

Responses to 2012–13 Performance Audit Recommendations

Tabled 11 February 2015

The Auditor-General provides assurance to Parliament on the accountability and performance of the Victorian Public Sector.

On 11 February 2015, the Auditor-General tabled his performance audit report, *Responses to 2012-13 Performance Audit Recommendations*.

Background

2

- Making a difference—encourage real change, not just reporting the problems.
- Addressing accountability gaps—*Government Response* does not provide the full picture.
- Independent assessment.
- Support Parliament—other AG offices have follow-up programs that complement Parliamentary committee programs.

This audit is part of the Victorian Auditor-General's Office's broader follow-up program. As such, I'd like to first explain the program.

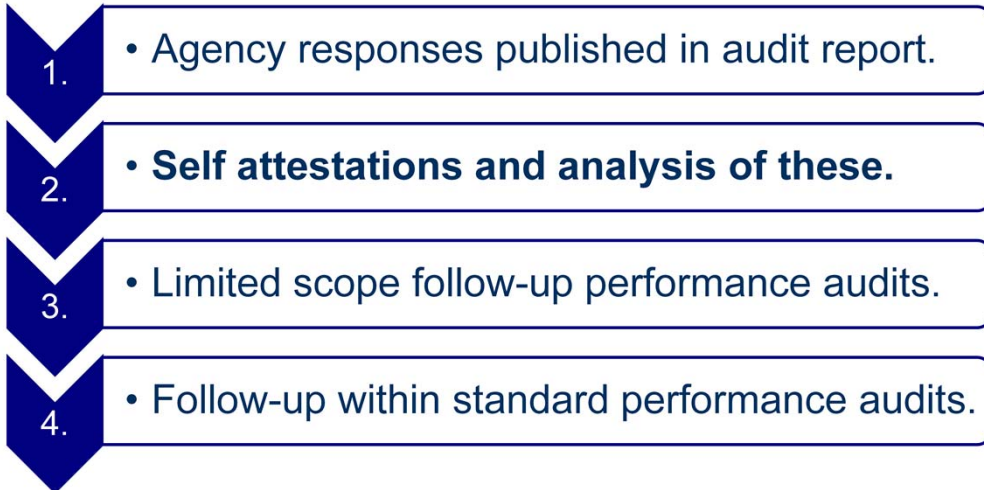
The driver to implement a program to follow-up on agency implementation of audit recommendations is to maximise value from our work and recommendations and encourage real improvement in public sector performance. The program also aims to fill accountability gaps. The Minister for Finance's document, *Response to Auditor-General's Reports*, only includes portfolio departments and provides limited detail on agency activities and completion or due dates and no detailed overarching assessment of agency responses. It's also not independent of government.

Our follow-up program will provide more information to Parliament and the public about how agencies are progressing against audit recommendations.

Follow-up program

3

Four-stage process:



The program has four stages with the first step being agency responses to recommendations that are published in audit reports. As of 2013–14 we started asking agencies for more detail in their responses, particularly due dates for completion.

This report is the second step, where we ask agencies to provide attestations about their progress against past recommendations and publish these together with analysis of the responses.

The third and fourth steps involve selecting a number of audits where we will go in and seek evidence to verify agency progress reports.

This may be done in a limited scope follow up, where we only review past recommendations, or within a standard audit, where we look at past recommendations along with new lines of inquiry.

Focus of this audit

4

- Objective was to determine the extent of agency response to, and monitoring of, performance audit recommendations.
- Adopted a survey-based approach.
- Agencies reported in September 2014.
- Focused on 2012–13 performance audits.
- 47 public sector agencies.
- 214 recommendations including 411 specific actions.

The audit objective was to determine the extent of agency response to, and monitoring of, performance audit recommendations.

We surveyed agencies, asking them to report against each recommended action on whether they still accepted the recommended action, what activity they had undertaken, to what extent the action was complete and the completion date or due date for completion.

