention of winning the tender and then renegotiating terms and conditions. As stated above, conforming to the requirements of the specification by the preferred supplier during the course of the contract did not result in any cost variations or claims.

We disagree with the claim that Strategic Purchasing inappropriately relaxed certain tender specifications subsequent to the closure of tenders. Preference was given to the tender with the contract items that most closely conformed to the specified requirements and was in accordance with the provisions of the "Conditions of Tender". This was done after a post tender commitment was given by the preferred supplier to fully conform to the tender specification and to continue to undertake testing on site to ensure optimum results.

RESPONSE provided by the Chief Executive Officer, Barwon Water

In Barwon Water's opinion, the supplier's offer did not constitute a material variation from tender specifications. This is supported by the fact that:

- *subsequent to contract award, contract specifications were negotiated back to the original tender specification at no additional cost; and*
- *a direct comparison of the performance of the complainant's product and the supplier's product, prior to entering into the sub-agreement with the supplier, found no difference in treated water quality.*

Over the term of this contract, Barwon Water has given significant consideration towards continuous improvement initiatives for future chemical supply contracts. In relation to chemical specifications and the associated tender assessment process, Barwon Water has suggested that future tender documentation provide for mandatory health related parameters, for which compliance is mandatory, and preferred performance related parameters, for which offers can be assessed on a cost benefit basis. Barwon Water is pleased to note that the Auditor-General's Office has adopted this suggestion and included it as recommendation 5 of this report.

3.4.3 Appropriateness of PAC23 specifications

Strategic Purchasing developed the specifications for PAC23, for the purpose of the tender, after conducting research into existing standards and obtaining advice from the participating water authorities.

Considering the significance of the public health issues associated with drinking water, we had expected that standards for chemicals added to drinking water (as part of the water treatment process) would have been well defined.

While the *Australian Drinking Water Guidelines (ADWG) 1996 Water Quality Standards* set standards for treated water, there are no generally agreed standards for water treatment chemicals in Australia. There are, however, standards (including standards relating to PAC) in the USA⁶ and in Britain⁷.

The Australian water industry is progressing towards the establishment of standards for water treatment chemicals, which are to be incorporated into the national guidelines⁸ when adopted. These guidelines were issued in draft form in February 2005 for industry comment and, at the time of preparation of this article, were under consideration by the water industry.

In developing the specifications for PAC23, Strategic Purchasing used the American Water Works Association (AWWA) standards for liquid PAC as a guide. These standards provide minimum requirements for the physical and chemical attributes of the product.

Tender specifications for the specific impurities such as arsenic, chromium and mercury, were based on the Water Chemicals Codex Standards (NRC 1982)⁹.

In addition to these standards, additional standards were added to cover other impurities, which included antimony, beryllium, copper, iron, nickel, phosphorous and thallium. The water authorities providing technical advice to Strategic Purchasing, in the tender process, developed these standards.

Conclusion

Strategic Purchasing's contract specifications for the physical and chemical requirements of PAC23 were equal to, or of a higher standard than that required by, international standards.

The specifications for impurities, used in the tender process for aluminium chlorhydrate (ACH), are consistent with those in the Draft Drinking Water Guidelines¹⁰.

⁶ American National Standards Institute/American Water Works Association 2004 (ANSI/AWWA) B408-03 Liquid Polyaluminium Chloride.

⁷ British Standards (BS): EN 883: 2004 Chemicals used for the treatment of water intended for human consumption, polychloride hydroxide and polyaluminium chloride sulphate.

⁸ National Health and Medical Research Council (NHMRC) 2005, "Drinking Water Treatment Chemicals", Australian Drinking Water Guidelines Draft for Public Consultation," February 2005. Submissions closed in June 2005.

⁹ National Research Council - Water Chemicals Codex (1982) - the Codex is meant to supplement existing compendia on water treatment chemicals and is confined to information on purity as related to health.

¹⁰ The guidelines are prepared by the National Health and Medical Research Council and the Natural Resource Management Ministerial Council.

We consider that the draft guidelines were the most appropriate standards for the purposes of our evaluation because they were more relevant to Australia.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

Conclusion agreed. Strategic Purchasing has invested considerable time and effort to develop a consistent set of specification containing checks and balances.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Conclusion agreed. Establishing stringent specifications:

- *focuses suppliers on minimising variations in product quality and eliminating impurities; and*
- *provides water authorities with the ability to take action against non-compliances before they reach levels that represent a public health risk.*

3.4.4 Selection criteria

Strategic Purchasing evaluated each tender received in relation to:

- price (weighting 34 per cent)
- customer focus (weighting 32 per cent)
- contractor's past performance (weighting 25 per cent)
- compliance with the tender specification (weighting 9 per cent)

These criteria included a number of sub-criteria.

In best practice contract tendering, each tender received is assessed against pre-determined selection criteria before price is considered. Such a practice takes on added significance where public health is involved and price is, therefore, secondary.

Increasingly, tenders are required to be submitted in 2 separate envelopes: one containing the tender submission, and the other the tender price. Envelopes containing the tender price are not opened until all tenders are assessed and ranked. Once each tender is assessed and assigned a rating, a cost-benefit analysis is undertaken; that is, the overall benefits of each tender are weighted against the tendered price.

Strategic Purchasing's tender selection process did involve an assessment of each tender against pre-determined selection criteria, but price was not just *one* of the 4 selection criteria (with a weighting of 34 per cent), it was *the most important*.

The greatest risk from including price in the evaluation criteria is that price rather than product quality will become the primary basis for selecting the preferred tender. There is an even greater risk where price is given the greatest weighting and becomes the most important criterion.

For water treatment chemicals, which can have a significant impact on public health, we would have expected that compliance with specifications would be a mandatory requirement, rather than one of the criteria for assessment.

Conclusion

We consider that:

- compliance with tender chemical specifications should have been a mandatory requirement for all compliant tenders. This is of even greater importance where the product supplied is new and untested, and can impact on public health
- it was not appropriate to include price in the selection criteria used for the initial assessments of each tender.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

Conclusion partially agreed. PAC 23 is not a new chemical. It has been supplied by both the successful and unsuccessful tenderers. The product has been tried, tested and accepted by a number of water authorities prior to this contract.

The key objective of this tendering arrangement was to maximise cost savings. In view that PAC23 was a tried and tested product, the inclusion of pricing in the selection criteria is considered appropriate.

3.4.5 Provision of certificates of analysis

The contract between the supplier and Strategic Purchasing requires that: “a copy of the order, the delivery docket, and the certificate of compliance shall accompany the delivery of chemicals. Where the contractor is unable to supply a Certificate of Compliance at the time of delivery, this shall be supplied within 7 days of the date of delivery”.

Allowing the certificates of compliance to be received following the date the chemicals are delivered has the following consequences:

- there was an ongoing potential risk that the uncertified chemical might be released into the drinking water purification process prior to the receipt of the certification

- existing supplies could have been contaminated by the release of new chemicals into the holding tanks containing chemicals from previous deliveries.

Discussions with another major water authority, not supplied by the Strategic Purchasing contract, indicated that its supplier kept the chemicals in holding tanks until the testing was finalised and that its certificates were always provided at either the time of delivery or, preferably, in advance. In fact, the authority advised us that it would reject a delivery unless accompanied or preceded by the appropriate certificate of analysis.

The practice of not accepting chemicals prior to the receipt of a certificate of analysis, from an accredited laboratory, is supported by the draft *Australian Drinking Water Guidelines*, which state that:

“... the contractual requirement should be supported by batch testing data provided by the supplier from an independent accredited laboratory, and random testing carried out by the Water Authority itself. Chemicals should not be accepted for delivery unless a batch analysis certificate has been obtained and checked by the Water Authority”.

Conclusion

The contract should have required certificates of analysis to be provided on or before the date the chemicals were delivered.

Recommendation

- 2. That future contracts for the supply of water treatment chemicals require certificates to be provided with, or prior to, the delivery of the chemicals. Where suppliers do not have the capability to comply with this requirement at the commencement of a new contract, allowance should be made for its staged implementation.**

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

The conclusion and recommendation are partially agreed. Strategic Purchasing has been advised that although an individual water authority receives certificates of analyses on or before the date of delivery, this is feasible only because the volumes are small and can be held in a delivery tanker whilst certificates are obtained.

It is recommended that the water industry re-assess the timing for the provision of certificates of analyses as a risk management issue.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Conclusion not agreed. Recommendation partially agreed.

At the time of formation of this contract, suppliers did not have the on-site capability to store all chemicals produced while analysis is undertaken. The complex nature of water treatment chemicals makes it difficult to obtain timely analysis.

The recommendation that certificates of analysis be provided prior to delivery should be considered for future contracts, but should not become mandatory. It is not practical to provide certificates of analysis in every situation, and the full range of risk management measures and occupational health and safety issues have to be considered.

3.4.6 Trials of PAC23

To ensure that the operation of the water treatment plant and the quality of water supplied by Barwon Water would not be adversely affected by the use of PAC23, the authority, in conjunction with the supplier, undertook trials of the chemical at its Wurdee-Boluc water treatment plant.

While these trials were completed before Barwon Water agreed to use PAC23 by signing its sub-agreement with the supplier on 1 July 2003, they were not commenced until 17 March 2003, some 4 months after tenders closed and 2.5 weeks after the contract came into effect.

The trials indicated that PAC23:

- met the required chemical specifications
- had no impact on the performance of the plant
- required lower dosage rates than the chemical currently used, thereby reducing water treatment costs.

Following receipt of the trial results, Barwon Water undertook additional trials to assess the impact of lower dosage levels on the treatment process.

Barwon Water advised us that further trials saw a graduated reduction in dosage levels until a dosage rate of 4.0 mg/L. was achieved, with no negative impact on water quality. At these reduced dosing levels, chemical costs were reduced by around 10 per cent.

Conclusion

The effectiveness of chemicals used in the water treatment process is dependant on a number of factors specific to the water authority using the chemicals. These factors include the quality of the raw water being treated and the water treatment process adopted.

In these circumstances, we consider that for chemicals such as PAC23 which are used for the first time by one or more authorities involved in the tender process and likely to be purchased in significant volumes, it would have been more prudent to include the trials as part of the tender evaluation process.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

The conclusion is partially agreed. PAC 23 is not a new chemical. It has been supplied by both the successful and unsuccessful tenderers. The product has been tried, tested and accepted by a number of water authorities prior to this contract.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Conclusion partially agreed. The collective supply requirements of the parties participating in the Strategic Purchasing contract results in the majority of chemicals being purchased in large quantities. The conclusion that trials should be conducted on chemicals prior to awarding contracts should be limited to those chemicals that vary from tendered specifications. The costs and time implications of testing all new chemicals makes this conclusion impractical.

3.4.7 Contract documentation

The documentation forming the master contract between Strategic Purchasing (on behalf of the participating water authorities) and the supplier includes:

- MAPS Group (Strategic Purchasing) letter of acceptance
- deeds of agreement
- an annexure
- documents titled "Conditions of Contract"
- contract specifications
- the contractor's submitted tender form, schedules and supporting documentation with the tender (if any)
- addenda issued during the tender period
- tenderer's correspondence.

These documents provided information relevant to the tender process, but it is doubtful whether some of the documentation such as emails, advertising material including press articles and background information on the tenderers, needed to be included in the contract.

Conclusion

The inclusion of so much information into the contract was likely to make it difficult to administer the contract and enforce it, in the event of a dispute. Consequently, we recommended to Strategic Purchasing that it obtain legal advice regarding the adequacy, clarity and enforceability of its contract documentation to ensure that only key documents were included in the final contract.

We were pleased to note that Strategic Purchasing accepted our recommendation and had commenced taking action in regards to this matter prior to completion of our review.

Recommendations

3. **That procedures and practices adopted by Strategic Purchasing are revised to ensure that tender submissions are fully compliant with the mandatory requirements of the tender documentation. If exceptions are permitted, all tenderers must be given an equal opportunity to provide submissions on the same basis.**
4. **That tenders are evaluated against a more appropriately weighted mix of selection criteria and a score determined before price is considered.**
5. **That future tender documentation should provide for health related parameters, for which compliance is mandatory, and preferred performance related parameters, for which offers can be assessed on a cost benefit basis.**
6. **That future specifications for PAC23 include tests for all impurities recommended in the ADWG (all impurities listed in the draft ADWG for ACH are included in the specification).**
7. **That trials of new chemicals used in significant volumes be undertaken prior to, and used in, the tender evaluation process.**

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

*The conclusion is agreed. Recommendations 3, 4 and 6 are agreed.
Recommendations 5 and 7 – agreed as per future water authority direction.*

RESPONSE provided by the Chief Executive Officer, Barwon Water

Recommendation 3 agreed.

Recommendation 4 agreed. Barwon Water agrees with the recommendation to separate the evaluation of non-price and price attributes for future contracts. Barwon Water believes that in the case of this contract the overall weighting given to non-price criteria (66 per cent) was appropriate.

Recommendation 5 agreed.

Recommendation 6 agreed.

Recommendation 7 partially agreed. The recommendation that trials should be conducted on chemicals prior to awarding contracts should be limited to those chemicals that vary from tendered specifications. The costs and time implications of testing all new chemicals makes this recommendation impractical.

3.5 Contract management

The tender specifications required the supplier to provide Barwon Water with a certificate of compliance from an accredited laboratory¹¹. This certificate was required to:

- contain a statement that the chemicals supplied have met the contract specifications
- indicate whether all tests and quality assurance controls have been carried out.

The specification stipulated 2 tests on the chemicals delivered, with the results of both tests recorded on the certificate of compliance. The first was physical and chemical testing¹². The second involved testing:

- for impurities in the chemicals¹³
- to ensure that the chemicals supplied contain no soluble materials or organic substances that would adversely affect those drinking the treated water or would cause the treated water to exceed the *Australian Drinking Water Guidelines (ADWG) 1996 Water Quality Standards*.

¹¹ The laboratory is required to be accredited by the National Association of Testing Authorities (NATA).

¹² Consisting of appearance, specific gravity, pH, total Al., chloride, basicity and turbidity.

¹³ Consisting of tests for specified heavy metals such as lead and copper, poisonous substances such as arsenic, and hazardous chemicals such as phosphorus and selenium.

As indicated earlier in this article, the requirement in the tender specifications for physical and chemical testing to be undertaken by a NATA-accredited laboratory was relaxed, when the supplier's tender was accepted.

3.5.1 Findings of our review

Barwon Water receives on average 2 deliveries of PAC23 per month at each of its 2 water treatment plants. On receipt of the chemicals, Barwon Water completes a quality assurance check list. This is designed to ensure that:

- the chemicals delivered are on the authority's approved chemical listing
- the driver has appropriate identification
- the conditions relating to the equipment and containers used by the supplier in delivering the chemicals are met
- the containers are adequately sealed.

The check list is also used to record the authority's own testing of the chemicals delivered, to ensure that they comply with the contract specifications. These tests only covered pH, turbidity, specific gravity¹⁴ and temperature.

A representative from Barwon Water and the driver delivering the chemicals, both sign the completed check list for each delivery.

Within 7 days of receipt of the chemicals, the authority receives an electronic copy of a certificate of analysis from the supplier. The certificate includes details of the chemical delivered, the delivery date, delivery docket number, order number, delivery site and the batch number. Generally, sufficient chemical reserves are stored in holding tanks to ensure that the chemical delivered is not used until the certificate of analysis is received.

Figure 3B is an example of a typical certificate of analysis.

Certificates of analysis have 2 distinct components, which record the results of:

- physical and chemical testing
- tests for impurities in the chemicals.

¹⁴ Specific gravity. Weight of a particle, substance, or chemical solution in relation to the weight of water. Water has a specific gravity of 1.000 at 4 degrees C (39 degrees F). Particulates in raw water may have a specific gravity of 1.005 to 2.5.

The physical and chemical testing, as required by the contract specifications, was undertaken by the supplier in its own laboratories. The certificates provided the results of these tests, the chemical specifications required in the contract, who conducted the testing, the minimum detection limits, and whether or not the specifications were met. Certificates provided before April 2004 did not include the minimum detection limits, and whether or not the specifications were met.

The certificates of analysis indicated that the tests for impurities were conducted by an external laboratory, designated as a NATA-accredited laboratory. As with the physical and chemical testing, the certificate gave details of each test undertaken, the specifications required in the contract, the test results, and an indication of whether or not the specifications were met.

An important distinction needs to be made in regard to this component of the certificate. These tests are not based on the batch delivered on a certain date, but represent the results from a composite sample of all chemicals received by Barwon Water from the start of the month to the last delivery date.

The certificate also contains details of the month the composite sample applied, the name of the laboratory conducting the tests, a space for the signature of the person undertaking the tests and the date of the report.

