Auditor-General of Queensland

Report to Parliament No. 2 for 2010

Follow-up of selected audits tabled in 2007

A Performance Management Systems audit

Auditor-General of Queensland

Report to Parliament No. 2 for 2010

Follow-up of selected audits tabled in 2007

A Performance Management Systems audit

QUEENSLAND

Prepared under Part 3 Division 3 of the
Auditor-General Act 2009

Auditor-General
of Queensland

March 2010

The Honourable R J Mickel MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009* and is titled Follow-up of selected audits tabled in 2007. It is number two in the series of the Auditor-General Reports to Parliament for 2010.

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

V P Manera
Acting Auditor-General

Contents

1 | Executive summary

1.1   Audit overview

My reports to Parliament usually contain a number of recommendations designed to improve agency systems. After a period of approximately 18 – 24 months, I ask agencies to provide an update on the progress made towards implementing those recommendations.

The focus of a follow-up audit is to determine whether the problems or issues originally identified have been resolved. The purpose of this report is to document for Parliament and other stakeholders the progress achieved by agencies in addressing the original recommendations and issues.

Agencies were also asked how they monitor and report on the implementation of Performance Management Systems (PMS) audit recommendations within their organisation.

This follow-up audit is primarily based on self-assessment by the agencies with some consultation to clarify their responses.

This report is based on responses received from agencies in September and October 2009, regarding four reports tabled in Parliament in 2007:

- *Auditor-General Report to Parliament No. 2 for 2007 – Results of Performance Management Systems audits of management of funding to non-government organisations*
- *Auditor-General Report to Parliament No. 6 for 2007 – Beyond agency risk*
- *Auditor-General Report to Parliament No. 7 for 2007 – Addressing skills shortages in Queensland*
- *Auditor-General Report to Parliament No. 8 for 2007 – South East Queensland – Towards a short-term water balance.*

These reports are available on our website *www.qao.qld.gov.au*

As a result of significant machinery of government changes in March 2009, some entities subject to this follow-up are not the same as those audited in 2007 (changes are outlined in Section 4).

1.2   Audit conclusion

Based on the responses received, it is my view that most agencies have adequate systems in place to review, monitor and report on the implementation of audit recommendations.

Across the four reports subject to follow-up, a total of 335 recommendations were made. Of these, 203 (60 per cent) have been reported as fully implemented and 124 (37 per cent) partially implemented. Overall there has been substantial progress made on the partially implemented recommendations. The main impediment to full implementation noted by agencies was the need to review some systems and policies as a result of the machinery of government changes in 2009. Recommendations that required a whole-of-government approach were taking more time due to the added complexity.

There is only one recommendation where there has been no substantial action taken. The recommendation relates to Ministerial delegations and the agency has advised that this will be considered as part of a broader process review.

Overall, I am satisfied with the progress made by all agencies in implementing my recommendations. The intent of a PMS audit is to provide independent assurance to Parliament, but to also add value to the quality of public administration through my recommendations. I am encouraged by the changes that have been made by agencies in improving their systems.

1.3   Audit findings

All agencies advised that they have appropriate mechanisms in place to review, monitor and report on the implementation of PMS audit recommendations. Eleven of the 14 agencies advised that they provide reports on the status and progress of PMS audit recommendations to senior management. However, the majority of agencies did not formerly report on the status and progress of implementing recommendations to the responsible Minister.

A summary of the status of the recommendations as advised by agencies is detailed in table 1A. The table shows how many of the original recommendations have been fully, partially or not implemented or where alternate action has been undertaken.

Table 1A – Agency responses

Status

I - Recommendation has been fully implemented

P - Recommendation has been partially implemented

AA - Alternate action undertaken

NA - No substantial action has been taken.