We also asked agencies for information on how they monitor performance audit recommendations and we expected agencies to comply with Standing Direction 2.6(f) of the *Financial Management Act 1994* that requires audit committees to monitor whether accepted recommendations are addressed in a timely manner.

We sent agencies the survey in August 2014 and they had six weeks to submit their responses. The results are therefore correct as of September 2014.

The audit included all public sector agencies subject to performance audit recommendations in 2012–13, a total of 47 agencies. In that year we made 214 recommendations that included 411 specific, individual actions, which we refer to in the report as 'recommended actions'.

Conclusions

5

page
ix

- Agencies are responding to and monitoring progress against performance audit recommendations.
- No recommended actions were rejected.
- Agencies report 71% as completed or substantially completed.
- Room to improve agency monitoring of progress.

We concluded that public sector agencies are responding to, and monitoring progress against, performance audit recommendations.

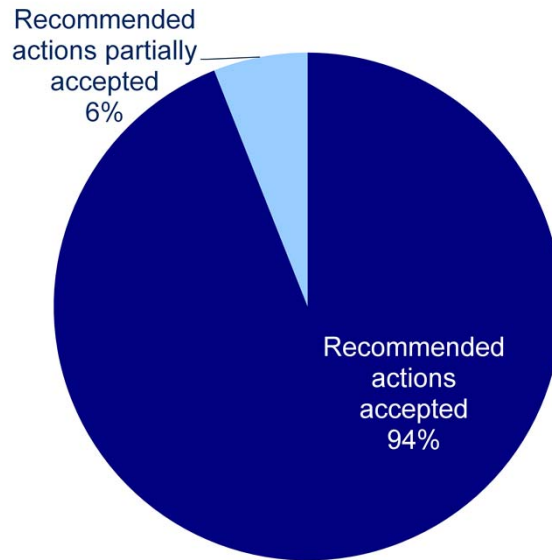
No recommended actions were rejected and as of September 2014, agencies reported having completed or substantially completed 71 per cent of those actions.

However, we found that there is room for improvement in agency approaches to monitoring performance audit recommendations. This includes a need for greater scrutiny of management progress reports by audit committees and agency senior management.

Most recommendations were accepted

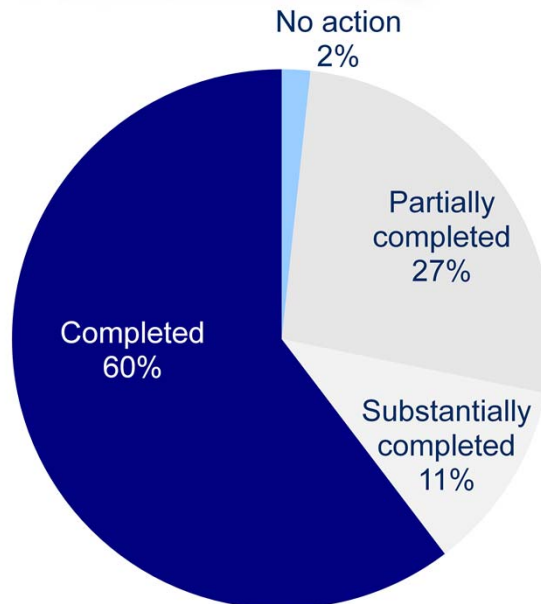
6

page
ix



Agencies accepted 94 per cent of recommended actions and partially accepted the remainder. 12 of the 47 agencies report that they have completed all their recommended actions.

Most actions reported as completed



Agencies reported 60 per cent of recommended actions as complete, 11 per cent as substantially complete, 27 per cent partially complete and 2 per cent as having no action.

Time to complete actions

8

page
9

Milestone	Average time (months)
Action commencement	5.4
Action completion	13.4
Action due date	26.1

Measured from the audit tabling month.

Agencies should focus on starting work earlier and/or completing work faster

We also looked at the time agencies report that they take to complete recommended actions. We measured this from the month the audit tabled in Parliament.

For actions reported as complete, the average time to completion was 13 months. For actions still in progress, the average time to completion is 26 months.