FIGURE 3B: EXAMPLE OF A TYPICAL CERTIFICATE OF ANALYSIS

SUPPLIER'S NAME AND BUSINESS DETAILS					
<u>PAC23 DELIVERIES- CERTIFICATE OF ANALYSIS – BARWON WATER</u>					
Date of delivery:	14/12/04	Delivery site:	Wurdee Boluc WTP.....		
Delivery docket no.:	1091	Barwon order no.:	75-3860		
Batch no.:	2412.7A.....				
Parameter for testing	MAPS specifications	Min. detection limit	Testing performed by	Test results	Comp Y/N
Appearance	Slightly hazy solution		The supplier	Clear	Y
SG @ 15° C	1.33 – 1.35	0.001	The supplier	1.34	Y
Total Al as Al ₂ O ₃	23.5 (+/- 0.5)% w/w	0.5% w/w	The supplier	23.9	Y
Chloride (by calculation)	8 – 8.5% w/w	0.1% w/w	The supplier	8.32	Y
pH @ 25° C	3.5 – 4.5	0.1 pH unit	The supplier	3.55	Y
Basicity	83% - 85% w/w	1	The supplier	84.5	Y
Turbidity	5 – 10 NTU	0.01 NTU	The supplier	9.8	Y
Date of NATA report:	25/11/04	NATA Lab Report no.:	CMM/04/732-06		
Composite sample month:	October 04				
Parameter for testing	MAPS specifications	Min. detection limit	Testing performed by	Test results	Comp Y/N
Total Antimony	<0.0002% w/w	<0.0002% w/w	NATA Lab	<0.0002% w/w	Y
Total Arsenic	<0.0003% w/w	<0.00008% w/w	NATA Lab	<0.00008% w/w	Y
Total Barium	<0.01% w/w	<0.00008% w/w	NATA Lab	<0.00008% w/w	Y
Total Beryllium	<0.0001% w/w	<0.00008% w/w	NATA Lab	<0.00008% w/w	Y
Total Cadmium	<0.00005% w/w	<0.00004% w/w	NATA Lab	<0.00004% w/w	Y
Total Chromium	<0.0003% w/w	<0.00008% w/w	NATA Lab	<0.00008% w/w	Y
Total Copper	<0.01% w/w	<0.00008% w/w	NATA Lab	<0.00008% w/w	Y
Total Iron as Fe ₂ O ₃	<0.3% w/w	<0.00008% w/w	NATA Lab	<0.049% w/w	Y
Total Lead	<0.0003% w/w	<0.0003% w/w	NATA Lab	<0.0003% w/w	Y
Total Mercury	<0.00005% w/w	<0.000008% w/w	NATA Lab	<0.000008% w/w	Y
Total Nickel	<0.0003% w/w	<0.00008% w/w	NATA Lab	<0.00008% w/w	Y
Total Phosphorous	<0.0001% w/w	<0.00008% w/w	NATA Lab	<0.00008% w/w	Y
Total Selenium	<0.001% w/w	<0.00008% w/w	NATA Lab	<0.00008% w/w	Y
Total Thallium	<0.0007% w/w	<0.00008% w/w	NATA Lab	<0.00008% w/w	Y
Name of testing laboratory					
Date:			Signature of tester:		

At the end of each month the supplier provided an additional certificate of analysis to Barwon Water, which represents a composite sample of tests taken during the month. This certificate, which includes the results of both testing for impurities and physical and chemical testing, indicates that a NATA-accredited laboratory has undertaken the tests. This monthly reporting is not a requirement of the contract but is provided by the supplier as an additional service to Barwon Water.

Compliance with the contract

We reviewed the processes undertaken by Barwon Water to ensure compliance with the contract specifications and examined all certificates provided to the authority by the supplier, from the date the sub-agreement was signed on 1 July 2003, to 14 February 2005. Our examination disclosed the following:

Certification by a NATA-accredited laboratory

NATA accreditation is based on ISO/IEC 17025, and has 2 components which deal with the laboratories':

- general technical competence
- competence to produce valid data and results for a defined set of tests.

Our inquiries revealed that prior to 6 July 2004, the laboratory engaged by the supplier to provide the testing for impurities had both general NATA laboratory accreditation and accreditation to undertake specific tests in relation to water soils and sludges, but not PAC 23. While the laboratory performing the testing after that date had a general NATA accreditation, it was not accredited for the specific tests relating to the impurities listed on the certificate.

The phrase, "a NATA-accredited laboratory" recorded on the certificates of analysis provided to Barwon Water, could be interpreted as indicating the laboratory undertaking the testing had NATA accreditation for the tests undertaken. The second laboratory referred to above was accredited for testing of metal tanks and corrosive materials, but not for impurities in water treatment chemicals.

None of the certificates contained a statement from the supplier indicating that the chemicals supplied met the requirements of the contract and that all tests and quality assurance controls had been carried out.

The certificates of analysis only provided for a representative from the supplier to sign them. There is no provision on the certificates, for the chemist from the NATA-accredited laboratory to certify that the results of the impurities testing recorded on the certificates was correct. The reports did, however, provide a laboratory report reference number.

Even the certification provided by the supplier was inconsistent in that some certificates were signed by the preparer; others had the name of the tester on the certificate, while on others neither the tester's name nor signature was provided.

We noted that the contract documents did not provide a standard format for the certificates of analysis and that Barwon Water worked with the supplier after the contract was in place to improve the quality of these certificates.

When we discussed these failings with staff at Barwon Water, they made the following comments:

- Barwon Water's own testing of the chemicals upon delivery provided an additional level of assurance that they met the contract requirements.
- Not all certificates of analysis were signed because some were electronically forwarded to the authority. In any event, the laboratory identification and chemical report number were shown on the certificate, meaning that further detail could be obtained if necessary.
- The format of the certificates of analysis has been improved over the term of the contract and will be used as a basis for future contracts.

Conclusion

The tender specifications required a NATA-accredited laboratory to undertake all testing of the chemicals, and for the supplier to certify that the chemicals it delivered met the contract specifications and that all product tests and quality assurance controls had been carried out. These requirements were established for 2 reasons. The first was to act as a frequent reminder to the supplier that it was responsible for providing chemicals of the right quality using the right processes; the second to assure Barwon Water that the test results were reliable.

By signing the sub-agreement with the supplier, Barwon Water agreed to relax the requirement in the tender specifications for the chemical and physical testing of PAC23 to be undertaken by a NATA-accredited laboratory.

Barwon Water also accepted certificates of analysis, which provided the results of impurity tests undertaken by a laboratory which was not accredited to undertake these specific tests.

These actions significantly reduced the level of assurance provided to Barwon Water and exposed it to higher risk.

Due to a lack of laboratories which are NATA-accredited to undertake all testing required, we acknowledge that in the short-term, compliance with this requirement may be difficult to achieve. However, our discussions with a number of laboratories indicated that if there was a requirement for specific testing to be undertaken by a NATA-accredited laboratory, then laboratories would obtain the appropriate accreditation.

Although the format of the certificates of analysis has been improved over the term of the contract, further improvement is necessary.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Conclusion partially agreed. Barwon Water's acceptance of impurity results undertaken by a laboratory with general NATA accreditation but not NATA accreditation for the specific tests is consistent with the Auditor General's finding in section 3.6 that there are no independent laboratories with NATA accreditation for the specific tests.

To address the above, minimise the level of risk exposure and maintain a high level of quality assurance, Barwon Water:

- analyses drinking water post-treatment for the specified impurities using an independent laboratory that is NATA accredited for the specific tests;*
- undertakes on-site verification of the key performance parameters of each chemical; and*
- requires a full analysis of the chemicals by a laboratory with general NATA accreditation on a monthly basis.*

In addition, Barwon Water has encouraged the supplier to provide impurity results at the most stringent level of reporting accuracy possible. The laboratory engaged by the supplier was changed in July 2004 as a proactive measure to improve the level of reporting accuracy.

Barwon Water agrees that for future contracts negotiations with suitable laboratories should occur with a view to obtaining NATA-accreditation for specific tests.

Provision of certificates of analysis within specified time period

The contract requires that:

“a copy of the order, the delivery docket, and the certificate of compliance shall accompany the delivery of chemicals. Where the contractor is unable to supply a Certificate of Compliance at the time of delivery, this shall be supplied within 7 days of the date of delivery”.

Our examination of certificates of analysis provided by the supplier disclosed that these certificates were provided within 7 days of delivery.

Conclusion

The supplier complied with its contractual requirement to provide certificates of analysis within 7 days of delivery.

RESPONSE provided by the Chief Executive Officer, Barwon Water
Conclusion agreed.

3.5.2 Examination of certificates of analysis

Certificates provided by the supplier to Barwon Water between April 2004 and February 2005 were examined in detail (36 certificates examined which included 756 tests). This examination disclosed 5 test results which were not within the contract specifications. These are outlined below:

Specific gravity - One non-compliant result, however, the sample still met the AWWA standard. There are no adverse consequences on the treatment process or water quality.

Total Aluminium - One non-compliant result, however, Aluminium levels less than the standard set in the specifications have no impact on public health. Aluminium non-compliances, though, have the potential to impact on the treatment process by reducing the effectiveness of PAC23 in removing impurities from raw water.

Basicity – Two non-compliances identified. Basicity is unlikely to impact on public health. It can, however, impact on the treatment process. Although the variation in this case was minor and was unlikely to have significant impact.

Lead – One non-compliance. The level of non-compliance did not pose a health risk and was significantly below guideline levels for public health. But exposure to high levels of lead in drinking water for prolonged periods of time would have an impact on public health.

While all tests for turbidity and pH were within amended contract specifications, 5 test results were outside the specifications set in the original tender documentation.

The contract provides that:

“where the product is found not to conform to the specification, the contractor will be directed to remove the unsuitable product and replace it with product that complies with the specification”.

We expected Barwon Water staff to have identified the above mentioned variations, documented and reported the breach to senior management, evaluated the likely impact on the authority's treatment process and recorded any action taken. There was no documentary evidence that the authority undertook any of these actions.

Barwon Water has advised us that its risk-based strategy requires an assessment of all non-conformances with the contract specifications and reporting to management based on the level of risk involved. Low risk non-conformances are reported to the section leader, medium risk non-conformances to senior management, and high risk non-conformances to the executive.

The Authority also advised us that in its opinion there was only one non-compliant result (lead), as the other non-conformances identified by audit were acceptable as they were within a 3 per cent variance allowance for the level of accuracy of the analysis.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

For future contracts, Strategic Purchasing will abide by the directions of the water authorities.

Other non-compliances

Our examination of the certificates of compliance also identified:

- 2 instances where the chemicals provided had not met all the physical and chemical requirements contained in the contract. In these 2 instances, the word "yes" had been written in the boxes next to each of these tests on the certificates, indicating that the specification had been met when in fact it had not
- that testing results for some impurities was not accurate enough to ensure compliance with the contract. Barwon Water advised us that the limits of reporting accuracy used by the testing laboratory were not initially sensitive enough for the contract specification. It was, therefore, unable to determine if the chemical delivered met the specifications. Barwon Water subsequently negotiated with the supplier a change to a laboratory, which enabled it to undertake all tests to the limits of reporting accuracy required by the contract specifications.

Review of monthly composite certificates of analysis

Our review of the monthly composite certificates of analysis disclosed that until 11 June 2004 they contained a test for “total ferrous (FeO). Although this test was included in the contract specifications, it was almost never undertaken.

On most certificates, “N/T” (Not tested) was recorded in the test results column next to this test, but it was denoted as a “Y” in the compliance column of the certificate, indicating that the test found the chemical to be compliant.

Barwon Water informed us that:

- the monthly composite certificates of analysis were not required by the contract, but were provided to the authority as an added service
- the particular test for ferrous was similar to another test performed (total iron Fe₂O₃) and was, therefore, not necessary.

Since our discussions, Barwon Water has decided to remove the FeO test from the certificates of compliance.

Certificates of analysis provided before 16 March

We also reviewed certificates of analysis provided before 16 March 2004, but not examine them in detail. A review of these earlier certificates indicated that:

- they did not include all tests required by the specifications
- they did not contain references to NATA accreditation/certification
- not all certificates included reference to the detailed laboratory reports in one instance
- contained non-conformance with specifications in the areas of turbidity, mercury, nickel, ferrous and basicity, due to limits in detection
- contained non-conformance with specifications in the areas of Ph and specific gravity.

It was not clear from these certificates if Barwon Water detected and acted upon these non-conformances.

Conclusion

It was alleged by the complainant that the supplier repeatedly failed to meet a number of the chemical specifications contained in the contract.

Based on our review of the certificates of compliance, we consider that water treatment chemicals acquired by Barwon Water under the contract were predominantly in accordance with the required specifications and that their use did not present a threat to public health. This conclusion was supported by Barwon Water's own testing of the chemicals and the quality of the drinking water released for public consumption.

However, there were a number of inconsistencies in the manner in which the certificates were prepared and certified. There were also a number of apparent non-conformances with specifications. Barwon Water maintains that all but one of these items were conformant, as they were within a 3 per cent variance allowance for the level of accuracy of the analysis.

In respect of the physical and chemical requirements, the specification provides a range within which the test result must fall, and for the testing of impurities the specifications represent an upper limit for the level of impurity in the product. Given that a range, rather than a specific value has been established for each test, we expected that any allowance for the level of accuracy in the testing would have been incorporated into the ranges established. If this was not the case, we consider that they should have been.

We note that while the level of information provided and the format of the certificates of analysis has improved over time, there is still need for improvement.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Conclusion partially agreed. Over the period of the contract, a total of 1 533 individual tests have been undertaken on the supplier's product. The product has shown a high level of conformance with the specification (over 99 per cent). The small number of non-conformances do not represent a health or process performance risk.

Current specifications are extremely tight, with many of the impurity specifications set near the limits of detection. As such, they do not include an allowance for analytical tolerance. The issue of analytical tolerance could be addressed in future contracts by requiring repeat tests on parameters that exceed the specification within agreed analytical tolerance ranges. A second result exceeding the specification could then be considered a non-conformance.

Recommendations

8. That Barwon Water work with the supplier towards having the certificates of analysis provided by a laboratory accredited by NATA to undertake the specific tests required.
9. That in future, these certificates should contain a statement from the laboratory indicating that the chemicals provided meet the contract specifications, and that all tests and quality assurance controls have been carried out.
10. That all parties involved in the preparation and use of the certificates of analysis ensure that they understand the difference between general NATA accreditation and NATA certification for specific tests.
11. That Barwon Water ensure that certificates of analysis supplied with chemicals have a consistent format and are properly completed.
12. That the level of uncertainty allowed for in test results be clearly disclosed in the certificates of analysis and include all uncertainties.
13. That all certificates of analysis clearly identify the laboratories and specific personnel undertaking the tests, and be signed and dated. Where certificates are provided electronically, hard-copy signed and dated certificates should follow by post/fax as soon as possible after delivery of the chemicals.
14. That Barwon Water officers should take greater care in reviewing certificates provided by the supplier. These reviews should be evidenced on the certificate, with any non-conformances detected, documented and referred to the supplier for formal explanation. Barwon Water staff should record any action taken and the reasons for the action, on the certification.
15. That any test included on the certification that is not required should be removed. If the test remains on the certificate, the testing result should not be denoted as compliant if the test has not been undertaken.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Recommendation 8 agreed. This recommendation will be addressed in future contracts through a staged implementation that allows for the accreditation process.

Recommendations 9,10,12,13 and 15 agreed.

Recommendation 11 partially agreed. It is not possible to provide continual improvement in the format of Certificates of Analysis without changes in the consistency of format over the term of the contract. Barwon Water has encouraged continual improvement to ensure the format reflects best practice. Barwon Water will ensure Certificates of Analysis are properly completed.

Recommendation 14 partially agreed. Barwon Water has systems in place to ensure certificates of analysis are checked and risk assessments are conducted on non-conformances. Barwon Water will ensure that the risk assessment process is documented in the future, even for minor non-conformances.

3.5.3 Quality assurance mechanisms

The master contract between the supplier and Strategic Purchasing provides for a number of quality assurance mechanisms in addition to the certificates of analysis. These mechanisms are designed to ensure that the chemicals provided to water authorities meet their requirements. The following sections outline our review of these quality assurance mechanisms.

Risk management

Under the provisions of the contract, the supplier is required to have established risk management policies and procedures, and to have incorporated them into its quality assurance system. As a minimum, the supplier should have:

- documented its contract risk management policies
- nominated a staff member with responsibility for contract risk management and documented the functions of the position
- allocated specific resources to contract risk management activities
- detailed the mechanisms established to manage contract risk.

Strategic Purchasing and Barwon Water had not directly reviewed the supplier's risk management policies and procedures. Instead, reliance was placed on an annual quality assurance audit certificate (ISO 9001), which indicated that the supplier had established a risk management strategy, and appropriate risk management systems, policies and procedures.

While Barwon Water obtained a copy of the supplier's annual ISO 9001 assurance audit certificate, it did not receive a copy of the detailed audit report.

We were also advised by Barwon Water that the adequacy of the supplier's products is also assured by the National Sanitation Foundation (NSF). This organisation administers a certification program for drinking water treatment chemicals that ensures they do not add contaminants to drinking water that could cause adverse health effects. The supplier is certified by NSF.

Conclusion

Receipt of the supplier's ISO 9001 annual assurance audit certificate provides Barwon Water with a degree of comfort that the supplier is adequately managing its production risks. However, by obtaining and reviewing a copy of the accompanying report, Barwon Water would be in a better position to identify and manage any emerging risks.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

Conclusion agreed.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Conclusion agreed.

Monitoring supplier performance

The supplier's performance is to be monitored in accordance with a schedule of performance targets attached to the master contract. These targets relate to activities such as reporting, invoicing, delivery of goods, and product development and testing.

The schedule also contained:

- trigger points for remedial action required to address poor performance
- indicators to be used to determine whether a breach of the contract had occurred.

The contract stated that if the supplier did not perform adequately, Barwon Water could withhold payment until the performance issues had been rectified to its satisfaction. Where the performance of the supplier was clearly deficient and no remedial action was taken, Strategic Purchasing had the option of terminating the contract.

As indicated earlier in this article, we identified a number of non-compliances in the test results recorded on the certificates of analysis, where the certificates provided no indication that Barwon Water had either detected or followed-up the non-compliance to obtain satisfaction that it would not reoccur.

Our review also disclosed ambiguity about the roles and responsibilities of Strategic Purchasing and Barwon Water in respect of contract management and performance monitoring.

This lack of clarity in contract management and performance monitoring was likely to have resulted from the master contract not clearly distinguishing the roles and responsibilities of both parties. It meant that neither Barwon Water nor Strategic Purchasing was carrying out important contract management and monitoring activities because they each assumed the other party was doing it.