Audit	Total *	Status			
		I	P	AA	NA
Auditor-General Report to Parliament No. 2 for 2007 – Results of Performance Management Systems audits of management of funding to non-government organisations					
Department of Communities	**60**	11	43	5	1
Auditor-General Report to Parliament No. 6 for 2007 – Beyond agency risk					
Department of Communities	**19**	1	18	0	0
Department of Community Safety	**19**	13	6	0	0
Department of Education and Training	**19**	7	11	1	0
Department of Employment, Economic Development and Innovation	**19**	7	12	0	0
Department of Environment and Resource Management	**19**	14	5	0	0
Department of Health	**19**	15	4	0	0
Department of Infrastructure and Planning	**19**	16	3	0	0
Department of Justice and Attorney-General	**19**	19	0	0	0
Department of the Premier and Cabinet	**24**	21	3	0	0
Department of Public Works	**19**	16	2	1	0
Department of Transport and Main Roads	**19**	11	8	0	0
Police Department	**19**	19	0	0	0
Treasury Department	**24**	21	3	0	0
*Auditor-General Report to Parliament No. 7 for 2007 – Addressing skills shortages in Queensland ***					
Department of Education and Training	**5**	2	3	0	0
Department of Employment, Economic Development and Innovation	**5**	4	1	0	0
Auditor-General Report to Parliament No. 8 for 2007 – South East Queensland – Towards a short-term water balance					
Queensland Water Commission	**8**	6	2	0	0
Total number of recommendations	**335**	**203**	**124**	**7**	**1**

* Total number of recommendations

** There were nine recommendations raised in the report to Parliament, but one recommendation applied equally to DETA and DEEDI.

1.4 Summary of progress by report

1.4.1 Management of funding to non-government organisations

Table 1B – Agency self-assessment

Auditor-General Report to Parliament No. 2 for 2007 – Results of Performance Management Systems audits of management of funding to non-government organisations

Status

I - Recommendation has been fully implemented

P - Recommendation has been partially implemented

AA - Alternate action undertaken

NA - No substantial action has been taken.

Audit	Total *	Status			
		I	P	AA	NA
Department of Communities	**60**	11	43	5	1

* Total number of recommendations

Since the machinery of government changes in 2009, the Department of Communities is responsible for the implementation of all the initial recommendations. The department advised that it has made substantial progress towards implementing the recommendations. Audit was advised that aspects of recommendations which have not been fully implemented are largely out of the control of the department and relate to the implementation of actions associated with whole-of-government approaches which are complex and multi-faceted.

Eleven of the 60 detailed audit recommendations have been fully implemented. These recommendations relate to the quality of reporting to the public, the planning and systemic undertaking of evaluations and government leadership in their engagement with non government organisations, including frameworks and supporting systems to manage funding agreements.

The majority of recommendations have been partially implemented. These recommendations cover improvements to funding administration, including reducing duplication, service standards and information systems, involving the collection and reporting of performance information. The implementation of many of these audit recommendations are still progressing.

For five of the recommendations, the department has taken alternative action, which based on the information provided, appears to address the original issue. No substantial action has been taken about one of the recommendations which relates to streamlining the funding administration procedures for Ministerial delegations. The department advised that this will be reviewed as part of improving its 'end-to-end' grant management processes.

1.4.2   Beyond agency risk

Table 1C – Agency self-assessment
Auditor-General Report to Parliament No. 6 for 2007 – Beyond agency risk

Status

I - Recommendation has been fully implemented

P - Recommendation has been partially implemented

AA - Alternate action undertaken

NA - No substantial action has been taken.

