

Public sector finance management 2012

5 – 6 June 2012





Who is driving audit, compliance and improvement in public sector decision making?

Government Financial Statistics



ABS 2011-12 Australian Government Financial Estimates (\$Millions)

	Commonwealth	Multi-Jurisdiction	State	Local	All Levels
Tax Revenue	328,247	0	59,972	13,317	400,780
Sales Revenue	8,866	10,815	20,685	10,627	47,715
Other	11,888	11,285	125,179	15,184	48,434
Total Revenue	349,001	22,100	205,836	39,128	496,929
Employee Expenses	27,154	11,853	90,027	11,653	140,686
Other Operating Expenses	69,962	7,921	54,383	13,475	141,743
Other Expenses	267,670	1,321	66,008	6,927	230,373
Total Expenses	364,786	21,095	210,418	32,055	512,802

Commonwealth Fraud Statistics



Table 13 Internal fraud detection methods (number of agencies and incidents)

Method of detection	Agencies	Mean ^a	Total incidents detected
Internal controls/audit/investigation	22	58	1,275
Staff member/colleague discovered/reported	36	13	453
Anonymous whistleblower/informant	13	5	70
External audit/investigation	5	4	18
Notification by police or other law enforcement agencies/investigations	7	4	29
External whistleblower/informant (not anonymous)	18	33	592
Credit card issuer	1	1	1
Media	2	2	3
Offender self-reported	3	7	20
Unable to be determined	4	2	7
Other	2	7	13
Total			2,481

Australian Institute of Criminology

Fraud against the Commonwealth
2009–10

Annual Report to
Government
2012

Public Servants

Political Servants



Get serious on public service fraud: Bandt



"Allegations of serious fraud amongst senior departmental officials reinforce the need for a national integrity commission" ... Greens MP Adam Bandt. Photo: Andrew Meares

THE Greens MP Adam Bandt has repeated his party's call for a national integrity commission to investigate fraud and corruption across the Commonwealth public service.

At present there is no dedicated agency with the responsibility - and the powers - to root out graft within federal agencies.

This week, the *Herald* revealed that hundreds of fraud investigations were being carried out inside the agriculture and transport departments, focusing on large contracts, travel entitlements and credit card abuse.

But these investigations are conducted by department auditors with few powers to compel the production of evidence or testimony.

smh.com.au

The Sydney Morning Herald

Cops, not codes, deter venality

Unwillingness to act over politicians has been mirrored with unwillingness to set standards, or to enforce them, with minders and political staff. And there has been a marked lack of actual achievement in setting and enforcing standards for public servants.

With the latter, it is perhaps no coincidence that enforcement of the standards and codes of conduct is probably more rigorous and exacting, and in any event transparent and accountable, than the supervision of senior public servants over seriously compromising matters such as post-separation employment.

In Canberra, the more powerful and able to do damage a person holding public office is, the more secretive and laden with discretion the processes of protecting the public interest. And, naturally, inclination to find any excuse (including tender concerns for privacy, due process and innocence until guilt is established) for doing nothing much at all.

Sydney Morning Herald
Linton Besser
21 September 2011

Jack Waterford, Editor-at-large
The Canberra Times Opinion
16 May 2012

Focus on Fraud



- + Internal audit remained vital to the detection of fraud, although its effectiveness was decreasing
- + Anti-fraud controls, especially risk management, were reported as having detected an increasing number of frauds in the 2009 survey
- + More than 50% of all cases were disclosed through internal and external confidential disclosure processes

PwC

*Economic crime:
People, Culture
& Controls*

*5th biennial
global economic
crime survey,
2009*

Government Functions and Instruments



- (P) Policy to Law and Rules**
 - White papers / Discussion Papers
 - Industry, Political and Public views
 - Drafting conventions, Acts, Regulations and Legislative Instruments

- (P) Rules and Laws to Policy for Internal and External users**
 - Government requirements, Machinery of Government, Standards, etc

- (P) Provision of Information**

- (p) Service Delivery for Internal and External users**
 - Government requirements, Machinery of Government, Standards, etc

- (p) Project Management**
 - Project Standards, Project Plan, Risk Register, Board Strategic Risk Register