Conclusion

Appropriate and effective monitoring of the supplier's performance is an important contract management and control mechanism. Early detection and addressing of unsatisfactory performance will ensure that chemicals supplied continue to meet contract specifications and help ensure that these chemicals do not adversely affect the water supplies managed by the authority.

Our inquiries disclosed that, once the tender process for PAC23 was complete, the purchaser/supplier relationship was essentially between each individual participating water authority and the supplier. In these circumstances, Barwon Water and other participating authorities are responsible for performance monitoring and contract management.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

Conclusion agreed. For future contracts, Strategic Purchasing will ensure that the roles of the various stakeholders are clearly defined.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Conclusion agreed. Barwon Water has systems in place to ensure product conformance and performance is monitored. Product performance has been excellent. Non-conformances have been minor and have not occurred on a repeat basis. Barwon Water will ensure future contracts clearly assign responsibility for contract management and monitoring to the most appropriate party.

Contract management meetings

The master contract requires the supplier to meet periodically with representatives from Strategic Purchasing and its members as part of the ongoing management of the contract.

Barwon Water advised us that one of its staff met regularly with Strategic Purchasing to informally discuss the performance of the supplier.

During the first 2 years of the contract, the supplier and Barwon Water also held between 11 and 15 contract management meetings. Barwon Water Authority found these meetings very useful for raising and resolving various contract management issues, although it did not keep a record of the issues discussed and resolutions reached.

Conclusion

As Barwon Water did not maintain a record of its meetings with the supplier, we were unable to review the issues raised or the effectiveness of action taken by the supplier on matters brought to its attention for consideration and corrective action.

However, a number of changes to the arrangements for the purchase of PAC23, such as improvements to the certificates of analysis and changes to specifications suggest that Barwon Water had effectively been raising issues with the supplier in relation to the contract and initiating improvements.

RESPONSE provided by the Chief Executive Officer, Barwon Water
Conclusion agreed.

Inspection of the supplier's manufacturing facilities

The master contract allowed water authorities and Strategic Purchasing to audit the supplier's quality assurance systems and to inspect its manufacturing facilities.

These provisions were designed to enable Barwon Water and other water authorities to directly assess the supplier's quality assurance and manufacturing processes.

Barwon Water considered that the supplier was meeting its contractual obligations. As a result, it did not believe that the cost of a quality assurance audit (in addition to existing external audits required for ISO 9001 certification) or an inspection of the supplier's premises was warranted. Instead, Barwon Water relied on annual audit certificates provided by the supplier (ISO 9001), which indicated that the supplier's quality assurance processes were adequate.

One way to reduce the cost of quality assurance audits and site inspections would be for Strategic Purchasing to undertake this work on behalf of water authorities. Strategic Purchasing agreed to raise this suggestion with the participating water authorities, in any future contracts managed by it for the supply of water treatment chemicals.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

For future contracts, Strategic Purchasing would be prepared to undertake this work if requested by the water authorities.

Access to audit reports on the supplier's systems

In order for Barwon Water to gain assurance over the effectiveness of the supplier's quality assurance and chemical production systems, it relies on the supplier's:

- ISO 9001 quality systems certification
- National Sanitation Foundation accreditation.

We sighted the supplier's current ISO9001 quality systems certification and its National Sanitation Foundation accreditation. We also obtained copies of the ISO 9001 audit reports for 2003, 2004 and 2005, from the supplier and examined their contents.

These reports outlined the scope of the work undertaken, detailed the findings of the audit, included specific recommendations to address deficiencies identified and an overall recommendation on whether the supplier's accreditation should be continued.

The scope of these audits was quite broad and included:

- storage, handling and labelling of chemicals
- a review of certificates of analysis and the traceability of production batches
- laboratory testing procedures
- manufacturing processes
- maintenance procedures

- client surveys and a review of complaints and customer handling issues
- a review of the internal audit programs and findings.

Conclusion

The quality assurance reports not only provide a level of assurance over the supplier's production systems and the quality of chemicals supplied, they also act as an early warning system bringing to the attention of Barwon Water quality assurance issues or potential problems with the supplier's manufacturing processes that could impact on the authority's water treatment process.

By not obtaining and reviewing these reports Barwon Water does not have access to this information.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Conclusion partially agreed. Barwon Water has agreed to review future external audit reports of its suppliers, however early warning of problems with manufacturers' processes is obtained on an ongoing basis through assessment of variations of results in Certificates of Analysis. This provides a continual measure of manufacturers' performance, compared with annual audit results.

Security of chemical deliveries in transit

The contract with the supplier did not require chemical deliveries to be secured. However, given recent world events, Barwon Water was concerned that it may be possible for someone to inappropriately access chemicals while they were being transported to it, from the supplier.

To address these concerns, Barwon Water varied the contract to introduce a tagging system in August 2004, where security tags were attached to the hatches of the chemical containers once they were filled at the supplier's chemical production plant. Barwon Water removed these tags on receipt of the chemicals.

During the audit we became aware of 2 instances where chemicals had been delivered without security tags attached. These instances occurred in August 2004, soon after the introduction of the requirement for deliveries to have security tags.

In the absence of these tags, Barwon Water could not be sure about the security of the chemicals during transit. Of further concern was the garaging of delivery vehicles overnight at a transport depot before they delivered the chemicals to Barwon Water's water treatment plants the following day.

Barwon Water's quality assurance check list, completed when the chemicals are delivered, required the person accepting the delivery to indicate whether the security tags were attached to the chemicals delivered. However, there was no indication on the form (or in any other document) of the procedure to be followed in the event that the tags were missing or had been removed.

When Barwon Water became aware the security tags were not in place, the supplier was notified. The supplier advised that the tags were not attached at the manufacturing site and raised the matter with the transport company, which advised that there had been no security breaches at the depot while the vehicles had been there. The supplier told Barwon Water it was satisfied that the chemicals had not been tampered with, and Barwon Water accepted this explanation and proceeded to use the chemicals as supplied, after on-site testing and driver identification checks.

Subsequent to the commencement of our audit the quality assurance check list was amended to indicate that if the answers to any of the check list questions were no, "... the relevant Coordinator or Treatment Engineer must be informed before the delivery can proceed ..."

Conclusion

Given the potential risk to public health from unauthorised access to the chemicals, we believe that the procedures to be followed when security tags are not in place need to be clearly outlined in a procedures manual. We also consider the assurances provided by the supplier and by the transport company in the above circumstances to be inadequate.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Conclusion partially agreed. It should be noted that the instances occurred on the first 2 deliveries under the new security system. Barwon Water reiterates that the assurances provided by the supplier and the transport company were confirmed by on-site testing and driver identification checks.

Barwon Water's chemical receipts manual will be updated to include the assurance process to be followed if security tags are not in place.

Recommendations

16. That responsibility for contract management and performance monitoring and assessment functions be assigned to Strategic Purchasing. A separate agreement or memorandum of understanding between Barwon Water (and other participating water authorities) and Strategic Purchasing could be used for this purpose.
17. That when contract management meetings are held with the supplier, minutes of the meetings be prepared and kept.
18. That Barwon Water exercise its rights under the contract with the supplier to obtain the detailed audit reports on the supplier's quality systems and its NSF accreditation, as well as any proposed corrective action on the matters raised in the reports.
19. That based on the results of the above reports, Barwon Water and Strategic Purchasing undertake, or commission a suitably qualified person to undertake, a periodic audit and inspection of selected supplier facilities as allowed for in the master contract, where required.
20. That Barwon Water develop specific written procedures for instances where chemicals transported to its water treatment plants do not have intact security seals. These procedures should require actions taken by Barwon Water to be documented, and provide for the rejection of chemicals where seals have been removed and the confinement and extended testing of chemicals before they are used.

RESPONSE provided by the Chief Executive Officer, Strategic Purchasing

In relation to recommendations 16 and 19, Strategic Purchasing needs to clarify the roles and responsibilities before accepting such an assignment.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Recommendations 16, 17, 18 and 20 agreed.

Recommendation 19 agreed. The requirement for external audit of suppliers' systems is currently incorporated into the contract through the requirement for the contractor to have implemented externally certified ISO9001 quality systems. The clause under the master contract allowing for the inspection of suppliers' facilities is not a mandatory requirement and should be exercised only if Barwon Water has concerns regarding the supplier's performance.

Action by Barwon Water

Barwon Water advised us that following our review, it had amended the format of the certificates of analysis as follows:

- FeO had been removed from the certificate as it was no longer part of the specification
- all certificates must now contain a name or signature. (In regard to this, we suggest that a signature be always insisted upon.)
- the turbidity specification had been changed from 5-10 NTUs to <10 NTUs
- results below the detection limit will be reported as ND (non-detect).

Barwon Water also:

- asked the supplier to review its compliance check procedure to ensure that all non-compliances were identified and reported prior to delivery
- held a performance review meeting with the supplier at which minutes were taken
- developed a health risk assessment worksheet to document the health risk assessment processes associated with non-compliances
- asked the supplier to complete a non-conformance report for all non-compliances that identified corrective and preventative actions
- held discussions with Strategic Purchasing about forming a working group to review chemical specifications.

Barwon Water is to be commended for taking these actions in a decisive and timely manner. It must now monitor the implementation of the procedures and take any necessary further corrective action.

3.6 Independent analysis of chemicals

During our discussions with the complainant, we were provided with certificates of analysis (some from a NATA-accredited laboratory) purporting to have assessed samples of PAC23 chemicals delivered by the supplier to Barwon Water's treatment plants.

These chemical test results were materially different in a number of respects from test results shown on certificates of analysis provided to us by Barwon Water. Of particular interest were the complainant's test results for turbidity and basicity, which were up to 10 times the levels stipulated in the tender specifications.

Barwon Water maintained that these tests were not performed on chemicals delivered to the authority and could have been the results of tests undertaken on chemicals produced by the supplier and available on the general market. Barwon Water also dismissed the complainant's claims as an independent NATA-accredited laboratory had not undertaken all of the tests.

The complainant maintained that the test results he provided to us were from tests on chemicals delivered to Barwon Water and that Barwon Water's chemical testing procedures were unsatisfactory.

Due to the passage of time, it was also not possible to:

- prove whether or not the chemicals obtained and tested by the complainant were taken from PAC23 chemicals delivered to Barwon Water
- independently determine whether PAC23 received by Barwon Water in the past met the contract specifications.

In these circumstances, we decided to conduct our own testing on the PAC23 held by Barwon Water at the time of our review. These tests would at least provide an indication of whether current deliveries were in accordance with the contract specifications.

To ensure that our test results were reliable, we employed an experienced chemist to assist us. The samples were taken during a surprise visit to Barwon Water's Wurdee-Boluc and Moorabool treatment plants. A number of tests on each sample were undertaken by Barwon Water staff at field laboratories located at each site.



PAC23 chemical storage tanks at the Wurdee-Boluc water treatment plant, from which one of the chemical samples was taken for testing.

In trying to identify suitable laboratories to undertake the independent testing of our samples, we encountered a number of difficulties.

Currently, there is only one laboratory in Australia which is NATA-accredited for chemical and physical testing of PAC23, and it is only accredited for chloride; pH; specific gravity; total aluminium (as alumina) and transmittance of aluminium chlorohydrate solutions. This laboratory is operated by a supplier of water treatment chemicals.

NATA supplied us with the names of 5 other laboratories able to conduct testing (holding accreditation, but not for those specific tests). We approached each of these laboratories. Only 2 laboratories agreed to perform the testing we required and then only with methods used to test water rather than the preferred AWWA procedures for testing water treatment chemicals.

A sample from each site was submitted to both laboratories and the test results were matched against:

- the specifications in the master contract
- the results of tests undertaken by Barwon Water at the place and time of samples taken.

The results of our analysis are shown in Figure 3C.

FIGURE 3C: TEST RESULTS FOR SAMPLES OF PAC23 TAKEN BY AUDIT

Element tested (a)(b)	MAPS chemical specification	Results obtained by authority (c)	Results of independent laboratory 1	Results of independent laboratory 2	Comments on comparison of results
Appearance (WB) (M)	Clear to slightly hazy, free of visible foreign matter or sediment	Not done Not done	Clear Clear	Not done Not done	All lab results comply with spec.
Specific gravity (WB) (M)	1.33 to 1.35	1.333 1.332	1.34 1.34	1.33 1.34	All lab results comply with spec.
Total aluminium (%Al ₂ O ₃ w/w) (WB) (M)	23.5 (+/-0.5)	Not done Not done	23 23	23.5 23.8	All lab results comply with spec.
Chloride (% w/w) (WB) (M)	8.0 to 8.5	Not done Not done	11 10	8.1 8.3	Only one lab's results comply with spec.
pH (WB) (M)	3.5 to 4.5	3.9 3.81	3.8 3.7	3.5 3.5	All lab results comply with spec.
Basicity (% w/w) (WB) (M)	83 to 85	Not done Not done	86 86	83.6 83.2	Only one lab's results comply with spec.
Turbidity (NTU) (WB) (M)	5 to 10	8.36 8.06	8.4 9.5	Not done Not done	All lab results comply with spec.
Impurity tests					
Antimony (mg/Kg)(WB) (M)	≤2	Not done Not done	<0.4 <0.4	<2 <2	All lab results comply with spec.
Arsenic (mg/Kg) (WB) (M)	≤3	Not done Not done	<0.4 <0.4	<2 <2	All lab results comply with spec.
Barium (mg/Kg) (WB) (M)	≤100	Not done Not done	0.21 0.21	<1 <1	All lab results comply with spec.
Beryllium (mg/Kg)(WB) (M)	≤1	Not done Not done	<0.075 <0.075	<1 <1	All lab results comply with spec.
Cadmium (mg/Kg)(WB) (M)	≤0.5	Not done Not done	<0.015 <0.015	<0.5 <0.5	All lab results comply with spec.
Chromium (mg/Kg) (WB) (M)	≤3	Not done Not done	0.4 0.4	<1 <1	All lab results comply with spec.
Copper (mg/Kg) (WB) (M)	≤100	Not done Not done	0.23 0.23	<1 <1	All lab results comply with spec.
Iron (mg fe ₂ O ₃ /Kg)(WB) (M)	≤3 000	Not done Not done	120 120	127 148	All lab results comply with spec.
Lead (mg/Kg) (WB) (M)	≤3	Not done Not done	1.8 1.8	<2 <2	All lab results comply with spec.
Mercury (mg/Kg) (WB) (M)	≤0.5	Not done Not done	<0.1 <0.1	<0.5 <0.5	All lab results comply with spec.

FIGURE 3C: TEST RESULTS FOR SAMPLES OF PAC23 TAKEN BY AUDIT - continued

Element tested (a)(b)	MAPS chemical specification	Results obtained by authority (c)	Results of independent laboratory 1	Results of independent laboratory 2	Comments on comparison of results
Impurity tests					
Nickel (mg/Kg) (WB)	≤3	Not done	3.9	<2	Only one lab's results comply with spec.
(M)		Not done	3.9	<2	
Phosphorus (mg/Kg) (WB)	≤1	Not done	Not done	<1	All lab results comply with spec.
(M)		Not done	Not done	<1	
Selenium (mg/Kg)(WB)	≤10	Not done	<0.4	<2	All lab results comply with spec.
(M)		Not done	<0.4	<2	
Thallium (mg/Kg) (WB)	≤7	Not done	0.05	<5	All lab results comply with spec.
(M)		Not done	0.05	<5	

(a) (WB): Wurdee-Boluc treatment plant. (M): Moorabool treatment plant.

(b) Units for impurities in contract specification are %w/w. For the purpose of clarity in the above table these units have been converted to mg/Kg.

(c) Barwon Water Authority on-site field test laboratory.

Note: "Not done" means this analysis was not conducted.

Source: Prepared by audit.

Findings of our audit

The results from laboratory 1 indicated that the samples taken from the 2 treatment plants complied with the product specification in the contract. The results from laboratory 2 indicated that with the exception of nickel, chloride and basicity, the samples complied with the product specification.

There were also significant differences in the results obtained by the 2 laboratories, particularly in relation to chloride, nickel and basicity.

Both laboratories indicated that they had difficulty in performing some of the analyses due to the chemical composition of the sample (high viscosity, high ionic background, high aluminium and chloride).

The variability in results and the difficulty experienced by the laboratories in undertaking the testing indicated to us the need for the laboratory, engaged to regularly test PAC23, to fully validate the methods it used. Validation of the methods used would also provide a reliable indication of the measurement uncertainty associated with each test and enable a more accurate assessment of product compliance.

Conclusion

It was alleged that the certificates of analysis, on chemicals acquired by Barwon Water, incorrectly stated that the chemicals complied with the contract specifications. While it was not possible to determine the validity of this statement, we were able to independently assess the chemicals taken during our surprise visit to the Barwon Water's treatment plants.

Our independent testing of PAC23 identified:

- the difficulty in finding a laboratory capable of undertaking the required tests
- deficiencies in the adequacy of testing methods currently available
- difficulty in obtaining reliable test results.

These factors made it difficult for us to confirm that the chemicals provided by the supplier comply with the contract specifications. Water authorities who purchase these chemicals are in a similar situation.

In these circumstances, the importance of NATA accreditation for specific tests is even more critical.

Discussions with a number of laboratories suggest that if there was a requirement for tests on water treatment chemicals to be undertaken by a suitably accredited laboratory, then laboratories would obtain accreditation for the testing involved.

Recommendation

- 21. That in future contracts for the supply of water treatment chemicals, there is a requirement for testing to be undertaken by laboratories accredited to undertake these tests.**

RESPONSE provided by the Chief Executive Officer, Barwon Water

Conclusion and recommendation agreed. A staged implementation of the requirement for laboratories to be NATA accredited for specific chemical tests will be required. Laboratories will need time to undertake the accreditation process.