Audit	Total *	Status			
		I	**P**	**AA**	**NA**
Department of Communities	**19**	1	18	0	0
Department of Community Safety	**19**	13	6	0	0
Department of Education and Training	**19**	7	11	1	0
Department of Employment, Economic Development and Innovation	**19**	7	12	0	0
Department of Environment and Resource Management	**19**	14	5	0	0
Department of Health	**19**	15	4	0	0
Department of Infrastructure and Planning	**19**	16	3	0	0
Department of Justice and Attorney-General	**19**	19	0	0	0
Department of the Premier and Cabinet	**24**	21	3	0	0
Department of Public Works	**19**	16	2	1	0
Department of Transport and Main Roads	**19**	11	8	0	0
Police Department	**19**	19	0	0	0
Treasury Department	**24**	21	3	0	0

* Total number of recommendations

The results from the follow-up indicate that there are still some differences in the maturity of risk management systems across the departments. There has been good progress in improving governance arrangements. Twelve of the 13 departments have appointed a risk management champion and have a risk management committee in place. Eleven departments have adopted and implemented an integrated risk management framework and have aligned risk management with their corporate objectives.

The key areas that require further development by approximately half of the departments include ensuring that all elements and process steps of the risk management framework are documented, implemented and operating effectively. In addition, six of the 13 departments advised that further work is underway to promote the importance and benefits of risk management by senior management.

In December 2007, the Treasury Department issued the *Strategic Risk Management Guidelines*. These guidelines reflect the findings set out in the *Auditor-General Report to Parliament No. 6 for 2007 – Beyond agency ris*k and the Auditor-General's subsequent *Better Practice Guide - Risk Management, October 2007*. These documents are consistent with the principles set out in AS/NZS 4360:2004 Risk Management.

1.4.3 Addressing skills shortages in Queensland

Table 1D – Agency self-assessment
Auditor-General Report to Parliament No. 7 for 2007
– Addressing skills shortages in Queensland

Status

I - Recommendation has been fully implemented

P - Recommendation has been partially implemented

AA - Alternate action undertaken

NA - No substantial action has been taken.

Audit	Total *	Status			
		I	P	AA	NA
Department of Education and Training	5	2	3	0	0
Department of Employment, Economic Development and Innovation	5	4	1	0	0

* There were nine recommendations raised in the report to Parliament, but one recommendation applied equally to DETA and DEEDI

Overall, the departments have made substantial progress in implementing the audit recommendations.

Of the ten audit recommendations, six have been fully implemented. These recommendations relate to the regular analysis of the factors contributing to skills shortages, sharing this information between the relevant units, regular evaluation of initiatives, and improving governance arrangements, including a performance reporting framework.

The four recommendations that have been partially implemented relate to the adoption of a leadership and whole-of-government approach to address skills shortages, improved research methodologies to identify future skills shortages, the implementation of a state specific strategy for addressing skills shortages in professional occupations, and improved timeframes to develop industry specific plans. Progress is still being made on these recommendations and both departments have provided information on future planned action.

1.4.4 South East Queensland – Towards a short-term water balance

Table 1E – Agency self-assessment
Auditor-General Report to Parliament No. 8 for 2007 – South East Queensland
– Towards a short-term water balance

Audit	Total *	Status			
		I	P	AA	NA
Queensland Water Commission	8	6	2	0	0

* Total number of recommendations

Overall, the Queensland Water Commission has made substantial progress in implementing the audit recommendations. Six of the eight original recommendations have been fully implemented.

Progress includes the provision of comprehensive guidance for water service providers, changes to the *Water Act 2000* relating to the collection of data, the employment of specialist staff and the monthly publication of the water balance model.

The two recommendations partially implemented relate to post implementation evaluations of initiatives and documentation of the comparative analysis of actual versus planned demand. Action is still progressing to fully implement both these recommendations.

2 | Audit focus

2.1 Reason for the audit

The follow-up audit process holds agencies accountable for implementing the recommendations or undertaking suitable alternative action to address the findings identified by Performance Management Systems (PMS) audits.

2.2 Audit objective

The objective of the audit was to provide Parliament with updates on agency progress in implementing recommendations made in Auditor-General Reports to Parliament on PMS audits.

2.3 Audit scope

This report is based on agency self-assessments of progress against each recommendation in the four reports listed in the audit overview. Audit reviewed each agency update and in some cases the response was discussed further with the respective agency. This involved some targeted audit testing.