Government Governance and Oversight



Function	Oversight	Accountability
Policy to Law and Rules	Parliament	Minister Parliament
Rules and Laws to Policy	Ombudsman Administrative and Judicial Review Minister	Minister Senior Management
Provision of Information	Right to (Freedom of) Information laws	Minister Senior Management
Service Delivery	Ombudsman Administrative and Judicial Review Minister Audit	Minister Senior Management
Project Management	Internal systems Audit	Minister Senior Management



Policy to Law and Rules

Difficult to set performance measures:

- + Substantial Resources at Commonwealth and State levels
- + Long lead times
- + Complex and competing agendas and complex constitutional and inter jurisdictional issues
- + Subject to politics and subjective assessment of effectiveness
 - of new laws and policy
 - of enforcement of new laws

Rules and Laws to Policy

- + Policy and Procedures that govern internal dealings and external dealings

Provision of Information

- + Public access to information
- + Enforcement



Service Delivery for Internal and External users

- + Well document practices for governance and oversight
- + Existing systems for monitoring and audit
- + Service and performance monitoring issues can be captured

Project Management

- + Well document practices for risk management and project management
- + Highly developed contract and procurement framework for delivery
- + Existing systems for monitoring and audit
- + Contract management and contractor performance systems exist within known parameters

small p political – Service Delivery



Timeline:

Bundaberg Hospital

April 2003	Dr Jayant Patel begins work as a surgeon at the Bundaberg Hospital
June 2003	Toni Hoffman raises concerns about Patel's conduct as a surgeon
March 2005	Opposition MP Rob Messenger raises concerns in Parliament about Patel's competence
April 2005	Patel resigns and is flown back to Portland by Qld. Health
April 2005	Media scrutiny reveals Patel banned from performing some surgery in USA
April 2005	Premier Peter Beattie announces inquiry, headed by Tony Morris QC
September 2005	Morris QC inquiry ends over perceived bias. Davies QC Inquiry begins.
November 2006	Warrants issued for Patel's arrest on charges including manslaughter
July 2008	Patel extradited to Brisbane from the USA
June 2010	Patel found guilty of three counts of manslaughter and one count of grievous bodily harm and sentenced to seven years jail
April 2011	Supreme Court of Queensland - Court of Appeal confirms Patel's conviction and sentence

small p political – Service Delivery



The authors¹ found a common thread running through all of these cases:

- + Each investigation arose after whistleblowers alerted politicians directly, having failed to resolve the problems using existing intra-institutional structures
- + None of the substantiated problems had been uncovered or previously resolved by extensive accreditation or national safety and quality processes
- + In each instance, the problems were exacerbated by a poor institutional culture of self-regulation, error reporting or investigation
- + Even after substantiation of their allegations, the whistleblowers, who included staff specialists, administrators and nurses, received little respect and support from their institutions or professions

**Anthony JH
Morris QC**

(First Royal
Commission -
Bundaberg Base
Hospital)

**Medical
Practice and
Medical
Administration
Address**

21 October 2005

1 Three Australian Whistleblowing Sagas: Lessons for Internal and External Regulation, by Thomas A Faunce and Stephen N C Bolsin: MJA2004; 181 (1): 44-47

Project Management – Queensland Health



There are many lessons to be learnt from the experience of the Queensland Health Implementation of Continuity Project for future systems implementations. The following issues should be considered for future payroll system implementations:

- Where possible, simplify award structures prior to implementing a new payroll system to remove complexities which will impact on the effectiveness and efficiency of the payroll process.
- Establish clear lines of accountability and roles and responsibilities at the initiation of the project to ensure an end to end governance structure.
- Ensure the full impact of system change is assessed on the end to end business process.
- Ensure the ultimate decision to Go-Live is based on the readiness of the business and that the system's application within the business is fully tested.
- Identify all project and systems risks and have in place robust contingency plans and risk management strategies to address risks in the event of unexpected system issues.