It should be noted that due to the inherent difficulties of analysing complex chemical matrixes, variability in results will still occur even when NATA-accreditation for specific chemical tests is provided. This highlights the importance of Barwon Water's additional verification measures of monitoring for impurities in drinking water and on-site verification of key performance parameters.

3.7 Impact of PAC23 on public health

PAC23 is a coagulant used in the early stages of the water treatment processes to help remove impurities from water.

As indicated earlier in this article, if a chemical is used that does not meet set specifications, it could adversely affect the quality of water for human consumption and pose a risk to public health. However, it should be noted that the specification for PAC23 is sufficiently stringent to require the chemical to be significantly out of specification to represent a health risk.

To ensure the quality of its drinking water, Barwon Water has implemented a comprehensive drinking water quality management framework under the provisions of the *Safe Drinking Water Act 2003*. The framework includes:

- an assessment of risks to drinking water quality from catchment to tap
- a series of risk management barriers to ensure safe drinking water
- a risk-based drinking water quality monitoring program to verify the provision of safe drinking water.

The drinking water quality management framework adopted by Barwon Water has undergone significant review by other authorities and international agencies, has been independently audited and certified to the HACCP and ISO 9001 standards.

Drinking water quality is monitored continuously, through online instrumentation, at a number of process control points within the water treatment process.

In addition, drinking water quality is monitored throughout the water supply system by an independent laboratory. This program is based on the ADWG and covers a broad range of analyses. All test results are available to the public and a summary can be viewed in Barwon Water's annual Drinking Water Quality Report, which is published on the Barwon Water public website. These results are summarised in Figure 3D.

FIGURE 3D: SUMMARY OF 2003-04 AND 2004-05 DRINKING WATER MONITORING PROGRAM RESULTS

Parameter	Limit	Compliance		Target
		2003-04	2004-05	
Health parameters		per cent	per cent	per cent
Arsenic	0.001 mg/L	100	100	100
Cadmium	0.002 mg/L	100	100	100
Chromium	0.05 mg/L	100	100	100
Fluoride	1.5 mg/L	100	100	100
Lead	0.01 mg/L	100	100	100
Mercury	0.001 mg/L	100	100	100
Nitrate	50 mg/L	100	100	100
Selenium	0.01 mg/L	100	100	100
Carbon Tetrachloride	0.003 mg/L	100	100	100
Nickel	0.02 mg/L	100	100	100
Antimony	0.003 mg/L	100	100	100
Barium	0.7 mg/L	100	100	100
Copper	2 mg/L	100	100	100
Silver	0.1 mg/L	100	100	100
Manganese	0.5 mg/L	100	100	100
Zinc	3 mg/L	100	100	100
Aesthetic parameters				
pH	6.5 - 9.5	99.7	99.6	95.0
Turbidity	5 NTU	99.5	99.8	95.0
Iron	0.3 mg/l	99.8	98.9	100
Aluminium	0.2 mg/L	100	100	100
Parameters with no ADWG limits (maximum reading shown for the year)				
Phosphorous	-	0.1 mg/L	0.086 mg/L	-

Note: Iron compliance is influenced by corrosion in the distribution network. Iron is not a health parameter.

Turbidity compliance is influenced by algal growth in open basins.

Beryllium and thallium are not monitored in the distribution system as no Australian Drinking Water Guidelines exist for these parameters. Beryllium and thallium content is monitored in PAC23 and has never been detected above specification levels.

Chloride is monitored in raw water sources. This is an aesthetic parameter only with no health-based guideline provided.

Source: Barwon Region Water Authority, "Drinking Water Quality Report", Annual Report 2003-2004; and drinking water monitoring programs results 2004-05 (not yet published).

With the exception of turbidity and pH, all samples taken met the standards outlined in the ADWG and the set targets. These exceptions do not represent a health risk.

Conclusion

Barwon Water is meeting the standards set for safe drinking water.

RESPONSE provided by the Chief Executive Officer, Barwon Water

Conclusion agreed.

3.8 New regulations governing the supply of drinking water

Barwon Water prepares its annual Drinking Water Quality report under the provisions of the *Safe Drinking Water Act 2003*. The Act was the first in Victoria to deal specifically with the regulation of drinking water supplies. Previously, the quality of drinking water had been governed by a number of other acts and regulations and via various contractual and licence arrangements between water businesses and the Department of Sustainability and Environment.

The Act, which came into effect on 1 July 2004, required water suppliers to ensure that all drinking water supplied by them to another person complied with the quality standards specified for drinking water in any relevant regulations. It also required water suppliers to provide to the secretary of the Department of Human Services (DHS) an annual report and other specified information required by regulation.

The Act also enabled the Governor in Council to make regulations with respect to the monitoring of drinking water quality, including the location, frequency and method of collecting samples; the analytical methods to be used to analyse samples; who was to conduct the analyses of samples; and how the results of the analyses were to be reported.

The implementation and oversight of the Act is the responsibility of the Drinking Water Regulatory Unit of DHS. In September 2004, the unit released a "Regulatory Impact Statement", which included the proposed regulations, for examination and comment. The deadline for submissions was 25 October 2004.

At the time of our audit, the Governor in Council had recently passed the regulations. We were informed that there exists a high degree of consistency between the regulations and the draft *Australian Drinking Water Guidelines* under consideration by the National Health and Medical Research Council.

Discussions with DHS indicated that the implementation of the *Safe Drinking Water Act 2003* is progressing and that it is well placed to undertake its legislative oversight functions in respect of the quality of drinking water.



4. Kangan Batman Institute of TAFE - Adequacy of processes to outsource its printing functions



4.1 Audit conclusion

The Victorian Government Purchasing Board has established performance standards for the key processes and minimum standards addressing each stage of the procurement cycle. Public sector agencies, such as TAFE Institutes, are required to benchmark their procurement policies and processes against those established by the Victorian Government Purchasing Board in order to ensure a consistent approach to procurement.

Kangan Batman Institute of TAFE (KBIT) undertook a competitive tender process in late 2004 to procure an external supplier for its document design and production services (Managed Print Services). We examined this tender process in response to concerns raised with our Office about the process followed by KBIT to outsource its printing function.

We identified a number of areas in which KBIT's tender process to outsource its printing function could have been improved.

The acceptance of a late tender by KBIT compromised the integrity of the tender process. Both KBIT's own tender documentation and the Victorian Government Purchasing Board guidelines are explicit, namely, that tenders received after the time allowed are deemed ineligible for consideration.

It is of concern that a single commercial enterprise was initially involved as a supplier in 4 submissions from other tenderers. Although we understand that this is not unusual when tenders involve products and/or services where supply is limited, it raises questions about the potential for a conflict of interest or market failure.

We also concluded that KBIT had established a closing date that was not in accordance with recommended practice. That is, the decision to close the tender period on a day following a public holiday and after a lengthy end of year shutdown, was not in accordance with good practice as recommended by the Victorian Government Purchasing Board. This arrangement increased the potential for tenderers to encounter difficulties in meeting tender lodgement requirements.

4.2 Background

In September 2004, KBIT resolved to seek an external supplier for its document design and production services (Managed Print Services). The current print room employees were invited to submit an in-house expression of interest for the provision of these services.

KBIT print room staff decided to pursue the option of submitting an expression of interest in association with Canon, a printing equipment supplier. Canon agreed to provide and service the equipment as part of this proposal.

In February 2005, concerns were raised with our Office about the process used by KBIT to outsource its printing function. In response, we decided to examine the processes followed.

The Victorian Government Purchasing Board has established and documented appropriate procedures and controls to ensure the integrity of a tender process. Public sector agencies, such as TAFE institutes, are required to benchmark their procurement policies and processes against those established by the Victorian Government Purchasing Board in order to ensure a consistent approach to procurement. In December 2001, the then Office of Employment, Training and Further Education within the Department of Education and Training, directed chief executive officers of TAFE institutes to meet these requirements.

4.3 Calling for initial expressions of interest

Following the decision to outsource its document design and production services, KBIT engaged a specialist tender management company to assist with the development and evaluation of the tenders and compliance with the relevant procedures. KBIT advertised for expressions of interest or Request for Proposal (RFP) on 15 September 2004. Interested parties were invited to provide proposals for a complete managed service solution in the areas of graphic design, print room, office devices including printers and copiers, and associated paper and supplies.

Special conditions of the proposal related to current KBIT staff and, in relation to these conditions, section 3.5 of the RFP states that:

“The successful supplier will need to demonstrate how it will transfer any KBIT staff effectively and seamlessly manage any staff transition without affecting the day to day running of the operations. KBIT will require previous organisational transfer examples to ensure that staff are transitioned successfully. It is an imperative that staff are transferred ‘under no less favourable’ terms and conditions”.

The closing date for proposals was 4.00 pm on 1 October 2004. This gave tenderers 12 working days from the date of advertisement to submit their proposals.

Nine expressions of interest were received, including an in-house submission (on behalf of Canon and the print room staff). Canon was involved in 4 of the expressions of interest. Canon submitted a RFP with the print room staff, and as a third party supplier in 3 of the other expressions of interest.

Six groups were short-listed and, on 18 October 2004, representatives of KBIT met with these groups. Each was invited to speak to their proposal. Following these presentations, all 6 were judged as suitable to participate in a selective tender process.

Canon was involved with 3 of the short-listed organisations, including that involving the print room staff.

Conclusion

The establishment of tender conditions and conduct of the tendering process were in accordance with VGPB requirements.

RESPONSE provided by the Chief Executive Officer, KBIT

KBIT agrees with the conclusion.

4.4 Establishment of tender conditions and conduct of tender process prior to tender lodgement

4.4.1 Decision on tender period

On 26 November 2004, the Request for Tender for Managed Print Services (RFT) was issued to the 6 groups selected from the expression of interest phase. The RFT states that KBIT was seeking a service provider for the supply of:

- an on-site managed print room
- an on-site graphic design unit
- printing devices
- print support services (including on-site help desk)
- document management.

The Victorian Government Purchasing Board's guidelines provide minimum suggested tender periods in working days, excluding public holidays, as follows:

Value	Working days		
High	18	21	21+
Medium	11	16	16
Low	8	11	11
Complexity	low	medium	high

Source: Victorian Government Purchasing Board.

The Victorian Government Purchasing Board guidelines recommend that the closing of the tender period should not be set before 2.00 pm and not on a Monday or a day following a public holiday.

KBIT established the closing date for its tender as 2.00 pm on Tuesday, 4 January 2005. Although this provided 25 working days (excluding public holidays) for completing the tender submissions, we note that many organisations, including KBIT, were closed from 24 December 2004 to 3 January 2005. Effectively, KBIT provided prospective suppliers with 19 working days in which to submit their tenders, assuming most organisations were closed for this extended period.

Conclusion

The decision to close the tender period after a lengthy end of year shutdown, and on the day after a public holiday, was not in accordance with good practice as recommended by the Victorian Government Purchasing Board.

RESPONSE provided by the Chief Executive Officer, KBIT

KBIT agrees with the conclusion.

4.4.2 Tender documentation and processes during the tender period

A critical factor in ensuring the integrity of any tender process is to make certain that all potential tenderers have access to the same information at the same time. The KBIT tendering process ensured that complete and consistent tender documentation was distributed to all tenderers at the beginning of the tender process.

We examined the RFT documents that were released to the selected tenderers and found them to be comprehensive. We found that KBIT had adhered to the timetable specified for the process in the RFT, including the scheduled tender briefing on 3 December 2004. We were advised that during the briefing, tenderers were informed that no late bids would be accepted.

Consistent with the principles of fairness and impartiality, KBIT established a “Data Room” which was available to each tenderer for a 2-hour period. This allowed tenderers to view KBIT’s confidential information on its printing services.

Throughout the tender process, questions received from tenderers were actioned in accordance with the RFT, which specified 17 December 2004 as the end of the period for questions or requests for information. KBIT provided prompt written responses to inquiries and maintained a log of questions and answers for future reference.

Conclusion

The establishment of tender conditions and the conduct of the tendering process, except those relating to the tender period, were in accordance with Victorian Government Purchasing Board requirements.

RESPONSE provided by the Chief Executive Officer, KBIT

KBIT agrees with the conclusion.

4.5 Tender lodgement and evaluation of tenders

The RFT required bidders to place the tenders in a sealed envelope in the KBIT tender box by 2.00 pm on the closing date of 4 January 2005. The RFT also explicitly states that tenders lodged after closing time will be disqualified from the tendering process, but “if there is explicit and conclusive evidence that late lodgement resulted from mishandling by KBIT, a tender will be deemed to have been lodged before the closing time”¹.

4.5.1 Late lodgement of tender

KBIT was closed for the period 24 December to 3 January 2005, inclusive. The tender closing date was 2.00 pm on 4 January 2005, the day that KBIT re-opened.

¹ Section 14.3 on page 13 of Part A of the RFT.

At 1.19 pm on 4 January 2005, FedEx Kinko's International (Australia) Pty Ltd, which was later awarded the contract to provide Managed Print Services, contacted KBIT to advise that its tender would be late and to inquire whether a late tender would be accepted. FedEx Kinko's was advised by KBIT, after internal discussion, to go ahead with its submission and that it may or may not be considered. The company's tender was received on that date at 3.15 pm.

Immediately after 2.00 pm on 4 January 2005, the tender box was opened and the tenders received were registered in accordance with normal KBIT procedure.

KBIT's tender documentation states that:

"Tenders lodged after Closing Time will be disqualified from the Tendering Process".

"If there is explicit and conclusive evidence that late lodgement resulted from mishandling by KBIT, a Tender will be deemed to have been lodged before the closing time".

The acceptance of the FedEx Kinko's tender breached the KBIT tender documentation and Victorian Government Purchasing Board requirements which state that "tenders received after the closing time for the delivery of tenders are deemed ineligible for consideration".

KBIT advised that acceptance of the late tender was permitted because of mishandling by KBIT. In our view, advising FedEx Kinko's that KBIT "may or may not" accept a late tender does not constitute mishandling and, as a result, the FedEx Kinko's tender should not have been accepted.

4.5.2 In-house KBIT bid

KBIT invited the print room employees to submit an in-house expression of interest for the provision of Managed Print Services. As indicated previously, following KBIT's evaluation of the submissions from the request for proposal (RFP) process, a joint venture arrangement involving the print room staff and Canon were issued with an RFT.

The preparation of a tender document describing a strategic approach to providing an integrated document creation, production and storage solution is a complex undertaking requiring specialist expertise. In the absence of senior KBIT staff involvement in preparation of such a document, because they were members of the evaluation team, the print room in-house bid team needed the services of a commercial partner, Canon, to supply most of this expertise.

On 5 January 2005, the in-house bid team wrote to KBIT management advising that they had been unable to submit a tender because of a failure by Canon to supply necessary information in a timely manner. The memorandum advised that it was not until 20 December 2004 that the in-house team became aware that Canon was not preparing the written tender submission. This effectively left the in-house team with only 4 working days to complete the task of writing the tender submission, given that KBIT was closed between 24 December 2004 and 3 January 2005. The memorandum also suggested that Canon's lack of support may have been due to its partnership with other tenderers. We were advised that the in-house team did not approach KBIT management regarding a late lodgement because they were aware that the tender document precluded the acceptance of late tenders.

4.5.3 Evaluation of tenders

KBIT established a broadly representative 7-member panel to evaluate the tenders against established criteria. The panel met on 4 separate occasions to assess tenders against the evaluation criteria described in the tender documentation.

The tender evaluation panel recommended that the KBIT contract FedEx Kinko's to provide the Managed Print Services (excluding the graphic design unit services) for a period of up to 5 years, at an annual cost of around \$1.5 million. It also recommended that KBIT contract direct with both FedEx Kinko's and its proposed print device provider Canon.

4.5.4 Conclusion

The acceptance of a late tender by KBIT compromised the integrity of the tender process to outsource its printing functions. Both KBIT's own tender documentation and the guidelines of the Victorian Government Purchasing Board are quite explicit in that tenders received after the time allowed are deemed ineligible for consideration.

RESPONSE provided by the Chief Executive Officer, KBIT

KBIT agrees with the conclusion, however, in part 4.5.2 it should be noted that management were not initially aware that inaction by Canon led to the in-house team being unable to submit a tender. This was only brought to management's attention through the memo on 5 January 2005.

In regards to the acceptance of the late tender, it should be noted that management decided to accept the tender, as it was a fact that airline schedules on the day were severely disrupted due to inclement weather.

Recommendation

1. That Kangan Batman Institute of TAFE review and document its tender process so that it is consistent with the Victorian Government Purchasing Board's guidelines. Particular attention should be given to the policy relating to the tender period and closing date, as well as to acceptance of late tenders.

RESPONSE provided by the Chief Executive Officer, KBIT

KBIT will review and document its processes in regard to tendering in line with the VGPB guidelines. This is underway and will be discussed and implemented through the Audit and Risk Management Committee of Council.



5. Geelong Magistrate's Court: Investigation into alleged misuse of court funds



5.1 Audit conclusion

This report outlines the findings of an investigation into the alleged misuse of funds at the Geelong Magistrates Court. The investigation was undertaken following a referral from the Ombudsman to the Auditor-General under Part 4 of the *Whistleblower Protection Act 2001*.

Our investigation also included a review of the financial management systems and procedures operating in the court.

5.1.1 Alleged misappropriation of funds

Where magistrates decide that a defendant has broken the law, but do not record a conviction or impose a fine, they can order the offender to make a payment to the court fund. Money held in this fund is used to provide direct financial assistance to needy persons who present at the court, or to make payments to welfare bodies who then distribute the funds to individuals.