As limited audit work has been performed to confirm the information provided by agencies, limited assurance is offered concerning completeness, accuracy or relevance of the responses provided by each agency.

Agencies subject to this audit are listed in Appendix 4.1.

2.4 Audit procedures

The audit involved sending out questionnaires to the agencies responsible for implementing audit recommendations. These questionnaires were comprised of two parts.

Part one:

Questions to establish how agencies monitor and report on the implementation of PMS audit recommendations. The questions were based on the NSW Audit Office *Guide to Better Practice: A guide for monitoring the implementation of audit recommendations*, May 2009.

Part two:

Agencies were required to self-assess their progress in implementing each recommendation using the following criteria:

I   - Recommendation has been fully implemented

P   - Recommendation has been partially implemented

AA   - Alternate action undertaken

NA   - No substantial action has been taken.

Agencies were also asked to outline the progress they have made and any future plans for implementation.

All information gathered by audit was based on a self-assessment by the agencies. Agencies were only approached by audit staff for further information and clarification if required.

2.5   Impact of machinery of government changes

On 26 March 2009, the Governor in Council approved Administrative Arrangements Order (No. 1) 2009. This Administrative Arrangements Order effected significant machinery of government changes. These changes included abolishing 14 existing government departments and creating four new departments. A further nine existing departments continue but have been reorganised to varying extent[1].

Given the significant changes, agencies which had previously received recommendations from a PMS audit would need to ensure that the recommendations were still being properly reviewed and implemented.

2.6   PMS audit approach

The legislative basis for this audit is s.38 of the *Auditor-General Act 2009* (the Act).
A PMS audit is an independent examination which includes determining whether an entity or part of an entity's activities have performance management systems in place to enable management to assess whether its objectives are being achieved economically, efficiently and effectively.

While a PMS audit will not review or comment on government policy, it may extend to include a focus on the entity's performance measures and whether, in the Auditor-General's opinion, the performance measures are relevant, appropriate and fairly represent the entity's performance.

The intent of a PMS audit is to provide independent assurance to Parliament, and to act as a catalyst for adding value to the quality of public administration by assisting entities in the discharge of their governance obligations.

The statutory office of the Auditor-General, as the external auditor for Parliament, is established pursuant to the Act. While the Auditor-General takes note of the entity's perspective, the scope of a public sector audit is at the sole discretion of the Auditor-General, as the Act prescribes that the Auditor-General may conduct an audit in the way the Auditor-General considers appropriate.

---

[1] Official Journal of the Queensland Audit Office, *Inform*, Issue 2 April 2009.

3 | Audit findings

Summary

Background

All information gathered by audit is based on a self-assessment by the agencies. There was some consultation to clarify their responses. Therefore, limited assurance is offered concerning completeness, accuracy or relevance of the responses provided by each agency.

Key activities

- Most agencies have adequate systems in place to review, monitor and report on the implementation of audit recommendations.
- While eleven of the 14 agencies advised that they provide reports on the status and progress of PMS audit recommendations to senior management, the majority of agencies do not report this formerly to the responsible Minister.
- Overall, based on the information provided, the majority of recommendations made in the original audits have been fully or partially implemented.

3.1 Systems to monitor the implementation of PMS audit recommendations

3.1.1 Background

The lack of formal follow-up processes for implementing PMS audit recommendations made to Parliament was identified in *Auditor-General Report to Parliament No. 8 for 2008 - Follow-up of selected audits tabled in 2006*. A recommendation was made to departments to have in place an effective method for monitoring and implementing PMS audit recommendations.

For this audit a questionnaire was used to ask all agencies subject to the follow-up audit, a series of questions to determine if they have appropriate systems in place to formally follow-up PMS audit recommendations. The NSW Audit Office *Guide to Better Practice: A guide for monitoring the implementation of audit recommendations*, May 2009 was used as a basis for this questionnaire.