Qld Auditor General

Report to Parliament No. 7 for 2010
Observations Information systems governance and control, including the Queensland Health Implementation of Continuity Project



English Version

- + Pre project risks not addressed
- + Poor project scope
- + Poor project controls
- + Poor risk management
- + Released “live”, when not ready
- + Poor risk planning
- + Poor contingency planning

Qld Auditor General

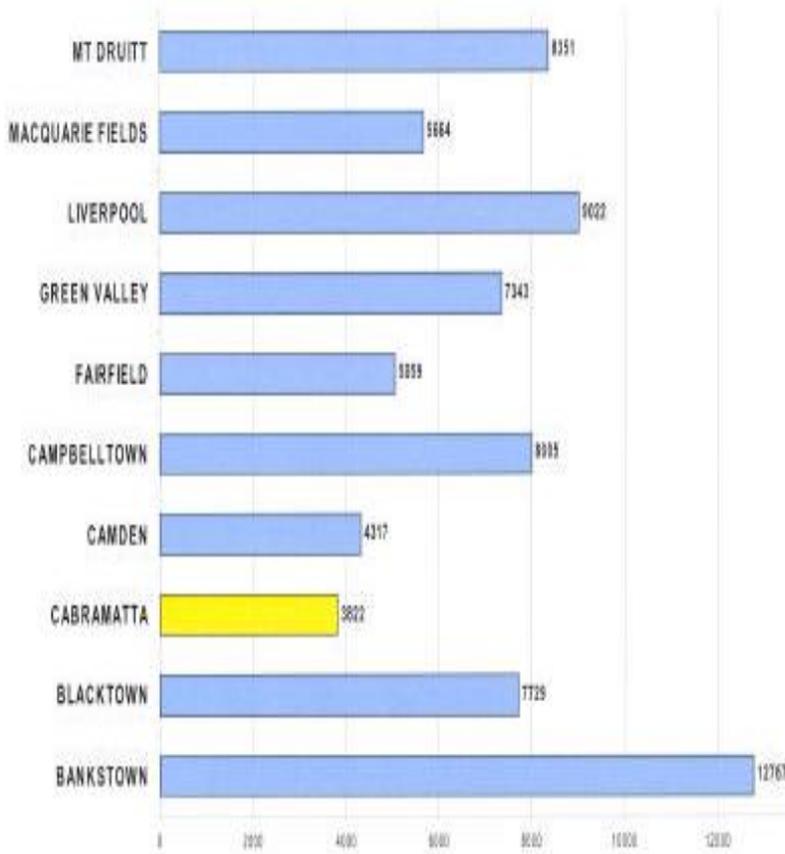
Report to Parliament No. 7 for 2010
Observations
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Implementation of Continuity Project

small p political – Service Delivery

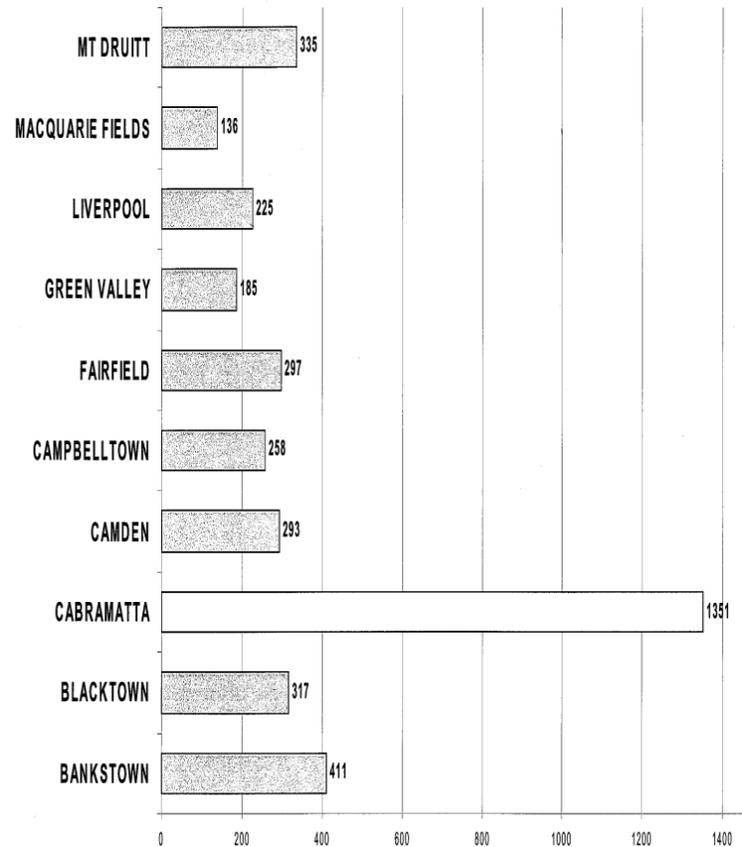


NSW Crime Statistics 1999/2000

TOTAL 5 CRIMES



CRIME - DRUG DETECTIONS



NSW Parliament Legislative Council

General Purpose
Standing
Committee No. 3
Report on Inquiry
into Cabramatta
Policing