It was alleged by the whistleblower that a number of court staff acting together misappropriated approximately \$200 per week from the court fund during the period from 1995 to 1998. The alleged misappropriation involved court staff taking cash from the day's takings and replacing the cash with court fund cheques made out to fictitious persons. These cheques were opened to cash and included in the court's daily bankings.

Our examination of the court's systems and procedures indicated that the alleged misappropriation, as described by the whistleblower, was possible and unlikely to be detected by the court's internal control systems. The manner in which the court fund operates and the way in which the alleged misappropriation may have been undertaken would not allow for external confirmation of the payments or sufficient documentary evidence to be produced which could be used to prove court funds had been misappropriated.

We found the whistleblower and a person corroborating the allegations made by the whistleblower to be credible, and the information provided to be detailed, logical and consistent. We also had no reason to believe the statements made by these individuals were not independent of each other.

Our investigation did not find sufficient documentary evidence to prove court funds were stolen, however we have referred this matter to Victoria Police's Major Fraud Investigation Division for further investigation.

5.1.2 Court fund operations

Our investigation identified a number of inherent (permanent) risks in the operation of the court fund. In these circumstances, we would have expected the court to have established appropriate procedures and strong internal control systems to compensate for these risks. We found that:

- the practice of opening cheques to cash was widely used within the court
- there was a lack of formal policy and guidance provided to court staff on how the court fund should be administered and a lack of external reporting and accountability for funds provided to charitable organisations
- with the magistrate normally approving court fund payments after they have been made, junior court administrative staff effectively had discretion over who received assistance and how much they were paid
- many of the controls required by the registrars' manual were not operating. The most significant of these was the lack of adequate documentary evidence for many court fund payments.

We consider there is a need to reassess the current practice of making court fund payments to individuals, including the authority to make such payments.

5.1.3 Kicking Goals Youth Program

In 2001, the court established the Kicking Goals Youth Program, which organises and funds a day out at the football for youth living in the Geelong area. While providing a useful community service, this program is:

- administratively time consuming
- exposes the court to risks resulting from participants in the program becoming sick or getting hurt while involved in the day out
- increases the risk of the court funds being inappropriately used.

While the court can have a useful role in financially supporting charitable programs, we do not consider that its role should extend to directly operating them.

Following receipt of the findings of our investigation, the program was discontinued by the Department of Justice, with its remaining funds paid into the court fund.

5.1.4 Trust account operations and other issues

Our audit also identified that:

- the court's control over trust account payments and its ability to trace these payments to the recipients of the proceeds was significantly reduced by the practice of opening trust account cheques to cash
- moneys held in the trust account for long periods of time were not adequately managed
- there were inadequate controls over the court's accountable documents (eg. receipt forms)
- the court's mail opening procedures were deficient and exposed it to potential loss and/or manipulation of incoming receipts
- there was inadequate segregation of duties within the court.

Our investigation raised several issues associated with the administration, management and accountability of court funds, which need to be considered by the department for action from a state wide perspective. To this end, we make several recommendations aimed at improving financial management in the state's magistrate's courts.

The department's response to the findings and recommendations of our investigation has been both proactive and positive. The department should be commended for this response.

RESPONSE provided by Secretary, Department of Justice

The department and the Magistrates' Court of Victoria have reviewed the report and consider it to be factually correct and fair. The department in conjunction with the court agree to all of the recommendations and have been proactive in directly addressing some of these. The Chief Magistrate has issued a Memorandum to all Regional Coordinating Magistrates, that will be formalised in a Practice Direction and the department has received the final report from an accounting firm that was engaged to carry out a statewide review of the operation of the court fund. The department and the court have addressed the more immediate recommendations and will follow through with the remainder over the short term.

5.2 Background

On 2 September 2004, the Ombudsman notified the Auditor General that his Office had received a telephone call from a former employee of the Geelong Magistrates Court (the court), alleging that money had been misappropriated from the court. The specific allegation was that a number of court staff acting together misappropriated approximately \$200 per week from the court fund during the period from 1995 to 1998.

As the complainant did not attend a pre-arranged meeting or make further contact with the Ombudsman's Office, the matter did not qualify as a "protected disclosure" under the *Whistleblower Protection Act 2001*. However, as the allegation was considered to be serious, it was referred to our Office. We accepted the referral and decided to investigate the allegation.

As very little information had been provided at that stage by the complainant, we limited our initial investigation to the court's trust account and court fund for the 2002-03 and 2003-04 financial years.

Early in 2005, the complainant again contacted the Ombudsman's Office and, under oath, disclosed how the alleged misappropriation had been carried out, named those believed to have been involved in the misappropriation, identified a number of potential witnesses and agreed to testify if the case was taken to court.

On 8 March 2005, the Ombudsman notified the Auditor-General that the allegations had now been assessed as satisfying Part 4 of the *Whistleblower Protection Act 2001*, as a public interest disclosure.

As we had already commenced investigating the allegations, the Ombudsman formally referred the matter to us under Section 41 of the Act. Following receipt of the referral, we expanded our investigation to include:

- interviews with the witnesses identified by the whistleblower
- an examination of available court records covering the period from 1995 to 1998.

5.3 Objectives and scope of audit

The objectives of the audit were to determine whether the alleged misappropriation of court funds had occurred and evaluate the adequacy of the court's financial/administrative systems and internal control.

The audit included:

- a review of the cash receipting and banking systems, including mail opening, recording of counter receipts, banking of court receipts, bank reconciliations and management of accountable documents
- an examination of the court's trust account, court fund and Kicking Goals Youth Program
- a cash count at the court, reconciling the cash and cheques held to the receipts recorded in the Courtlink system and its "Kalamazoo" receipting system
- the review of a report on the operation of the state's court funds, prepared for the department by a chartered accounting firm.

We examined court records, sighted supporting documentation for payments, spoke to court staff, obtained confirmation of payments from external parties and inspected a selection of court paid cheques obtained from the bank.

We also interviewed, under oath, a number of individuals who worked at the court during the period of the alleged misappropriation. The whistleblower did not consider that these individuals were involved in the alleged misappropriation.

The audit was conducted pursuant to Section 16(1) of the *Audit Act 1994*. The audit examined administrative processes of the court and did not consider any judicial decisions.

5.4 Court systems and processes

The Geelong Magistrates Court operates one official bank account – the Department of Justice Victoria Magistrates' Court Geelong Suspense Account. The account consists of 2 sub accounts:

- the Revenue Account, into which moneys payable to the state (mainly fines) are deposited and transferred to the Consolidated Fund daily
- the Trust Account, which holds all other money received by the court. This money is either held in trust on behalf of another party, or in the court fund.

On 26 February 2002, the court opened a second bank account, the Kicking Goals Youth Program Account. This account is used to operate a special youth program that is run in conjunction with a local sporting club, local schools and industry groups.

Policies and procedures governing the operations of all magistrates' courts in Victoria are outlined in the *Clerk of Courts Registrars Manual* (registrars' manual).

5.4.1 Revenue account

Many court orders result in revenue for the state, including fines and fees imposed by the court. These and other revenues such as family law fees and miners' rights licence fees are collected by the court. These court receipts are banked daily into the court's suspense account.

Each day a court suspense account cheque to the value of the total day's takings is drawn and paid into the department's revenue account. The departmental account balance is swept periodically by the Department of Treasury and Finance and transferred into the state's Consolidated Fund.

The department uses a computerised court management system known as Courtlink. All orders made by the court are recorded in this system. Courtlink matches court orders to subsequent receipts, where these orders require a payment to be made to the court.

Our examination of the operations of the revenue account and its linkages to the department's Courtlink system indicated that this account was operating satisfactorily, bankings were undertaken in a complete and timely manner and the system was effectively supported by internal cash control mechanisms.

5.4.2 Court fund (Poor box)

Where magistrates decide that a defendant has broken the law, but do not record a conviction or impose a fine, they can order the offender to make a payment to the court fund. When these payments are received by the court, they are recorded individually in the court's "Kalamazoo" receipting system and recorded daily, in total, in the trust account (suitors cash book).

We were told that court magistrates have the power to make payments from the court fund. However, our investigation disclosed that, there is no specific reference to the power of magistrates to make payments from the court fund in current legislation.

The department informed us that, under section 75 of the *Sentencing Act 1991*, a court, on being satisfied that a person is guilty of an offence, may (without recording a conviction) adjourn the proceeding for a period of up to 60 months and release the offender on the offender giving an undertaking with conditions attached. One of these conditions is "that the offender observes any special conditions imposed by the court". The department considers that one of these special conditions could be to instruct the offender to make a payment into the court fund.

Payments from the fund are made to individuals (presenting at the court) and to charitable organisations and welfare groups for distribution to people deemed by the court to be in need. Around 600 payments are made from the Geelong magistrate's court's court fund each year, with an average payment of around \$100, or \$60 000 in total each year.

The nature of court fund payments creates a number of inherent risks for the court. Individuals receiving emergency relief:

- are mainly unknown to court staff
- often do not have a permanent address
- do not have to prove their identity or substantiate their need for assistance.

In these circumstances, it is not possible after payments have been made, for court management, or for audit, to confirm the existence or identity of many of the individuals receiving financial assistance, the amount they received or how the assistance was used.

Following receipt of the findings of a number of internal audit reviews, in 1999 the department established its Courts Cash System Upgrade Review. The review team recommended discontinuing payments to individuals who presented at the court for financial assistance. However, the team was later disbanded and many of its recommendations (including this recommendation) were not implemented.

Internal controls over court fund payments

Court procedures require the following information to be recorded in the court fund cashbook:

- cash book balance at the start of each month
- full name and address of any person or organisation receiving a payment from the fund
- cheque number and details of the amount paid
- signature of any person receiving money from the fund and, in the case of an organisation, an official receipt and signature of an officer of that organisation
- signature of the magistrate authorising the payment

- the closing balance of court fund to be carried forward to the next month and the signature of the registrar indicating the carried forward balance is correct.

Court procedures also require each payment to be approved by 2 cheque signatories. A cheque signature register for each magistrate's court is maintained by the department.

Senior Registrars have delegated authority to make payments up to \$20 000 and Assistant Registrars have authority to make payments up to \$5 000. However, these delegations relate to general court expenditure rather than trust account and court fund payments.

Opening cheques to cash

Cheques used by the court are crossed and have the words "Not Negotiable Bank Account Payee only" printed across them. When they are presented at the bank, these cheques can only be paid into the account of the person named on the cheque. This control helps prevent the holder of a lost or stolen cheque from accessing the funds.

However, it is common practice at the Geelong court for court fund cheques to be opened to cash. Many recipients of these cheques require immediate payment and cannot or are not prepared to wait while the cheque is cleared by the bank; or are poor and may not have a bank account. This practice is permitted under the procedures included in the registrars manual.

These cheques have the words "Please pay cash" written on them. This means that the person to whom the cheque is made out can obtain cash from the bank in exchange for the cheque. Where a cheque is so endorsed, the signature of the payee is required on the back of the cheque at the time the cheque is written.

When a court cheque is opened to cash, the court is relying on the bank teller who receives the cheque to:

- check the signature of the person presenting the cheque against the signature on the back of the cheque
- record on the back of the cheque reference to the documentation (such as a driver's license or passport number) used by the teller to confirm the identity of the person cashing the cheque.

These actions are designed to ensure that the person, to whom the cheque is made out, is the person who receives the cash. If they are not performed, the cheque becomes equivalent to cash in the hands of the bearer. It is then easier for the holder of a lost or stolen cheque to inappropriately access court funds and impossible for the ultimate beneficiary of the cheque to be verified.

Audit findings

Our review of the court fund cashbook and payment procedures disclosed that:

- There are no guidelines or criteria to assist court staff to decide which individuals presenting at the court and which charitable organisations should receive assistance, and how much assistance should be provided. Some staff felt that they were inadequately qualified to assess the need of those presenting at the court for financial assistance and were not in a position to determine the appropriate amount of assistance to provide
- Despite the magistrate having the responsibility for court fund payments, these payments were made by a number of administrative staff
- One of the court magistrates endorsed payments from the fund at the end of each month by bracketing the payments on each page of the cashbook and signing his name next to the bracketed payments. Such a procedure effectively transfers discretion and control over the funds from the magistrate to court staff
- The court used up to 9 cheque signatories (the cashier was not one of them) during the period under review. Its cheque signature register, held by the department, was not up to date
- The delegations empowering staff to make payments on behalf of the court relate to the purchase of goods and services required to operate the court. There are no specific delegations in respect of the court fund
- Where financial assistance was provided to an individual, the person provided his/her name and address and signed the court fund cashbook as evidence of receiving the payment. There were instances, however, where the address was recorded as "No fixed address" or did not include a street number, or some address details were illegible
- Contributions made to charitable institutions were generally well supported by original receipts provided by those organisations. However, in the case of payments to other entities, made on behalf of beneficiaries such as payments to TXU, Australia Post, and VicRoads, receipts or copies of invoices were generally not obtained or held to support these payments

- Reports providing information of the money due to or paid into the court fund and how it was used were not provided to the magistrate with responsibility for the fund
- While the registrars' manual requires the court to ensure that funds provided to charities are not used for administrative purposes, there are currently no procedures in place to determine how court fund money provided to these charities has been used.

We selected 114 court fund payments during the period from September 2002 to September 2004 and obtained copies of the cheques from the bank. Some of the payments chosen were selected randomly and others were selected because they appeared unusual. Our examination of these cheques found that:

- 55 cheques (48 per cent of those examined) had been opened to cash
- of the cheques opened to cash, 6 (11 per cent) had not been signed on the reverse of the cheque by the beneficiary as required by the registrars' manual
- of the cheques opened to cash, 2 (4 per cent) did not record evidence that the bank teller had verified the identity of the person presenting the cheque
- cheques that were not opened to cash did not have the words "or Bearer" crossed out in 37 per cent of cases as required by the manual.

If bank tellers do not compare the signature of the person presenting the cheque to that on the back of the cheque and request them to verify their identity, it is not possible for the court to ensure that the person presenting the cheque is the person to whom the cheque was made out.

We also examined a selection of court cheque butts. While we found sufficient information on them to support most payments, there were a number of instances where the information was insufficient or non-existent.

Conclusion

There are a number of risks in the current operation of the court fund, including the practices of making payments to individuals and opening cheques to cash.

We consider there is a need to reassess the current practice of making court fund payments to individuals, including the authority to make such payments. Discontinuing this practice would:

- be fairer, as benefits from these donations could be more equitably distributed rather than limited to those who know about the fund and are willing to approach the court for help

- prevent the necessity for court staff to make assessments of the need of those seeking assistance from the court fund, where they consider they lack the skills to make these assessments
- provide a safer work environment for staff who would not be put in the situation where someone desperate for money could threaten them
- be more financially prudent, as it would be more difficult for money to be inappropriately accessed
- reduce court administrative costs.

Despite recommendations made in the 1999 report to discontinue the practice of payments to individuals, the payments continue to be made.

We also consider that many court fund cheques could be made payable to the person or business providing the food, transport or accommodation required by the individual seeking financial assistance, rather than opening cheques to cash.

Where there are inherent risks, it becomes imperative for the court to establish and maintain strong compensating internal control systems and procedures. The registrars' manual requires magistrates to approve all court fund payments, as evidence of the exercise of their discretion over how the funds are used. However, under the current system, junior court staff make payments from the fund, which are subsequently ratified by the magistrate at the end of each month. This practice effectively transfers the discretion over who receives assistance and how much they receive from magistrates to court administrative staff.

Any additional control afforded by requiring 2 signatures on cheques is eroded because almost half of the court's administrative staff are cheque signatories.

The lack of formal guidance provided to court staff on how the court fund should be administered and the lack of reporting and accountability by the court for funds provided, mean that the court cannot be assured that the best use is currently being made of the funds available.

Our audit also disclosed that many of the controls required by the registrars' manual were not operating. The most significant of these was the lack of adequate documentary evidence supporting court fund payments.

Under the existing circumstances, it is very difficult for the court to identify, let alone effectively prevent, the possible misappropriation of funds.

Following receipt of our draft report by the department, in August 2005, the practice of opening cheques to cash in the state's magistrates courts was discontinued.

Recommendations

1. **That the court considers discontinuing the practice of making court fund payments to individuals, consistent with the recommendations made in 1999. Recipients of court fund payments should be limited to recognised charities.**
2. **That, in administering the court fund, the court:**
 - **develop appropriate policy and guidelines to assist staff in deciding on who receives financial assistance from the court fund and the amount of assistance to be provided**
 - **ensure that it complies with the registrars' manual**
 - **establish a specific purpose cashbook, for court fund transactions, to be presented in an appropriate format**
 - **wherever possible, ensure payments are made to businesses/organisations providing goods and services to individuals presenting for assistance and not to the individuals directly. Where this is done, adequate documentation supporting the payment should be retained**
 - **provide quarterly reports to the magistrate administering the fund, which provide information on the amount of funding received by the court fund, how it was distributed and the balance remaining in the fund.**
3. **That the existing requirement in the registrars manual that court fund moneys are not to be used for administrative purposes be strengthened to include a requirement for welfare agencies to periodically report to the court on the use to which court funds have been put.**

RESPONSE provided by Secretary, Department of Justice

Recommendation 1 is agreed and the department has acted on the recommendation. On 25 August 2005, the Executive Director, Courts, formally requested the Chief Executive Officer of the Magistrates' Court to consider ceasing the practice of making cheques payable to individuals. He requested that the court look at the practice of only making cheques payable to registered charities or community organisations.

RESPONSE provided by Secretary, Department of Justice - continued

The Chief Magistrate issued a direction to all Regional Coordinating Magistrates' on 30 August 2005 directing that no cheques be made payable to cash and that no further cheques be made payable to individuals.

The Court will also release a Practice Direction on 26 September 2005, addressing these concerns.