3.1.2 Agencies self-assessment

The majority of agencies have implemented formal processes to monitor and implement audit recommendations. While eleven of the 14 agencies advised that they provide reports on the status and progress of PMS audit recommendations to senior management, the majority of agencies only advise their Minister on the status of the recommendations on an informal basis.

Table 3A summarises the responses of all agencies regarding their processes in place to follow-up PMS audit recommendations.

Table 3A – Summary of agency responses

Audit Question	Summary of Responses
Does the agency assign responsibility for the implementation of PMS audit recommendations to a single position or branch?	Thirteen of the 14 agencies reported that responsibility for the implementation of PMS audit recommendations rests with the appropriate business and service area involved in the audit.
	One of the respondents acknowledged that ultimate responsibility lies with the agency's Chief Executive Officer and the undertaking of the specific activities to meet the PMS audit recommendations is delegated to the business units.
Does the agency develop action plans, which include specific activities for the implementation of each recommendation, timeframes and clearly assigned roles and responsibilities?	Eleven of the 14 agencies advised audit that detailed action plans that include timeframes are usually developed. However one of these agencies reported that although action plans are developed timeframes for implementation are not always clearly defined.
	Two agencies did not appear to have a formal requirement or procedure to develop action plans.
	One agency also reported that it currently had no action plans however a process will be set up and managed to ensure that action plans are developed and executed.
Who endorses the action plans?	Twelve of the 14 agencies reported a staff member of adequate title/position endorsed the action plans. This included members of executive management teams and risk and audit committees.
	One agency reported that it is currently in the process of formally appointing a governing committee to endorse and oversee action plans.
	One agency reported that there is no formal process in place to endorse action plans.

Audit Question	Summary of Responses
Does the agency incorporate the action plan in other planning documents such as the corporate plan, business plans and/or performance agreements, where appropriate?	Twelve of the 14 agencies reported that appropriate action plans are incorporated into other organisational planning documents. The other two agencies advised that a formal process will be implemented to ensure linkages with planning and performance agreements.
Does the agency regularly review the action plan and make amendments where necessary, to maintain relevance and appropriateness? If so, how often?	Twelve of the 14 agencies reported that they regularly monitor and review action plans. Some respondents indicated that this is done through the audit and risk committee or the governance committee. Only four of these respondents disclosed how often this review was done (i.e. monthly or quarterly). One agency indicated that a review is only undertaken when the context/circumstances surrounding a recommendation change. Another agency advised us that in the future this will be integrated into the performance management framework of the agency with regular reporting through one of the appropriate governing committees.
How does the agency monitor and report on implementation?	Eleven of the 14 agencies advised audit that they monitor and report on the implementation of PMS audit recommendations. Three of the respondents indicated that they are working towards implementing systems and processes to monitor and report on implementation of PMS audit recommendations.
Does the agency provide regular reports on the status and progress towards implementation of the recommendations to senior management? If so, how often?	Eleven agencies advised that they report on the status and progress of implementing PMS audit recommendations. Of these respondents only six appeared to do this on a quarterly or monthly basis, one was annually performed and the remaining three reported on an ad-hoc basis. Two agencies advised that reporting was only performed on an as needs basis or where significant recommendations were not implemented. One agency advised that it is currently developing a comprehensive database of all audit reports and associated recommendations. Reports identifying status and progress towards implementation and recommendations will be provided on a regular basis (monthly, quarterly, etc.) as required for the Minister and senior management. Reporting of this action will be mandatory at each audit committee meeting.
Does the agency provide regular reports on the status and progress towards implementation of the recommendations to the responsible minister? If so, how often?	Twelve of the 14 agencies reported that the Minister is advised of the status of the implementation of the recommendations on an informal basis. Most reported that this is usually at the Minister's request. One agency reported that a monthly status report is provided to the Minister regarding one of PMS audit recommendations made to that agency in 2007. Another agency reported that a process will be implemented linking the audit and risk committee reports on implementation of the recommendations to information provided to the relevant Minister on a quarterly basis.