Parliamentary
Paper, no. 864
New South Wales



NSW Crime Statistics 1999/2000

- @ **3.12** However these categories, which comprised the Crimes Index, do not directly relate to the category which dominates the lives of both residents, businesses, police and offenders in Cabramatta – drugs.
- + When asked where Cabramatta rated for drug offences, Deputy Commissioner Jarratt's answer was brief: "No 1" Diagram 2 shows this starkly, comparing Cabramatta again to the Local Area Commands in the first diagram.
- + "However the way in which the Index was constructed, and then implemented, had a very significant impact on the way resources *within* the LAC were allocated."
- @ **3.15** When asked to speculate on reasons for the decline in drug offences in Cabramatta, Dr Weatherburn said:
"The recorded number or rate of drug offences is no indication whatsoever of the scale of the drug problem. It is an indication of the scale of the investment in enforcement against that problem."

NSW Parliament Legislative Council

General Purpose
Standing
Committee No. 3
Report on Inquiry
into Cabramatta
Policing
Parliamentary
Paper, no. 864
New South Wales

Internal audit risk assessment



- + Evaluation of risks related to the value drivers of the organization, covering strategic, financial, operational, and compliance objectives.
- + The assessment considers the impact of risks to shareholder value as a basis to define the audit plan and monitor key risks.
- + This top-down approach enables the coverage of internal audit activities to be driven by issues that directly impact shareholder and customer value, with clear and explicit linkage to strategic drivers for the organization.

PwC

A Practical
Guide to Risk
Assessment

2008

At page 9

Project Management – Home Insulation Program



@ 24 In large measure, the focus by the department on the stimulus objective overrode risk management practices that should have been expected given the inherent program risks. Rather, the department intended to rely heavily on its compliance and audit program to address some of the risks identified, but the significant delay in implementing this element of the program meant that these risks were not adequately addressed. As time passed, the department realised that greater emphasis should have been given to program risk mitigation strategies, particularly those concerning installer registration requirements and compliance with quality and safety standards. By November 2009, the volume of claims and increasing number of installations identified with quality, safety and potential fraud issues, overwhelmed the department and it was unable to recover the situation. There were insufficient measures to deliver quality installations and, when the volume of issues requiring attention by the department increased, the department had neither the systems nor capacity to deal with this effectively. The lack of experience within DEWHA in project management and in implementing a program of this kind were contributing factors.

Auditor- General

Audit Report
No.12 2010–11

Performance Audit – Home Insulation Program



English Version

- + Operational drivers overrode risk management
- + Little or no program risk mitigation strategies, particularly:
 - installer registration requirements
 - compliance with quality and safety standards
- + Flawed strategy to fix identified risks after delivery (compliance and audit program)
- + Post delivery risks (volume of claims and increasing number of installations identified with quality, safety and potential fraud issues):
 - too late
 - too great
 - no effective systems or capacity
- + Inexperience in project management and in implementing this kind of program

Auditor- General

Audit Report
No.12 2010–11

Performance Audit – Home Insulation Program



+ **Committee at Paragraph 3.93**

The Committee finds Mr Scrafton's claim that he told the Prime Minister on 7 November 2001 that there was no evidence to substantiate the 'children overboard' story credible. The clear implication of his evidence is that the Prime Minister misled the Australian public in the lead up to the 2001 federal election.

+ **Government Senators at Paragraph 47**

In view of all of those circumstances, the "finding" of the majority report that Mr. Scrafton is a credible witness is not just counterintuitive; it is virtually impossible to sustain on a fair reading of the evidence.

Senate Select Committee on the Scrafton Evidence

9 December 2004

ISBN

0 642 71464 9

What is happening elsewhere?



