

1 Audit summary

1.1 Introduction

Robust governance is necessary to manage fraud risk, and therefore effective fraud control. Fraud management and governance are therefore inextricably linked.

The *Public Administration Act 2004* (PAA), at Part 5, Division 2, sets out governance principles for public entities. However, some agencies, including the Centre for Adult Education (CAE) and the Adult Multicultural Education Services (AMES) are excluded from this section of the Act, as they existed prior to the legislation coming into force. These agencies are bound by the Public Service Standards Commissioner's Directors' Code of Conduct, which came into force in July 2006.

The Standing Directions of the Minister for Finance under the *Financial Management Act 1994* require boards to establish robust financial governance arrangements.

There is also ample guidance material on governance available from the State Services Authority, the Ombudsman and central agencies.

It is estimated that fraud costs the Australian economy more than \$6 billion a year, and that Australian organisations may experience a higher rate of fraud than the global average.

An agency's governing body is ultimately responsible for fraud risk management, and is a critical part of any agency's internal control environment. In addition to directing the policy framework, board members should model high standards of ethical behaviour for all staff. The actions and behaviour of the board sets the 'tone at the top', which can significantly influence employees.

While boards and Chief Executive Officers (CEOs) are primarily responsible for fraud management, all staff play a role in preventing and reporting fraud.

The audit examined whether the systems, policies and procedures in the following agencies are sufficiently robust to defer fraud:

- Adult Multicultural Education Service (AMES)
- Centre for Adult Education (CAE)
- Driver Education Centre of Australia Limited (DECA)
- William Angliss Institute of TAFE (WAI).

These organisations are public entities under the *Public Administration Act 2004*. Public entities are bodies established to exercise a public function on behalf of the state, or are wholly owned by the state.

Objectives

During the audit, instances of boards and management not complying with agency policies and procedures were encountered. Consequently, while the audit was originally examining whether agencies' systems, policies and procedures were robust and deterred fraud, it was broadened to include agencies' governance arrangements.

1.2 Overall conclusion

Agency governance

Effective fraud management depends on agencies developing sound governance and financial management arrangements.

The audit found that governance in some agencies was inadequate, and the actions of some CEOs and board members resulted in unnecessary costs, foregone revenue and public assets being put at risk. A pattern emerged in these agencies, of implementing short-term solutions rather than consolidating the agency's long-term interests, and failing to comply with agency and state government policy.

Good governance promotes accountability and transparency, both of which are fundamental to fraud control. Despite changes to their membership, organisations' boards operate in perpetuity. As accurate recordkeeping is essential for good governance, significant decisions, including the rationale, should be adequately documented. The recordkeeping associated with significant decisions was inadequate in AMES and CAE.

Fraud management

Agencies have not adopted a strategic, systematic approach to the management of fraud, based on agency-specific risk assessments. Instead, they are relying on business operating procedures that include management controls to assist in preventing and detecting fraud and other inappropriate behaviour.

Although they have well developed procedures to report, investigate and respond to the suspicion of fraud, in the absence of a strategic and systematic approach to fraud detection and management, agencies cannot be assured that fraud risks have been adequately mitigated.

Each of the agencies reviewed had recognised the importance of organisational culture to fraud control.

Sector oversight

The arrangements for overseeing adult education agencies were established when agencies were relatively modest businesses that represented a low risk for the state. The arrangements are still in operation today, and are no longer appropriate for the scale and complexity of current agencies' business.

While service delivery is monitored through various performance agreements, there is inadequate monitoring of board operations.

1.3 Findings

Agency governance

The governance processes and oversight of the audited agencies' operations was largely sound. However, governance standards in two agencies have been poor.

The audit identified examples of board decisions that have been detrimental to their agencies. These decisions were preceded by the board failing to comply with relevant legislation and policy. The rationale and documentation for most of these decisions is absent or inadequate.

Audit committees in two agencies have not been effective in identifying and managing issues with governance, fraud control, inappropriate behaviour and non-compliance with agency policies and procedures.

While agencies planned for fraud awareness training it was often not delivered.

Agencies did not effectively promote a culture of fraud awareness.

Fraud management

Although the agencies examined established processes for investigating and reporting suspected frauds and other inappropriate behaviour, they:

- have not identified fraud risks specific to their business or assessed the extent to which internal controls and procedures mitigate these risks
- have not developed appropriate fraud management plans
- were not adequately monitoring staff compliance with their policies and procedures
- were not consistently complying with the reporting requirements in the *Financial Management Act 1994*.

Sector oversight

The adult education sector is overseen by two bodies, Skills Victoria and the Adult, Community and Further Education Board (ACFE).

ACFE and Skills Victoria, through performance agreements, grant funding to agencies to provide adult education services. While ACFE and Skills Victoria receive reports on service provision as part of the performance agreement, they do not review the governance arrangements and operation of the boards in these agencies, and were not established for this purpose.

The adult education sector has experienced considerable change over time, and service providers are able to derive significant income from business opportunities, such as revenue from international and other students, and tendered services such as AMES' provision of settlement services.

As the adult education sector has grown and changed and many adult education institutions have become substantial businesses, they represent a greater risk for the state.

1.4 Recommendations

Governance

AMES and CAE be bound by all of the requirements of the *Public Administration Act 2004* (**Recommendation 4.1**).

Board members should be inducted to the requirements of, and comply with, relevant legislation and agency policies and procedures (**Recommendation 4.2**).

Agency boards should establish sufficient mechanisms so they are aware of material transactions and events, and can effectively monitor and assess the performance of the CEO (**Recommendation 4.3**).

Agencies should review the operations of their audit committees (**Recommendation 4.4**).

The State Services Authority should review the governance and accountability arrangements of adult education agencies (**Recommendation 4.5**).

Fraud prevention and detection

The Department of Treasury and Finance's risk framework should specifically require agencies to identify and address fraud risks (**Recommendation 5.1**).

Agencies should benchmark their management of fraud against the Australian Standard AS 8001:2008 (**Recommendation 5.2**).

Agencies should:

- develop and regularly review fraud management plans that address agency-specific risks, and include adequate prevention and detection processes
- capture data and report the incidence of fraud
- periodically evaluate the effectiveness of their fraud management strategy (**Recommendation 5.3**).

Operating systems

Agencies should regularly review and update their operating policies and procedures and monitor staff compliance (**Recommendation 6.1**).

Audit committees should periodically review governance and fraud prevention activities (**Recommendation 6.2**).