3.2 Management of funding to non-government organisations

3.2.1 Summary of original audit

This section outlines the scope, audit conclusion and key findings from the *Auditor-General Report to Parliament No. 2 for 2007 – Results of Performance Management Systems audits of management of funding to non-government organisations* and is provided as contextual background information.

Scope

The objective of the Auditor-General Report to Parliament No. 2 for 2007 was to determine whether the selected departments had a suitable framework and appropriate systems in place to plan, monitor and evaluate the provision of community services through funding provided to non-government organisations (NGOs). It focused on the performance management systems that departments had in place that shape and sustain their relationships with NGOs and their extensive network of NGO service providers. The original audit looked at the systems in place at the Department of Communities, the Department of Child Safety and Disability Services Queensland. Since the machinery of government changes in 2009 the three departments now form part of the Department of Communities.

Audit conclusion

Each of the three departments audited demonstrated particular strengths in their approach to funding of the NGO sector. Each department audited had accountability mechanisms in place to plan, monitor and resource funding to NGOs.

There was however, limited evidence of adequate systematic evaluation of programs and service delivery driven by the risk profile of the NGOs being funded.

While significant work was being undertaken in developing and implementing new ways or models of service delivery, there was less evidence of superseded mechanisms for dealing with grants and subsidies being eliminated.

Key findings

The audit findings from Auditor-General Report to Parliament No. 2 for 2007 were grouped under three broad areas:

1. Enhancing governance arrangements

The audit found objectives and terminology used in NGO engagement were unclear. There was no overarching whole-of-government policy and matching accountability regimes for engagement with the NGO sector, that recognised the varying objectives of government and continuum of relationships government has with the NGO sector.

Greater clarity was required on the respective roles and responsibilities of government departments in their engagement with funded NGOs.

From a government perspective, efficiencies can be achieved from the application of consistent quality standards across the administrative framework for interaction with the NGO sector. Being able to implement and comply with core quality standards across all departments and funded programs is a more time efficient and cost effective way of conducting business with the NGO sector. Having to comply with multiple standards could be seen as inefficient for both government departments and NGOs.

2.   Improving systems

Existing information systems across departments relating to funding administration of the NGO sector could not support robust performance monitoring, reporting and evaluation practice. The limitations of the existing systems, underpinned by paper based reporting, creates inefficiencies and inhibits the provision of useful and timely information. Until departments are able to implement effective information systems based on sound and consistent platforms, seamless engagement with the NGO sector will not be possible. At a whole-of-government level, government was not maximising its use of existing data and reporting information to improve sector wide understanding.

Performance reporting by NGOs to each department in the area of funded service delivery, is primarily for the purpose of managing a funding agreement. Information collected often had little relevance when used outside this purpose and was unable to be aggregated for wider use across the sector and government. At a Queensland Government level, there was little alignment of performance reporting and this limited the ability of the departments to provide feedback to NGOs and the community on service delivery outcomes.

Government departments did not evaluate all programs and funded services to ensure strategic objectives were met. Evaluation did not underpin departmental, nor whole-of-government planning and policy development, and there was little performance feedback provided to the non-government sector.

The departments employed similar administrative practices and accountability mechanisms when engaging with NGOs for funded service delivery irrespective of the level of funding provided, the level of service delivery transacted, or the risks inherent in the service delivery. This administrative practice did not take leverage from the pre-existing accountability processes of the NGOs to their clients, their members and to the community. This created inefficiencies and did not appropriately utilise either the department's or the NGO's resources. Moreover, it shifted focus from partnership building to compliance, which in turn diverts NGO resources from service delivery.