- + **Commonwealth Coverage**
 - + ASX and Corporations disclosure
 - + ACCC disclosure
- + **Quality Assurance systems**
 - + Non conformance reports
- + **Strategic Risk Management**
 - + Organisational and Project levels

Current example



Table 3.2 Summary of performance–Program 1.1 deliverables

Deliverable	Target	Result
<i>Collaboration with state, territory and local governments to plan and evaluate land transport investments consistent with Government priorities.</i>	States report monthly on progress of investments and quarterly on program implementation.	States and territories submitted reports for evaluation of their proposed projects, and monthly project progress reports.
<i>Deliver the Nation Building administered items in cooperation with state, territory and local governments.</i>	Payout of 100% funding for project progress.	The Department paid 100% of funding for project progress for Nation Building network and off-network projects.

Department of Infrastructure and Transport

Annual Report
2010–11

Enterprise-wide risk management

In 2010–11, the Department maintained an overarching risk-management policy which provided a formal framework for managing and monitoring identified risks.

This involved:

- presenting the Department's risks to the EMT for discussion and confirmation that they are updated in line with changing functions and directions
- conducting risk-assessment workshops with all business divisions in the Department, to ensure that divisional risks are identified and mitigated, and
- updating the departmental risk profile which formed the basis of the Department's 2010–11 internal audit work plan.

The Department revised and updated the Enterprise Risk Framework, including the Risk Management Policy, in late 2010–11. The revised framework and policy places greater emphasis on accountability and consistency and is the foundation for broader changes to further improve the Department's management of risk.

Current Scope



Audit Committee internal control¹¹ responsibilities

An Audit Committee's responsibilities in relation to an entity's internal controls would generally be to:

- review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors, is sound and effective;
- review whether management has in place relevant policies and procedures, including Chief Executive's Instructions or their equivalent, and that these are periodically reviewed and updated;
- determine whether appropriate processes are in place to periodically assess compliance with legislation and key policies;
- review whether appropriate policies and supporting procedures are in place for the management and exercise of compliance, internal policy, and delegations requirements;
- consider how management identifies any required changes to the design or implementation of key internal controls; and
- assess whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

Australian National Audit Office

Public Sector
Audit Committees
Independent
Assurance and
Advice for Chief
Executives and
Boards

Better Practice
Guide August 2011

Potential solution – WOG and Agency



Oversight of Service Delivery and Project Management

- + The Executive (Cabinet) oversight of Delivery and Project Risks through:
 - Sub-committee (parallel to Budget Sub-Committee)
 - Dedicated Oversight by Review Board
 - Executive's representative for big and small P political issues
 - Treasury representative for guidance – fiscal, budget, cash flow, budget impacts
 - Audit Office
 - systems improvement and metrics
 - Whole of Government view
 - contact point for service or project concerns

- + Agency reporting to the Executive on strategic risks, across Projects and Services:
 - Using existing risk management standards of the Agency
 - Allowing risk aggregation and opportunity identification
 - Supporting a systemic whole of government view
 - Including process improvement by Audit

Elevating Risk Management



Executive
Greater oversight of WOG and Agency risks

Audit
Greater role for to support of the Executive

Making Risk Management



Agency level

Retain existing structures for:

- Projects
- Services
- Risk

Internal Audit as contact point for:

- Whistleblowers
- Project issues
- Service issues
- Risk concerns

Strategic Risk Management



Cabinet (Executive) oversight for:

- + Whole of Government Risk
- + Agency High Risk
- + Agency Improvement
- + Standards for internal audit