The department also accepts recommendations 2 and 3. It is anticipated that criteria and guidelines will be operational by November 2005 to strengthen the administration and management of the court fund. The Auditor-General's and Acumen Alliance recommendations will be considered during this process.

5.4.3 Trust account

Money paid into the trust account represents funds held in trust, usually on behalf of another party and includes:

- maintenance payments for spouses and children
- compensation payments for damages, restitution and the like
- other payments, where a magistrate directs a person appearing before the court to make a payment to another party
- interstate and other jurisdictions' fines.

When money in the trust account is held awaiting distribution to individuals or organisations, such as maintenance or compensation payments, the recipients of these payments do not always know the exact date that the payment will be made, and they do not have to acknowledge its receipt. This creates a risk that money could be misappropriated and remain undiscovered for a considerable time.

Our examination found that:

- for the period September 2002 to September 2004, approximately \$1.5 million per annum was paid into the trust account and the average month-end trust account balance in the Geelong Magistrates court was about \$33 000
- trust account cheques for sizeable amounts (up to \$5 000) had been endorsed with the words *please pay cash*, contrary to the requirements of the registrars manual. Such endorsements weaken internal controls that help ensure court funds are not inappropriately accessed
- a number of the cheques opened to cash:
 - had not been signed by the recipient
 - were not referenced to the document used by the bank teller to check the identity of the person presenting the cheque

- there was an inadequate audit trail of the trust account transactions due to very limited cross-referencing to other court records
- the carryover book, detailing the composition of the month-end balance of the trust account, contained significant sums that had been held in the account for a number of years (some up to 10 years). In some instances efforts by court staff, had failed to locate the owners of the funds and these amounts (30 per cent of the month end balance) comprised unclaimed moneys that should have been paid into the state's Trust Fund. Further, these moneys were not earning any interest.

Conclusion

The current practice of opening trust account cheques to cash significantly reduces the court's control over these payments and its ability to trace payments to the recipients of the proceeds. In these circumstances, it is easier for individuals to misappropriate court funds.

The court's management of money held in the trust account for long periods of time is also inadequate.

Recommendation

4. That the Court:

- **regularly review amounts held in the trust account, to determine those amounts that should be returned to their owners, and those that should be classified as unclaimed moneys and paid into the government's Treasury Trust Account**
- **investigate options that enable interest to be paid on the funds held in the trust account.**

RESPONSE provided by Secretary, Department of Justice

The department accepts the recommendation. The court will ensure that trust account balances are reviewed monthly where practicable, to determine the appropriateness of the funds contained in the trusts. Any stale cheques will be written back and lost or stolen money will be reported in line with the Minister for Finance's Financial Management Package.

The department will undertake a review, with input from internal audit, to determine trust account balances across its locations and the feasibility of centrally investing long term trust funds.

5.4.4 The Kicking Goals Youth Program

During 2001, the court commenced the *Kicking Goals Youth* program in conjunction with a local sporting club, and support from local industry and local schools.

The purpose of the program was to give some of the youth living in the Geelong area a day out at the football. Participants were given tickets and transport to and from the ground, and food and drinks during and after the match.

To segregate the operations of this program from other court activities, the court opened a bank account on 26 February 2002. Authority for the opening of this account was granted by the then chief magistrate of the Magistrate's Court. Funding for this program is derived, in a similar manner to the court fund, through magistrates making orders that defendants pay a specified amount to the program.

A court officer administered the program and maintained the financial records, under the supervision of a court magistrate. This officer also prepared the bank reconciliations for the program.

From its inception to September 2005, the court had paid \$18 915 into and \$18 616 out of the bank account.

We examined the operation of this bank account and found that:

- The account had not been appropriately approved by the Department's secretary, through the CEO of courts, as required by the registrar's manual. Consequently, the secretary was not aware of the existence of this account
- Notification that this account had been opened had not been provided to the Department of Treasury and Finance (DTF), as required by the Standing Directions of the Minister for Finance
- There were significant time delays, of up to 62 days, prior to banking of certain cheques. We were advised that these delays resulted from the administering officer not having time to do the banking
- Eight cheques, 22 per cent of cheques, issued from the account, had been made out to "cash" with 7 of these payments not being adequately supported by documentation. Consequently, we were unable to determine who received the funds or whether the payments were made for appropriate purposes.

We were informed that, in some instances where receipts had not been obtained, an arrangement had been entered into with suppliers, whereby a substantial discount was given for cash purchases when a receipt was not provided. We expressed serious concerns regarding such an arrangement with respect to the lack of accountability for the money spent.

We also found that:

- although the program was administered by a court officer with oversight from a magistrate, there was no involvement or oversight by the court's registrar
- the court had not established any monitoring arrangements or accountability processes to ensure that contributions from the program to the local sporting club were used as envisaged
- in operating the program, the court incurred costs and there was potential for liability to arise in case of accident to any of the individuals participating in program activities.

Conclusion

While not questioning the contribution made by the Kicking Goals Youth Program to young people living in the Geelong area, we consider that the program's bank account was established without proper approval and the operation of such a program, by the court, is inappropriate.

While the court can have a useful role in financially supporting welfare programs, we do not consider that its role should be extended to directly operating them.

Further, operating community programs is administratively time consuming and exposes the court to risks. As an official court program, the court is responsible for the health and wellbeing of the children while they are involved in the program. If, for any reason the children were involved in an accident or otherwise hurt during one of these outings, the court could be held liable.

The lack of essential internal controls over the use of program funds also increased the risk of court funds being inappropriately used.

Following receipt of our draft report in August 2005 by the department, the *Kicking Goals Youth* program was discontinued.

5.4.5 Cash receipting system

The court receives money over the counter or through the mail. Counter receipts are in cash or cheque, while mail receipts are by way of cheque or money order. The receipting and banking of these moneys is regulated by the registrars' manual.

We reviewed the court procedures for compliance with the manual and to assess whether they represented good practice. The results of this examination are outlined below.

Counter receipts

On our first visit to the court, we undertook a surprise cash count and reconciled the cash and cheques held with the amounts recorded in the "Kalamazoo" cash receipts book. We found that the amount of cash and cheques held in the cash register agreed with the amounts recorded in the Kalamazoo cash receipts book.

During our review, we noted that the court did not maintain a cash float to provide change to persons making over-the-counter payments. Instead, cash collected on the previous day (after the court had completed its daily banking) was used to provide change.

We found the multi-column "Kalamazoo" cash receipting system currently used by the court to be repetitive and resource inefficient as it necessitated manual adding and cross-foot adding of the various revenue classifications to achieve a daily balancing of the cash book.

Conclusion

In our opinion, the use of the previous day's takings to provide change to clients exposes the court to potential manipulation of the composition of the court's receipts and could facilitate the replacement of cash with cheques and vice versa.

We also consider the current manual cash receipting and recording systems to be outdated and inefficient.

Mail receipts

The registrars' manual requires that the following procedures be adopted for mail remittances:

- mail is to be opened by more than one officer in all practical situations
- receipting of moneys must be done at the time of opening the mail
- officers involved in the receipting, recording and banking functions are not to participate actively in the opening of mail

Our examination of the mail inwards system disclosed that:

- each day's mail is opened and sorted by one person, notwithstanding that there is sufficient staff for 2 persons to be involved in this procedure
- mail receipts are collected and passed on to the cashier, without the cheques/money orders being listed and control totals taken. The cashier records details of these cheques/money orders in the "Kalamazoo" cash receipt book. As a result of these processes, there is no way of ensuring that mail receipts are all accounted for and banked in a timely manner
- on opening the mail, cheques were not immediately stamped "*Not Negotiable- Pay Geelong Magistrate's Court Account Only*" to ensure that they could be deposited only into the court's bank account
- when the cashier was unavailable to collect counter receipts, staff opening the mail performed that function. This meant that staff undertook incompatible functions and increased staff access to cash held in the cashier's office
- in addition to recording mail and counter receipts, the cashier was also responsible for counting and balancing each day's takings, undertaking the court's banking, preparing bank reconciliations and conducting a number of other administrative functions within the court
- no one was responsible for confirming/ensuring that all cheques received in the mail were banked at the end of each day.

Conclusion

As previously commented in this report, our testing of the Courtlink revenue system found a strong degree of consistency and compatibility between it and other court records. We concluded that the banking of court receipts was undertaken in a complete and timely manner and the Courtlink system effectively supplemented internal cash control mechanisms.

However, we found the court's mail opening procedures to be deficient, which could lead to the loss and/or manipulation of incoming receipts.

There was inadequate segregation of duties between court staff. In our view, the lack of segregation of duties could be overcome by enhanced oversight of the cash receipting/ banking/reconciliation functions, by the court registrar.

Accountable documents

Accountable documents comprise stationery used by entities that record transactions or commitments of the entity. Within magistrates courts, accountable documents include stationery items such as licence forms, blank cheques and "kalamazoo" receipts. The exercise of tight controls over these documents is important because persons can use the documents to gain access to court funds.

The registrars' manual requires, among other things, that the court keep a list of receipt books and priced licence books received and/or returned to the place of issue in a register of receipt books and priced licence forms at the court.

Our examination of the court's register and related internal control processes for its accountable documents disclosed that:

- the register recorded the receipt of accountable documents by the court, but not their issue. This meant the court was not adequately controlling and accounting for these documents
- the registrar or a delegated officer did not review the cash book at the end of each month to ensure that:
 - all receipt numbers were accounted for
 - cancelled receipts were appropriately recorded and the originals suitably defaced and retained
- blocks of receipts were issued in numbers significantly greater than required for immediate use. These receipts were then stored for considerable periods of time in an unsecured area
- on many occasions, receipt details recorded on the kalamazoo cash receipts book were amended. As a result, information recorded in the cash receipts book would differ from that recorded on the original receipts issued to customers.

Conclusion

There are inadequate controls over the courts accountable documents.

Bank reconciliations

The court registrar prepares monthly bank reconciliations for the court fund and provides a copy to the cashier for inclusion into the trust account reconciliation.

The cashier prepares the monthly bank reconciliations for the trust account, which are independently reviewed by the court registrar.

Our review of the monthly reconciliations of the trust account and court fund disclosed that:

- with only one exception, reconciliations were completed within 15 days of the end of the month
- they were signed and dated as required by the registrar's manual
- a number of cheques remained un-presented for more than 15 months before being cancelled and written back. This made the preparation of monthly bank reconciliations more time consuming and increased the risk of misappropriation
- 2 adjusting entries were made to the reconciliations to account for money stolen from the court.

The department was not advised of the above mentioned thefts and the amounts were not written-off until late 2002, some 4 to 5 years after the events occurred. This time delay resulted in the adjustments to the bank reconciliations being carried forward each month for much longer than necessary.

Given the significant time delay between the date these events occurred and the date on which the department was notified, the department was unable to undertake any useful investigation of these events. We also noted that these amounts were not reported to the Auditor-General as thefts, as required by Standing Directions of the Minister for Finance.

Conclusion

The bank reconciliations were undertaken in a timely manner and appropriately approved. However, we consider the practice of allowing for 15 months before un-presented court fund cheques are written back, is excessive. Court fund payments are essentially used to provide immediate financial support to needy people and, as a result, it is likely that the recipients would use the money immediately. Consequently, cheques outstanding should be cancelled within a much shorter period.

Recommendations

5. That, for cash receipts:

- **the cashier be provided with a cash float**
- **mail be opened by 2 staff members who list and take control totals of the cheques received before passing them to the cashier for receipting**
- **staff opening the mail should not perform the function of cashier, and the cashier should not be responsible for the preparation of the court's monthly bank reconciliations**

- a staff member be assigned responsibility for ensuring that all cheques received in the mail are banked at the end of each day
 - on their receipt, cheques are immediately stamped "Not Negotiable - Pay Geelong Magistrate's Court Account Only".
6. That, for court payments and adjustments:
- any cheques outstanding are cleared from the trust account and paid into the state's Trust Fund, within a much shorter period
 - adjustments to write off lost or stolen money are undertaken in a more timely manner
 - the Directions of the Minister for Finance, regarding notification of thefts to the Minister and the Auditor-General, are complied with.
7. That, for accountable documents:
- staff sign the register of receipt books and priced license forms on receipt of these documents
 - the registrar check the consecutiveness of receipt numbers used and sight cancelled receipts to ensure all receipts are appropriately accounted for and that all cancelled receipts are suitably defaced to prevent re-use
 - the number of receipts issued to the cashier be limited to those that can reasonably be used in the immediate future, and blocks of receipts not in use must be securely stored to restrict unauthorised access
 - changes to receipt details recorded in the Kalamazoo cash receipts book be strictly controlled.

RESPONSE provided by Secretary, Department of Justice

The department accepts these recommendations and will work with the Magistrates' Court to improve and modify current processes to ensure that the Auditor-General's recommendations are implemented, where feasible (small courts will be more challenging). Internal audit will assist with the development of the process to ensure that it addresses the Auditor-General's concerns and does not restrict the operation of the court.

5.4.6 Inspections undertaken by department's internal audit

Regular and thorough inspections of the operation of the state's courts, by the department, represent a key and essential element of the internal control systems of courts. Where such audits are not undertaken on a regular basis, non-compliance with statutory, ministerial, departmental and court requirements and poor practices may not be brought to the attention of court management on a timely basis.

The department's internal audit function undertakes audits of courts as part of its annual audit program. These audits are designed to provide assurance to the department that:

- all moneys received are completely and accurately receipted, banked promptly in the correct accounts and correctly processed
- payments to third parties from trust and other accounts are made in accordance with policy and regulations, properly authorised, substantiated and recorded.

Internal audit, during 2002, undertook audits at the Benalla and Shepparton Magistrates Courts. These audits found a number of deficiencies in the systems and internal controls of those courts, which were similar in nature to those we identified in this investigation.

The audits also identified instances where court funds had been misappropriated or there was a strong suspicion that they had been misappropriated.

During our investigation we noted that the department's internal audit unit had not carried out a full audit of the operations of the Geelong Magistrate's Court since December 1997. At the date of our audit, a period of 7 years had elapsed since the departmental audit.

Conclusion

Based on our discussions with internal audit, our review of the reports produced by that unit on magistrates' courts and in the light of their and our findings, internal audit should review court cash management activities more frequently.

As indicated by our investigation, the inadequacies associated with the current practices, lack of adequate or non adherence to internal controls and poor documentation pose an unacceptable level of risk and require immediate attention.

Recommendation

8. That the department ensure all magistrates courts are subject to an audit by its internal audit unit at least once every 3 years.

RESPONSE provided by Secretary, Department of Justice

The department agrees with the recommendation. Internal audit will include coverage of regional Magistrates Courts in its program to be submitted for audit committee approval.

5.4.7 Actions for state wide implementation

In June 2005, the department engaged a chartered accounting firm to:

- provide assurance to it that the court fund practices currently employed in magistrates' courts are appropriate and in line with current financial and management standards
- identify changes and improvements to the current system.

The review involved visits to 6 magistrates' courts and covered:

- cash receipting and banking
- court fund management
- disbursements /payments
- current legislation and government requirements regarding financial management of the court fund.

The department considered that the 6 courts selected by the accounting firm provided a representative sample of the state's magistrate's courts. The review identified the risks associated with the current operation of the court fund and suggested a number of alternative structures to the current arrangements, to remove or reduce these risks.

On the completion of the review, a report was produced and provided to the department. The report indicated that approximately \$1.6 million is paid into court funds managed by Victoria's magistrates' courts each year. About 90 per cent of this money is paid to welfare agencies, with the remainder paid to individuals presenting at the court. The average balance of funds held in the state's court funds is \$200 000¹.

¹ Acumen Alliance Court Fund Review September 2005.

The report also recommended:

- establishing criteria for selecting welfare agencies for funding
- a more formalised process for court fund payments, where agencies provide written submissions for funding which are assessed against established criteria
- improvements to the review and monitoring of the court fund.

The findings of our investigation and the department's own review have identified a number of issues which impact on the operation of court funds in the state's magistrates' courts. The following recommendations relate to changes we consider would improve the effectiveness, accountability and efficiency of court funds operated by magistrates' courts in Victoria.

Recommendations

9. **That the department, in conjunction with the courts review the operation of the court fund. In this review, consideration should be given to:**
 - **clarifying the authority to make payments from the court funds (poor box)**
 - **limiting financial assistance provided from court funds to established and reliable welfare agencies.**
10. **That, if the courts continue to operate court funds:**
 - **guidelines to assist court staff in deciding on which organisations receive financial assistance from the court fund and the amount of assistance provided, be developed**
 - **organisations requesting assistance from the court fund be required to provide written submissions supporting their request, which are subsequently assessed against established criteria**
 - **courts be required to provide regular reports to the department on the operation of their court funds, which would include information on the amount of money paid into the fund, how it was distributed and the balance remaining at the reporting date**
 - **procedures be established to require funded agencies to report on the use to which court funds have been put.**

11. That, generally:

- **courts be required to provide regular reports to the department on the operation of their trust accounts, which includes information on the amount of money held in the trust account and the period over which the money has been held**
- **the practice of opening of court cheques to cash be discontinued**
- **a state-wide review be undertaken, to determine the existence of unauthorised bank accounts**
- **a review be undertaken, to identify any welfare programs, like the Kicking Goals Youth Program, operating within courts, with any such programs discontinued**
- **courts provide their approved delegation listings (covering payments from the court fund) and their cheque signatory registers to the department and regularly update them for changes as required by the department's procedures.**

RESPONSE provided by Secretary, Department of Justice

Recommendation 9 agreed. Refer to response to recommendation 2.

Recommendation 10 agreed. Refer to response to recommendation 2.

The department also accepts recommendation 11.