3.   Increasing transparency and public disclosure

At the time of the audit open public accountability for all funding allocations across Queensland Government was not possible. Information was not readily accessible, and there were inconsistencies in approaches to completeness and quantity of public reporting. Public disclosure of funding to NGOs and outcomes of funding provided was therefore not sufficiently open and transparent.

3.2.2 Progress by Department of Communities since 2007

Overall, the Department of Communities has made substantial progress towards implementing the audit recommendations. Aspects of recommendations which have not been implemented are largely out of the control of the department and relate to the implementation of actions associated with whole-of-government approaches which are complex and multi-faceted.

The response to the follow-up received from the Department of Communities shows that:

- Of the 60 audit detailed recommendations only 11 were fully implemented. These recommendations relate to the quality of reporting for the public, the planning and systemic undertaking of evaluations and government leadership in their engagement with NGOs, including frameworks and supporting systems to manage funding agreements.

- The vast majority of recommendations were partially implemented. These recommendations cover improvements to funding administration, including reducing duplication, service standards and information systems, involving the collection and reporting of performance information. The implementation of many of these audit recommendations are still progressing and are waiting on the implementation of complex, multi-faceted and whole-of-government approaches.

- For five of the recommendations, the department took alternative action. The actions taken were by the Child Safety Program area and relate to the development of an integrated financial and performance reporting systems and the establishment of an overarching evaluation plan for its programs. Audit was advised that Child Safety Program area does undertake these activities in an integrated way but does not have the resources to implement the recommendation to the standard required. However, now as part of the broader Department of Communities, Child Safety will be adopting departmental practices where appropriate.

- No substantial action was taken with regards to the recommendation related to streamlining the funding administration procedures for Ministerial delegations. This will be reviewed by the department as part of improving the departments 'end-to-end' grant management processes.

3.3 Beyond agency risk

3.3.1 Summary of original audit

This section outlines the scope, audit conclusion and key findings from *Auditor-General Report to Parliament No. 6 for 2007 – Beyond agency risk* and is provided as contextual background information.

Scope

The objective of this audit was to determine whether suitable risk management systems and frameworks were in place across the Queensland public sector to comply with the *Financial Administration and Audit Act 1977* and the *Financial Management Standard 1997*. The audit also evaluated the processes for the identification, communication, controlling and reporting of strategic risk at the agency and beyond the agency level.

As part of the Auditor-General Report to Parliament No. 6 for 2007, all 23 budget sector agencies were requested to complete a survey to obtain an overview of current risk management practices. Of the 23 agencies surveyed, eight agencies were selected for documentation review. A further nine agencies were then selected for additional intensive analysis of internal procedures.

The audit scope did not extend to local government entities, government owned corporations or statutory bodies, and was limited to examining the regular business activities of agencies. The audit did not look specifically at risks associated with:

- terrorism
- insurance
- business continuity planning
- workplace health and safety
- specific projects either at the agency, portfolio or government level.

Audit conclusion

Overall, agencies had adequate systems in place to manage risk at the operational and project level, although at varying levels of maturity. There were opportunities for agencies to enhance their current systems by further integrating risk management practices with existing business processes and ensuring all stages of their risk management framework were properly documented and implemented.

However, the audit found that there was no established mechanism to identify and collate information on risks which may have a broader impact for government. It was found that risk management practices were more inward focused rather than looking at how risks identified in the agency may have wider implications for other agencies and government as a whole.

Key findings

The audit findings from the Auditor-General Report No. 6 for 2007 were grouped under six broad areas:

1. Whole-of-government

The audit found that there were no clear mechanisms in place across government for identifying and handling risks which may have an impact beyond the agency.

2. Culture

Risk management was not necessarily a corporate priority for most agencies. There were inadequate resources assigned to manage risk effectively in some agencies.

3. Context

While nearly all agencies advised that they considered the context when applying risk management processes, the audit revealed that the majority took an agency-centric view of the context, often based on operational rather than strategic risks.