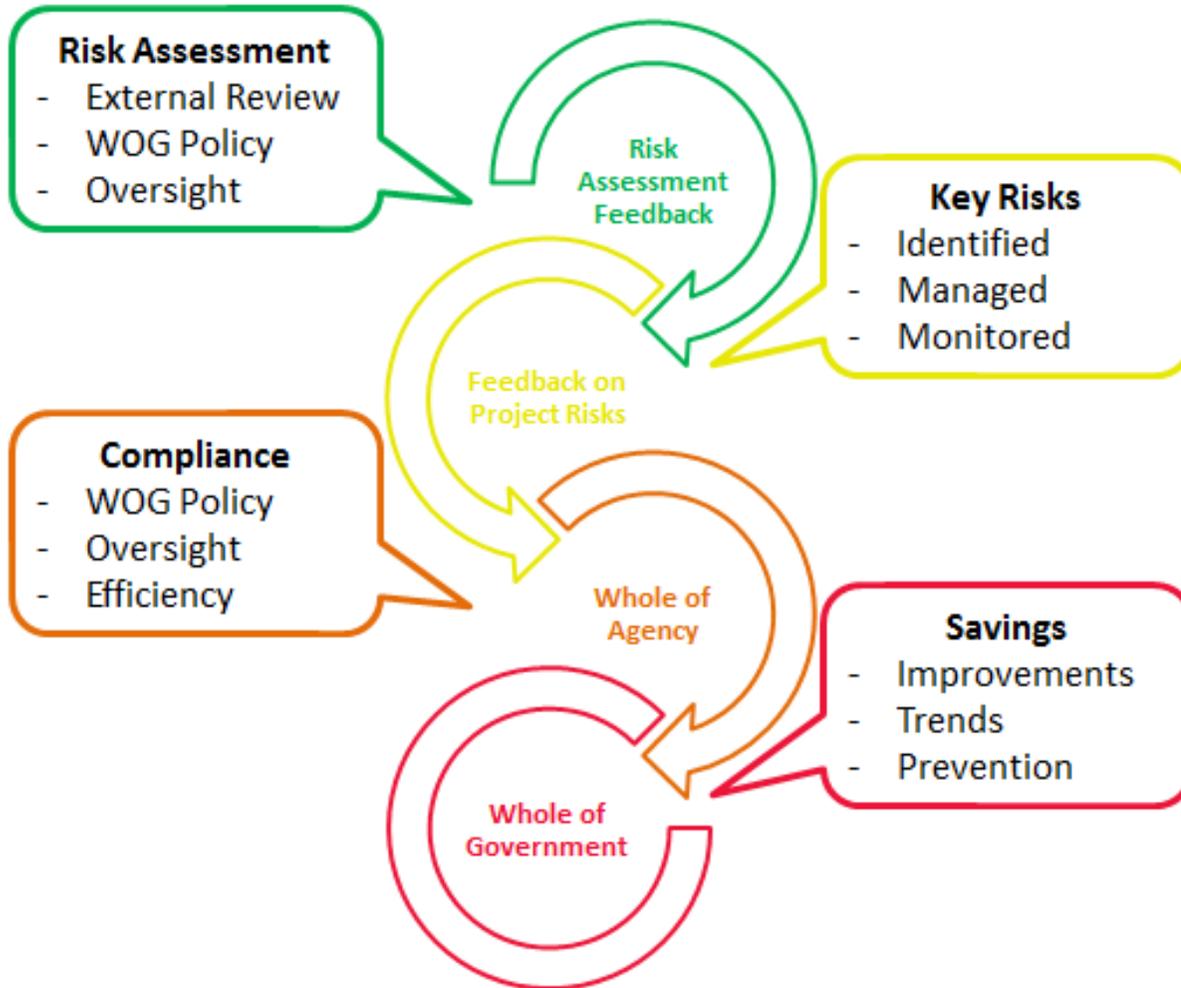
Making Risk Management Strategic



Risk Management

Integrated Agency and Executive Risk Management practices interlinked with governance

Quality Improvement – Audit Oversight



- + Reviewing pre-project material
- + Monitoring project reports
- + Verifying compliance systems
- + Informing standards

Conclusion



By combining public sector ethics, strategic risk management and internal audit skills:

- + Feedback loops are closed through disclosure to internal audit, with:
 - increased likelihood of early disclosure
 - significant improvement in project delivery through earlier warning of problems
 - limited risk of disclosure being a breach of public sector ethics
 - public service ethics modified to support appropriate disclosure

- + Common issues can be addressed strategically, including:
 - improved project delivery
 - enhanced risk management
 - reduced government waste
 - reduced red tape

- + The Executive arm of government:
 - manages risks and improves efficiency
 - Ministerial accountability supported by effective risk management strategies
 - effective oversight to identify opportunities

Questions