The court, in conjunction with the department, will develop a comprehensive and appropriate reporting regime covering all trust accounts and provide this to the department on a monthly basis.

The court's procedures manual currently includes a ban on opening cheques to cash. In the same letter described in recommendation 1, the Executive Director, Courts, directed the Chief Executive Officer of the Magistrates' Court of Victoria to ensure that all cheques across every Magistrates' Court are no longer made payable to cash. The Chief Magistrate issued a memorandum to all Regional Coordinating Magistrates' on 30 August 2005 to cease the practice of making cheques payable to cash. This direction has been incorporated into a Practice Direction, which will be issued by the court on 26 September 2005.

The court in conjunction with the department will carry out a review of all courts to determine the existence of "unauthorised" bank accounts and whether there are any other welfare programs operating within the court. The Auditor-General found that the Geelong Magistrates' Court was operating an account for "Kicking Goals for Youth" program. This account has now been closed by the Court.

RESPONSE provided by Secretary, Department of Justice - continued

The court will maintain an up to date list of delegations, in line with departmental requirements.

5.5 Alleged misappropriation of court funds

At interview, the whistleblower alleged that during the time the whistleblower worked at the Geelong court, between 1995 and 1998, 5 employees regularly stole money from the court fund. Alleged amounts taken were small in value, usually around \$100 dollars and were taken 2 or 3 times per week.

The alleged misappropriation involved entering false information into the court fund cash book and issuing a cheque payable to a fictitious person, which was opened to cash. Cash to the value of the cheque was then taken from the court's daily cash receipts.

Court fund cheques were then included with the court's daily receipts and taken to the bank. As the cheques were opened to cash and paid in by court staff, the signature and identity checks usually undertaken by bank staff were not performed.

In the interview, the whistleblower:

- identified specific payments in the court fund cash book considered to be fraudulent
- provided us with the names of 5 individuals who worked at the court during the period of the alleged misappropriation, but who were not involved.

Individuals identified by the whistleblower as potential witnesses were interviewed, under oath, by staff of our Office during August 2005 with the assistance of staff from the Ombudsman's Office. One witness provided strong corroborating verbal evidence confirming that the alleged fraud had taken place.

A number of those interviewed provided us with the names of other individuals employed in the court at the time of the alleged misappropriation. We contacted and spoke to a number of these people as part of our investigation.

As indicated earlier in this report, the nature of court fund payments and lack of adequate controls meant that:

- the alleged misappropriation was possible, though it required the participation, willingly or otherwise, of more than one staff member
- it was not possible to independently verify that the person named in the cash book and on the cheque existed or that he or she received the amount of money recorded on the cheque.

In these circumstances, even if the allegations were true, it was not possible to prove categorically what money was taken, by whom and when.

We met with officers of Victoria Police's Major Fraud Investigation Division and with Department of Justice staff on a number of occasions during the investigation.

Conclusion

Our examination of the court's systems and procedures indicated that the misappropriation, as described by the whistleblower, was possible and unlikely to be detected by the existing internal control systems.

We found the whistleblower and the person corroborating the allegations made by the whistleblower to be credible and the information provided to be detailed, logical and consistent. We also had no reason to believe the statements made by these 2 individuals were not independent of each other.

While our investigation did not provide sufficient documentary evidence to prove categorically that court funds were stolen. The matter has been referred to Victoria Police's Major Fraud Investigation Division for further investigation.

The department's response to the findings of our investigation, by initiating audits of other magistrates' courts and in agreeing to change current practices and procedures to prevent the misuse of court funds in the future, has been both proactive and positive. The department should be commended for this response.



6. Administration of grants by local governments



6.1 Audit conclusion

Between 1 July 2003 and 31 December 2004, Victoria's local governments provided more than 12 000 grants totalling over \$82 million¹ to community groups, sporting organisations, cultural bodies and other non-government organisations to support the delivery of various programs and activities to local communities.

Grants are not a large element of local government expenditure. Nevertheless, local communities are keenly interested in the provision of grants (particularly the transparency, equity and value-for-money aspects of these payments), and making grants is an inherently risky activity requiring sound administrative processes and controls.

Our examination of grant administration across a selection of 5 local governments found that, while each had established formal processes for administering their community grants programs, their administrative frameworks were not fully developed and documented to encompass the range of ways they use to provide financial support to third parties (for example, loans, donations, subsidies, sponsorships and other contributions).

In our view, local governments need to develop sufficiently comprehensive and robust administrative/control frameworks that recognise the differing ways they provide community support and require the consistent management of these activities. This will help ensure that these activities are more effectively managed and the resultant funding outcomes are consistently measured, evaluated, compared and reported, therefore also improving transparency and public accountability.

Local governments also need to develop a better understanding of the risks associated with different grant types and recipients, and apply this understanding to the development of more focused (risk-based) grant monitoring and acquittal regimes. The development of training programs for staff involved in grant administration, clear policies for the management of conflicts of interest, and improved documentation standards and requirements will also further strengthen the administration of local government grant programs.

Finally, local governments need to improve the quality of records kept on grants made, to satisfy the legislative requirement for them to have this information readily available for public inspection.

¹ Based on information provided by 50 of Victoria's 79 local governments.

We make several recommendations aimed at improving local governments' grants administration and accountability, which address these issues.

6.2 Background

Each year, local governments provide funding, in the form of grants, to various non-government organisations (such as community groups, sporting organisations and cultural bodies) to support the delivery of a range of programs and activities to their local communities.

Grants can be generally described as financial benefits given by a person or agency to another person or agency, based on agreed terms and conditions. While grants can take many forms (including gifts, donations and subsidies), there is no common definition currently applied across the local government sector to group and report on these types of payment.

For the purposes of this audit, we defined grants (as we did in a previous report²) as "... payments to non-government organisations to support activities outside the public sector which are directed at achieving goals and objectives consistent with government policy. The payments are normally conditional upon the grant recipients using these funds for specific purposes set out in grant agreements and are not required to be returned or reciprocated".

Data provided for the purpose of this audit by 50 of Victoria's 79 local governments indicated that during the 18-month audit period (1 July 2003 to 31 December 2004), they provided more than 12 000 grants totalling over \$82 million to community groups, sporting organisations, cultural bodies and other non-government organisations.

Grants are not a large element of local government total expenditure. Nevertheless, local communities are keenly interested in the provision of grants, and making grants is an inherently risky activity requiring sound administrative processes and controls.

Over many years, we have reported to parliament on various issues associated with the management of grants by public sector agencies (including local governments). These have included the need for public sector agencies to establish:

- a clear definition of grants, to drive greater consistency in reporting and accountability for such payments

² Victorian Auditor-General's Office 2000, *Grants to non-government organisations – Improving accountability*, Government Printer, Melbourne, p 15.

- clear funding criteria, and fair and transparent grant assessment processes
- comprehensive funding agreements between grants providers and grant recipients
- comprehensive accountability and acquittal frameworks.

6.2.1 Audit objective and scope

This audit examined how well 5 selected local governments (East Gippsland Shire, Knox City, Moreland City, Wangaratta Rural City and Yarra City) administered their grant programs. This included whether each:

- had adequate policies and controls to administer grants³ provided to third parties
- complied with the policies, controls and other legislative requirements relating to the administration and reporting of grants.

When assessing the adequacy of the policies and control systems established by the audited authorities, we examined those used to:

- seek, appraise and approve grant applications
- make payments and monitor the performance of grant recipients
- ensure that grant recipients complied with the conditions of grants, legislative requirements, policies and guidelines
- evaluate the achievement of program objectives.

To determine whether the established policies and processes were followed, we examined 10 grants made by each of the 5 local governments during the period of the audit. We also examined the extent to which the audited authorities reported the provision of grants to their councils, in their annual reports and in other public media (such as their websites).

Figure 6A provides a summary of grants provided by the 5 audited local governments over the 18-month audit period.

³ Grants include subsidies, sponsorships and other donations provided to third parties.

FIGURE 6A: GRANTS TO NON-GOVERNMENT ORGANISATIONS BY 5 AUDITED LOCAL GOVERNMENTS

Grant categories	2003-04		July-Dec 2004		Total July 2003 - Dec 2004	
	Number	(\$'000)	Number	(\$'000)	Number	(\$'000)
Yarra City -						
Community grants	134	768	6	27	140	795
Cultural grants	138	365	42	232	180	597
Operational grants	55	776	23	381	78	1 157
Miscellaneous program grants	7	7	1	0.3	8	7
	334	1 916	72	640	406	2 556
Moreland City -						
Community grants	113	306	-	-	113	306
Cultural grants	31	40	25	38	56	78
Environmental grants	13	41	4	50	17	91
Miscellaneous program grants	28	15	41	18	69	33
Operational grants	21	582	10	327	31	909
	206	984	80	433	286	1 417
East Gippsland Shire -						
Community grants	106	593	53	271	159	864
Operational grants	114	233	85	321	199	554
	220	826	138	592	358	1 418
Knox City -						
Community grants	172	396	68	120	240	516
Operational grants	8	260	4	54	12	314
Miscellaneous program grants	224	87	144	44	368	131
	404	743	216	218	620	961
Wangaratta Rural City -						
Community grants	116	205	71	104	187	309
Cultural grants	31	13	16	8	47	21
Environmental grants	21	37	12	21	33	58
Operational grants	47	69	30	94	77	163
Miscellaneous program grants	10	55	5	41	15	96
	225	379	134	268	359	647
Total for the 5 audited local governments	1 389	4 848	640	2 151	2 029	6 999

Source: Data provided by the 5 local governments.

Figure 6A shows that the 5 audited local governments provided around 2 030 grants totalling about \$7 million over the 18-month period to December 2004. The average grant value was \$3 450. The City of Yarra provided the most funds (\$2.6 million, with the average grant being for \$6 300), while Wangaratta Rural City provided the least over this period (\$647 000, with the average grant being for \$1 800).

For the local governments audited, grant expenditure represented around 1.3 per cent of these authorities' total expenditures for the 18-month period to December 2004.

6.3 Were grant program planning and accountability frameworks adequate?

In assessing whether local governments had adequate grants program planning and accountability frameworks, we examined if they had:

- documented program policies, guidelines and procedures, including a sufficiently comprehensive control framework to consistently administer expenditure in the nature of community support (for example grants, donations, sponsorships and other contributions)
- risk management policies and procedures for their grant programs
- policies and procedures to identify and address potential conflicts of interest
- trained staff to administer grants.

6.3.1 Documented program policies, guidelines and processes

With the exception of Moreland, none of the audited local governments had established a comprehensive policy and procedure manual for staff, to document and guide the processes and policies to be applied when administering grants.

Moreland's policies and procedures were documented and available on its intranet site. Knox had developed an IT information management system for the administration of grants, however, the supporting policies and guidance needed to be further developed. Wangaratta had prepared a "high-level" flowchart to document its grant application and approval procedures but, in our view, this was not sufficient to provide adequate guidance to staff about all key aspects (policies and procedures) of the grants administration process.

All 5 local governments had established formal processes for administering their annual community grants programs. However, local governments also provide other types of support to community organisations (such as donations, sponsorships, operating grants and one-off specific purpose payments). We found that the local governments audited did not always have formal appraisal, selection, monitoring and acquittal procedures for these types of support expenditures. Further comment on these matters is provided later in this report.

In our view, local governments should have sufficiently comprehensive and robust administrative/controls frameworks, which recognise the differing ways they provide financial support to their local communities, and require the consistent administration of such support expenditure.

A consistent framework and approach will help ensure that this expenditure is effectively managed, and would enable all outcomes of financial assistance provided to third parties to be consistently measured, evaluated, compared and reported, thus improving transparency and accountability.

6.3.2 Risk management

All 5 local governments had an organisation-wide risk management policy by which they identified and analysed risks. However, none had undertaken a risk assessment specifically of their grants programs.

Most local governments audited considered that their grants programs were not significant enough to warrant a separate risk analysis. They considered that grants program risks were mitigated through the processes and controls used to administer grants. However, they could not provide evidence to us that they had adequately assessed the risks associated with the different types of grants (and grant recipient profiles) when developing the monitoring processes to manage these risks.

6.3.3 Conflicts of interest

The *Local Government Act 1989* requires all councillors and members of council committees to disclose any conflict of interest.

All 5 local governments told us that they considered potential conflicts of interest when appraising and recommending grant applications for approval. However, none had adequately addressed potential conflicts of interest for staff involved in grant appraisal and selection panels (where staff may have an interest in the outcome of a grant decision). We found that, for grants programs, the local governments audited had not:

- clearly defined “conflicts of interest” in the context of grant administration
- developed a conflict of interest policy
- required staff to declare any interests in grants applications (except for Knox, which required grant appraisal and selection panel members to declare any conflict of interest). Knox also required all panel members to sign a pecuniary interest notification form and indicate a conflict of interest in the prescribed section of its grants database
- maintained registers of potential conflicts of interest for staff involved in the appraisal and selection process (except for Knox).

In our opinion, local government staff and councillors should be required to document any interest they may have in a grant application. This would help to ensure that any potential, actual or perceived conflict of interest was promptly identified and dealt with.

6.3.4 Staff training

If staff are not adequately trained, or are not competent to assess potential grant recipient eligibility, they could inappropriately process grant applications and expose the relevant local governments to risks, such as the non-achievement of program objectives, public criticism associated with procedural fairness, and a possible loss of funds where grant recipients are not financially viable.

Except for Moreland, none of the 5 local governments audited had implemented training programs or activities for staff who administered grants. All local governments told us that grant selection panels comprised senior staff and local community representatives with sufficient expertise to assess grant applications.

Moreland conducted a workshop for staff who administer its grants program at the start of each grant program funding round. The workshop:

- considered the experiences of previous funding rounds
- considered improvements to the grants administration process
- reviewed and revised the grant program guidelines (including eligibility and appraisal criteria)
- planned the administration of the forthcoming round.

In our opinion, local governments should consider introducing workshops, similar to those conducted by Moreland. Workshops would be a useful way to evaluate and improve grants administration processes, and ensure that panel members take a consistent approach when they assess the eligibility of applications.

6.3.5 Promotion of grant programs and guidance to applicants

If the distribution of grant funds is to be equitable and transparent, then the availability of grants should be widely promoted.

All 5 local governments examined extensively promoted their grants programs to potential applicants. They did so through newspaper advertisements, information on their websites, mail-outs to all past successful and unsuccessful applicants, posters in libraries and other means.

Three local governments (Knox, Moreland and Yarra) held information sessions and provided interpreters and helpers to answer questions and help applicants fill out application forms.

6.3.6 Conclusions

Local governments need to further develop their administrative/control frameworks to ensure they are sufficiently comprehensive and robust to ensure that all expenditures in the nature of community support (for example grants, donations, sponsorships and other contributions) are effectively, and consistently, managed.

Local governments also need to develop a better understanding of the risks associated with different grant types and recipients, and apply this understanding to the development of more focused (risk-based) grant monitoring regimes. The development of training programs for staff involved in grant administration, together with clear policies for the management of conflicts of interest, will also further strengthen the administration of local government grant programs.

Recommendation

1. **That individual local governments:**
 - **prepare a policy and procedures manual establishing a consistent framework for the administration of all grants**
 - **develop guidelines to address conflicts of interest**
 - **provide training for staff involved in grants administration, particularly on assessing the eligibility of applications.**

6.4 Were grant appraisal and selection processes adequate?

To assess whether grant appraisal and selection processes were adequate, we examined if local governments:

- had, and applied, formal criteria to determine applicants' eligibility
- had, and followed, an adequate appraisal, selection and approval process.

6.4.1 Eligibility criteria

Local governments ordinarily receive more applications for grants than there is funding available for grants⁴. In the interests of fairness, transparency and maintaining community confidence in the integrity of the appraisal and selection process, it is therefore important for local governments to use a sound process when deciding which applicants to fund or not fund.

All 5 local governments audited had established adequate criteria for their grants programs, which were generally set out in the guidance material available to applicants. The level of sophistication of the criteria varied between local governments, but all required applicants to:

- be consistent with their corporate and program objectives (that is, to demonstrate a link to their council plan which sets out the local government's objectives and strategies)
- demonstrate the potential benefits of their application to the local community
- demonstrate their capacity to successfully complete the proposed activity or project
- be from a not-for-profit organisation, if the grant is part of a community grants program.

6.4.2 Appraisal, selection and approval processes

The grant appraisal and approval processes of all 5 local governments audited were very similar. The main features of the processes were:

- to be considered, applications had to be deemed eligible and meet the selection criteria
- an appraisal and selection panel (comprising senior officers, councillors and sometimes community representatives) assessed all applications against established criteria
- once the panel completed its appraisals, it made recommendations about which applicants should be selected and why, and submitted a report with recommendations to council for consideration and approval
- council considered the report and decided which applicants would receive a grant
- council generally accepted the panel's recommendations, but could change them if it wished. Council's decision was final
- all applicants were notified in writing of the success or rejection of their application.

⁴ For example, East Gippsland had a budget in 2003-04 of \$107 300 for its Community Small Grants Program. The program attracted 125 applications seeking a total of \$404 300.

All 5 local governments had formal criteria against which to assess the eligibility of grant applications. Yarra, Moreland, Knox and East Gippsland had applied their criteria consistently and fairly, and had documented the reasons for their selections in reports to council. We could not assess how Wangaratta had applied its criteria, because it did not retain documentation to support its appraisal and selection of applications. Wangaratta indicated that assessment documentation is prepared by Wangaratta Council officers but not retained on council files at the conclusion of the assessment process.

In our opinion, the appraisal, selection and approval processes of all the local governments, except Wangaratta, were adequate. Further comment on the importance of establishing adequate documentation to support the appraisal, selection and grant approval process is provided below.