Agencies could improve the time it takes to complete actions by starting work sooner. The average time it takes agencies to start work is 5.4 months.

Quality of progress reports

Of fully accepted actions, 85% of progress reports directly responded to the recommended action.

Quality of many agency responses poor:

- stating pre-existing processes as sufficient
- describing why no action taken and noting the action as complete
- marking an action complete when the response refers to ongoing work.

We also assessed whether agency responses directly address the recommended actions. That is, did the response fully cover all aspects and intent of the recommended action? Of the recommended actions that agencies fully accepted, we assessed 85 per cent as direct responses. The remaining 15 per cent missed at least some parts of the recommended action.

We also found many issues with the quality of responses, for example some agencies accepted recommended actions but described their pre-existing practices as sufficient. If that had been the case we wouldn't have made the recommendation. Alternatively the agencies could have chosen not to accept the recommendation.

Many responses provided contradictory information. Some agencies accepted a recommended action, then stated why they hadn't addressed the action, and then noted it as complete. Others noted an action as complete when the agency response refers to work still underway.

Quality of progress reports – *continued*

10

Quality of many agency responses poor:

- commencement and completion dates that predate the audit
- reporting actions completed in one month when the action description suggests this unlikely.

page
11

Agencies need to improve scrutiny and verification of management progress reports

Some agencies provided commencement dates that substantially predate the audit. While related work may have already commenced it is unlikely work to address the specific recommended action had started many months or sometimes years before the audit report.

Some agencies also reported actions as completed within one month, when the description of the work they claim to have undertaken suggests this is unlikely.

All these issues demonstrate the need for greater scrutiny by senior management and audit committees over management progress reports against audit recommendations.

Agency monitoring processes

11

page
15

- 85% report that the audit committee or board monitor performance audit recommendations.
- The remaining lack an organisational approach.

We expected audit committees or boards to have oversight of agency progress in responding to performance audit recommendations. 85 per cent of agencies reported this level of monitoring.

Reports from the remaining 15 per cent indicate lack of an organisational approach to monitoring performance audit recommendations. In these agencies, which included the Department of Treasury and Finance, responsibility for monitoring sat with individuals or specific business units only.

Agency monitoring processes – *continued*

12

- 28% monitor progress half-yearly or less frequently. page 17
- Only five agencies report steps to verify management progress reports. page 16
- Of the (then) nine departments, only four report monitoring the progress of portfolio entities. page 17

Agencies can improve Audit Committee and review processes and some can review more frequently

28 per cent of agencies report that they monitor progress half-yearly or less frequently. This frequency of monitoring may not allow Audit Committees to meet the standing direction requirement in the *Financial Management Act* to ensure management address audit recommendations in a timely way.

In describing how they monitor performance audit recommendations, only five agencies reported steps to verify management progress reports. Also, of the (then) nine departments, only four reported monitoring the progress of portfolio entities. This is despite the Public Accounts and Estimates Committee recommending that departments do this in their *Review of the Auditor-General's Reports 2009–11*.

Future reports

13

page
viii

- An annual process and report.
- 2015–16 follow-up will report on:
 - outstanding recommended actions from 2012–13
 - all recommended actions from 2013–14 performance audits.
- Limited scope follow-up audits will verify management progress—table early 2015–16.
- Follow-up elements in a range of planned audits.

This is the first of an annual report. In 2015–16 we will follow up on outstanding recommended actions from 2012–13 and include all recommended actions from 2013–14 performance audits.

The results of this audit have also helped inform the selection of a number of limited scope follow-up audits that will seek to verify management progress reports. These audits will table in early 2015–16.

There are also elements of follow-up in a number of our planned performance audits.

Contact details

14

For further information on this presentation please contact:

Victorian Auditor-General's Office

[p] 8601 7000

[w] www.audit.vic.gov.au/about_us/contact_us.aspx

All our reports are available on our website.

If you have any questions about this or other reports, or if you have anything else you would like to discuss with us including ideas for future audit topics, please call us on 03 8601 7000 or contact us via our website.