6.5 Was grant administration documentation adequate?

We expected local governments to maintain adequate records to support their:

- appraisal and selection of all grant applications
- decisions to approve or reject grants
- the reasons for not selecting applicants
- monitoring and acquittal of grants.

Records to support the administration of grants should be complete, accurate, clear and organised. A reader should be able to easily review and understand the documents, and they should stand-alone without the need for further explanation.

We found that Moreland, Knox, Yarra and East Gippsland had substantial documentation to support the appraisal and selection process and their panels' recommendations. As mentioned earlier, Wangaratta did not retain documentation to support the appraisal and selection process.

However, the evidence available at the local governments audited to document the agreed grant terms and conditions, and to support the monitoring and acquittal of individual grants, varied from very good to poor.

At Knox, documentation evidencing that processes were followed was comprehensive, reflecting the advanced IT management information system developed by that local government.

While Moreland maintained separate files for each grant, we found that some key documents were missing from the files. For example, there were no copies of grant agreements or evidence of grants being acquitted on some files.

At Yarra, documentation on files was generally complete. Although not all relevant documents were on file, the files provided evidence that appraisal and selection processes had been followed.

East Gippsland maintained documentation to support the processes followed for grants under the Community Grants Program. However, we saw insufficient documentation for some other grants to determine whether established processes had been followed.

Wangaratta did not maintain individual files for each community grant. Consequently, officers could not produce key documents (such as grant agreements or evidence of acquittal) for some grants. Wangaratta indicated that the reason for not maintaining individual files for the community grants examined by audit was that these grants were extremely minor or one-off in nature.

Recommendation

2. **That local governments maintain adequate records to evidence the agreed grant terms and conditions (that is, grant agreements), and the monitoring and acquittal of individual grants.**

6.6 Were appropriate grant agreements established?

An essential component of an effective grants administration process is an agreement that protects the interests of the local government and the grant recipient, and enables the conditions of the grant to be enforced. An agreement should be written in plain English and include:

- the terms and conditions of the grant
- a clear and precise statement of the required outcomes of the grant
- clearly defined measures against which the grant recipient's performance can be assessed
- the grant recipient's reporting requirements
- dispute resolution procedures
- a statement of the circumstances in which the local government can reclaim the grant, and the procedure to recover grant funds in those circumstances

- penalties for breaches of grant conditions
- a procedure for the return of surplus or unexpended funds.

Agreements should also:

- provide for the recovery of fees and costs if the agreement is terminated
- require grant recipients to have adequate insurance cover
- give the local government the capacity to withhold funds payable if grant funding has not been used to achieve the stated outcomes.

For most categories of grants, the 5 local governments audited required grant recipients to sign a formal agreement before receiving the grant. As would be expected, the complexity and detail of the provisions in these agreements reflected the size and nature of the grant. For example, agreements for larger grants had more detailed provisions (such as dispute resolution and monitoring provisions). Smaller community grants (such as grants to stage a local community festival or event) generally had less comprehensive agreements with fewer provisions.

Agreements had been signed with the grant recipient for most grants made by the 5 local governments. However, at East Gippsland we identified 2 instances of grant moneys having been provided before grant agreements were signed. As well, East Gippsland did not require recipients to enter into formal agreements where the council regarded some payments as in the nature of a contribution rather than a grant. Wangaratta had no requirement for grant recipients to enter into a formal agreement for grants under the Rural Township Grants Program.

Moreland could not provide to audit grant agreements for 7 of the grants examined, and Wangaratta for 5. Both local governments could not confirm that grant agreements were actually in place. Wangaratta indicated that 2 of these grant agreements were not held by council, and were likely to be held with another granting body, such as the Department of Sport and Recreation.

Recommendation

- 3. That all local governments ensure that appropriate grant agreements are signed before funds are provided to grant recipients, and that copies of grant agreements are securely filed.**

6.7 Were grants effectively monitored and grant programs evaluated?

Monitoring and evaluation are important parts of the responsible management of a grants process. They help assure local governments that grants are being used for the purpose intended, and have resulted in the agreed outcomes. We expected that the local governments audited should:

- ensure that grant recipients met agreed reporting requirements (which might cover, for example, how they had used grant funds, their progress in achieving the agreed objectives, and their performance against other agreed measures). The timing and extent of reports should depend on the nature and size of grants, and might include annual audited financial statements
- promptly consider these reports, address any concerns identified and provide feedback to the grant recipients about their performance
- formally review their grants programs to assess their benefits and continuing relevance.

6.7.1 Monitoring of grants

The grants provided by the 5 local governments audited varied widely in amount and complexity. Grants classed as “community grants” were generally low-value and high-volume, and the local governments felt that it was neither practical nor possible to monitor these grants during the period of the agreement. Rather, they relied on the final acquittal information provided by the grant recipients.

Knox and Moreland reviewed long-term grants annually. Grant recipients were required to re-apply for funding under these grants each year and had to provide evidence of the satisfactory progress of their project/activity to receive further funding. Based on the information available on grant files, officers of the relevant local governments did not conduct any other monitoring during the grant period, and relied on acquittal evidence at the end of the grant period to assess the outcomes of projects. Knox advised that informal monitoring of community groups was undertaken through the ongoing interaction and support for these groups as part of council’s community development activities.

Yarra adopted similar processes to those adopted by Knox and Moreland, except that grant recipients with longer-term projects were required to submit a mid-year progress report, and a final report at the end of the grant period.

Most grants made by East Gippsland and Wangaratta were small, one-off grants. Ongoing monitoring was not considered by these authorities to be practical.

While we accepted that grant monitoring may not have been necessary or practical in a number of cases examined by us (where the sums involved were small in value), we found that there was a general lack of evidence on files, across all the local governments audited, to indicate that any monitoring or other form of acquittal had taken place. In the case of some larger grants, there was no evidence that periodic reports had been received, or that reports had been evaluated against any performance criteria. Further, in these cases, the local governments:

- had not always promptly assessed the progress of projects and, therefore, had not always taken prompt action on any concerns arising, or provided prompt feedback to grant recipients
- mainly limited the monitoring of grants to an annual appraisal, rather than conducting appraisals at critical stages of projects
- mainly relied on acquittal processes at the end of a project, rather than on ongoing monitoring of projects.

The absence of effective grant monitoring (driven by risk considerations attaching to the different grant types, values and recipients), increases the risks of fraud and misuse of funds provided to grant recipients.

Recommendation

4. **That local governments establish appropriate monitoring procedures for grants, commensurate with the assessed risk characteristics of different grant types and value.**

6.7.2 Evaluation of grant programs

Program evaluations help assess whether programs deliver the expected benefits, and can help improve future program outcomes. If grants programs are not evaluated, there is a risk that grants that have not resulted in a benefit to the local community are not identified, and continue into the future.

The grant programs of all 5 local governments audited had documented aims and objectives. However, all local governments did not formally assess the outcomes of their grant programs.

Moreland and Wangaratta reviewed their grant rounds annually, to determine the outcomes and whether grant recipient programs had achieved their aims and objectives.

Yarra conducted a general, high-level and informal review of grant program outcomes. Yarra was, however, planning a more formalised and detailed approach for its upcoming grant rounds.

Knox and East Gippsland did not formally review the outcomes of their grant programs. Knox however advised that work had commenced to develop such a process. East Gippsland told us that the funds allocated to its grants programs were reviewed as part of annual budget development. However, in our view, greater attention was required by this local government to assessing the outcomes of its grant programs.

Recommendation

5. **That local governments annually evaluate the outcomes of their grant programs, and use this assessment to inform the future operation of these programs.**

6.8 Were grants adequately acquitted?

Acquittal is the process of ensuring that grant recipients have administered grant funds responsibly and in line with the terms and conditions of the grant agreement. If grants are not acquitted, the recipient's accountability is reduced and the risk of misuse of grant money is increased.

Acquittal procedures are an important monitoring tool, but the stringency of the procedures should be in line with the degree and type of risk associated with the grant. They should also take into account the cost to grant recipients of complying with the procedures.

Good practice is for grant recipients, on completing their project, to provide the local government with a certificate or signed statement that grant funds were spent in accordance with the terms and conditions of the grant agreement. Local governments may require more detailed evidence for larger grants, together with a formal review or audit of acquittal documentation to ensure that funds were used for the approved purposes, and to determine the extent to which the intended outcomes were achieved.

All 5 local governments audited had established formal acquittal procedures for most of their grant programs. Commonly, grant recipients were required to provide:

- an explanation of whether the agreed outcomes of the project were achieved, and how they were achieved
- a detailed breakdown of their project's income and expenditure, including details of how the grant was spent

- signed (and where practical, audited) financial statements
- copies of invoices for payments made
- details of any unexpended funds
- a statutory declaration that all information provided to the council was accurate and not misleading.

However, in all the local governments audited (except Knox) we found instances of a lack of documentary evidence to indicate that grants had been properly acquitted.

Where grant recipients provided documentation to acquit their grant, local governments generally accepted the information on face value, considered it correct, and did not follow-up. The exception to this was Moreland. The local governments told us they did not have the resources to conduct detailed reviews of how grant recipients administered their grants.

Moreland had an informal practice of auditing 10 per cent of grants each year. The selected grant recipients were visited by Moreland staff who reviewed the project and inspected primary documentation. Moreland's audit procedures included one of their officers:

- sighting items (and checking purchase receipts or cheque butts) if they had been paid for from the grant
- checking purchase receipts, advertisements and press cuttings if the grant was for an event (to check that it took place)
- discussing the whole grant program with the recipients, and discussing positives and negatives about the program.

Recommendation

6. That local governments:

- **require all grant recipients to provide appropriate documentation to acquit their grants, and ensure the receipt and adequacy of the documentation received**
- **consider the conduct of detailed grant reviews, on an annual basis, across a sample of grants, taking into account the size and nature of the grants provided.**

6.9 Were grant programs adequately reported?

In assessing whether local governments adequately reported their grant programs, we examined:

- the amount and type of information they published in their annual reports and on their websites
- compliance with a legislative requirement to maintain a list of donations and grants, available for public inspection.

6.9.1 Extent and quality of information published

The 5 local governments audited published minimal information in their annual reports⁵ and websites about their grant programs. Moreland and Yarra provided the most information (which consisted of brief details of some programs and specific grants). The annual reports of Wangaratta and East Gippsland did not disclose any quantifiable information about grants made.

In our opinion, there is scope for improving the level of information publicly provided by the local governments, through their websites and other means. For example, in the interests of improved transparency, their websites could include the total amounts spent on grant programs (by category if appropriate), program aims and objectives, and an appraisal of the extent to which aims and objectives have been achieved (including benefits to the community). Local newspapers could also be used by local governments to inform the local community about the grant program outcomes etc.

6.9.2 Maintenance of grants and donations listing

Regulations under the *Local Government Act 1989* require local governments to maintain, for public inspection, a list of “donations and grants” made during a financial year. The list is to include the names of the people or bodies receiving a donation or grant, and how much they received.

⁵ There is currently no legislative requirement for local governments to disclose this information in their annual reports.

As mentioned earlier in this article, we asked all Victorian local governments to provide to us summary information on grants made in the 18 months to December 2004. The quality of the information we received varied. In some instances, it appeared that the information was sourced direct from their general ledger, and included other categories of expenses as grants. Several local governments could only give us the value of grants provided, and not the number of grants made.

Knox, Moreland, Yarra and Wangaratta maintained separate lists of grants, East Gippsland did not.

At Knox, Moreland, Yarra and Wangaratta, the lists of grants included adequate information about individual grants. However, the completeness and accuracy of these lists was compromised by the lack of a clear definition of "grants". That is, some of the local governments included contributions, donations and operational grants in their lists, while others did not. This clearly points to the need for a clear and comprehensive definition of what constitutes a grant, for administrative and reporting purposes.

Knox used a sophisticated database to record all information about grants. The database was not just a listing of grants, but a specialised management information system to administer the grants program. Grant applications were appraised and ranked directly on the database. The database also contained all forms, and produces all required reports.

East Gippsland did not keep a specific listing of grants made, but extracted information from its general ledger to produce such a list. East Gippsland told us that it recognises the need to improve the adequacy of the information systems it uses to administer grants.

Recommendation

- 7. That all local governments maintain adequate information systems to ensure that lists of grants are complete, accurate and up-to-date, and contain the information they are required by legislation to make available to the public.**

RESPONSE provided by Chief Executive Officer, East Gippsland Shire Council

East Gippsland supports all recommendations.

In relation to paragraph 6.3.3, East Gippsland currently has conflict of interest processes that are considered to be adequate. In relation to part 6.9.1 of the report, prior Annual Reports contained information about grants, but the 2003-04 Annual Report regrettably omitted the listing of grants allocated for the year.

RESPONSE provided by Chief Executive Officer, Knox City Council

Knox is in agreement with the general principles in all of the 7 recommendations.

There is a need to achieve a balance between administrative management of grants and the broader objectives of responsive and responsible community development and support.

It is also important to acknowledge that some of the recommendations proposed will potentially have resourcing implications for local governments, and that the review did not refer to the current level of resources allocated to the grants administrative processes across the sample of councils.

RESPONSE provided by Chief Executive Officer, Moreland City Council

Overall, council has found the audit process to be most informative. A number of processes are now being considered to ensure that the management of Moreland City Council's grants process is continuing to improve and to comply with the suggested recommendations in this report. Implementation of some of these processes will be subject to council endorsement.

Recommendation 1

Agreed. Moreland already implements the recommendations outlined but recognises that there is a need to strengthen the guidelines to address the issue of conflict of interest.

Recommendation 2

Agreed. Moreland is in the process of moving all of its grants programs under the one budget area. This should ensure that monitoring and acquittal of individual grants is more streamlined and that documentation remains on a single file and not located in various areas across council. This should minimise information gaps and duplication.

RESPONSE provided by Chief Executive Officer, Moreland City Council - continued

Recommendation 3

Agreed. Refer to above comment.

Recommendation 4

Partially agreed. Moreland has informal monitoring of community groups through ongoing interaction and support and through structured coordination meetings as part of council's community development activities. Moreland also audits 10 per cent of all categories under the community grants program. This is a formal monitoring process. Grants with a value of \$1 000 or more are also required to have a formal Service Agreement as a condition of the allocation. To date, there has been very little evidence of fraud or misuse of funds by community groups. However, there is agreement that procedures for risk management need to be better documented.

Recommendation 5

Agreed. Moreland is already annually reviewing its grants programs.

Recommendation 6

Agreed. Moreland under its grants program has a process of auditing 10 per cent of its community grants regardless of the amount of dollars granted. This is not an informal process but part of the community grants program.

Recommendation 7

Agreed. Council will be using the Auditor-General's definition of "grants" in its future grant documentation and reporting, and will aim to improve information systems through the investigation and implementation of appropriate software applications.

RESPONSE provided by Chief Executive Officer, Wangaratta Rural City Council

Wangaratta agrees in principle with all conclusions and recommendations made in the report.

In relation to recommendation one, due consideration ought to be given to the size of the community grants program in relation to overall council expenditure (materiality) and to the resources available to smaller councils to establish manuals and provide staff training.

RESPONSE provided by Chief Executive Officer, Yarra City Council

Although we are satisfied that Yarra's existing systems and processes are both robust and transparent, we nonetheless accept the conclusions reached and recommendations made. Council officers have already begun to incorporate recommendations into the forthcoming annual grants program to further strengthen its administration.

The recommendations of the review are consistent with recent changes to the structure of the organisation and the findings of a major community grants review conducted throughout 2003-04. This has resulted in an increased focus on the administration of the grants program, including storage of documentation, assessment procedures and improved evaluation requirements, with additional staff resourcing as a result.

Auditor-General's Reports

2004-05

Report title	Date issued
Results of special reviews and other studies	August 2004
Measuring the success of the Our Forests, Our Future policy	October 2004
Report of the Auditor-General on the Finances of the State of Victoria, 2003-04	November 2004
Results of 30 June 2004 financial statement and other audits	December 2004
Meeting our future Victorian Public Service workforce needs	December 2004
Managing school attendance	December 2004
Regulating operational rail safety (2005:1)	February 2005
Managing patient safety in public hospitals (2005:2)	March 2005
Management of occupational health and safety in local government (2005:3)	April 2005
Results of special reviews and other investigations (2005:4)	May 2005
Results of financial statement audits for agencies with other than 30 June 2004 balance dates, and other audits (2005:5)	May 2005
Our children are our future: Improving outcomes for children and young people in Out of Home Care (2005:6)	June 2005
In good hands: Smart recruiting for a capable public sector (2005:7)	June 2005
Managing stormwater flooding risks in Melbourne (2005:8)	July 2005
Managing intellectual property in government agencies (2005:9)	July 2005
East Gippsland Shire Council: Proposed sale of Lakes Entrance property (2005:10)	July 2005
Franchising Melbourne's train and tram system (2005:11)	September 2005

The Victorian Auditor-General's Office website at <www.audit.vic.gov.au> contains a more comprehensive list of all reports issued by the Office. The full text of the reports issued over the past 10 years is available at the website. The website also features a "search this site" facility which enables users to quickly identify issues of interest which have been commented on by the Auditor-General.



AUDITOR GENERAL
VICTORIA

Availability of reports

Copies of all reports issued by the Victorian Auditor-General's Office are available from:

- Victorian Auditor-General's Office
Level 34, 140 William Street
Melbourne Vic. 3000
AUSTRALIA

Phone: (03) 8601 7000
Fax: (03) 8601 7010
Email: <comments@audit.vic.gov.au>
Website: <www.audit.vic.gov.au>
- Information Victoria Bookshop
356 Collins Street
Melbourne Vic. 3000
AUSTRALIA

Phone: 1300 366 356 (local call cost)
Fax: (03) 9603 9920
Email: <bookshop@dvc.vic.gov.au>