4. Integrated framework

Most agencies responded that they had a documented risk management policy in place. However, some policies were in draft or had not been reviewed for several years. It was noted that there was a weak alignment between government policies, strategic risk and corporate objectives, and a 'silo mentality' present in many agencies.

5. Systems Implementation

The survey revealed that all but two of the agencies had a documented risk management policy, although not all were up to date. Agencies had adequate systems in place to manage risk at the operational and project level, although they were at varying stages of maturity. Agencies placed greater emphasis on analysing and evaluating risks rather than on identifying and monitoring risks.

6. Accountability and corporate governance

While all respondents indicated that executive management was held accountable for managing risks, it was noted that accountability was often not well structured, documented or communicated. Twenty six per cent of agencies surveyed considered the accountability for risk management was not well understood.

3.3.2   Progress by the departments since 2007

There has been good progress in improving governance arrangements. Twelve of the 13 departments have appointed a risk management champion and have a risk management committee in place. Ten departments have adopted and implemented an integrated risk management framework and have aligned risk management with their corporate objectives.

The key areas that require further development by approximately half of the departments include ensuring that all elements and process steps of the risk management framework are documented, implemented and operating effectively. In addition, six of the 13 departments advised that further work is still underway to promote and champion the importance and benefits of risk management by senior management.

Table 3B summarises the responses from all agencies regarding the status of implementation of the original recommendations.

Table 3B – Summary of agency responses by recommendation

Status

I - Recommendation has been fully implemented

P - Recommendation has been partially implemented

AA - Alternate action undertaken

NA - No substantial action has been taken.

Recommendations	Total *	Status			
		I	P	AA	NA
Develop, in consultation with key stakeholders, a robust and comprehensive whole-of-government risk management framework that outlines requirements and provides clear guidelines to agencies.	2	2	0	0	0
Develop clear and practical guidelines that will assist agencies in: ● integrating risk management into organisational practices and reporting functions ● identifying and escalating significant risks beyond the individual agency.	2	2	0	0	0
Take a lead role in the coordination, monitoring and reporting of government risks.	2	1	1	0	0
Encourage and support the development of public sector risk management skills and competencies.	2	2	0	0	0
Develop and foster a corporate culture committed and responsive to risk management.	13	8	5	0	0
Provide appropriate resources and training to support effective risk management.	13	9	4	0	0
Appoint a "Risk Management Champion" to actively drive risk management awareness, integration, policies and strategies across the organisation.	13	12	1	0	0
Clearly define the context in which they operate.	13	9	4	0	0
Set a context broad enough to ensure it includes a wide range of influences, trends and time horizons to enable the timely identification of emerging risks both at the agency and beyond the agency levels.	13	7	6	0	0
Conduct a systematic and regular examination of the context in which they operate using various strategic methods and techniques.	13	9	4	0	0
Determine their risk profile (appetite and tolerance) through robust examination of the context in which they operate.	13	9	3	1	0
Apply the established context to the entire risk management process, including defining the parameters and criteria.	13	10	3	0	0
Adopt and implement an integrated risk management framework.	13	11	2	0	0
Ensure they are implementing all elements of the chosen risk management framework effectively and consistently throughout all organisational levels and functions.	13	8	5	0	0
Align risk management with their corporate objectives and government priorities.	13	10	3	0	0
Senior management promote and champion the importance and benefits of all elements of the risk	13	7	6	0	0

Recommendations	Total *	Status			
		I	P	AA	NA
management framework and its integration with existing business processes.					
Implement robust controls to ensure all elements of the risk management framework are being implemented effectively.	13	6	7	0	0
The context agencies use to identify risks is consistent with the context established to determine the organisation's risk profile.	13	10	3	0	0
Agencies regularly review the performance of adopted risk treatment strategies against set criteria to measure and report their effectiveness and determine future risk treatment needs.	13	8	5	0	0
The risk management framework is periodically reviewed to ensure relevance and continued effectiveness in its application.	13	9	4	0	0
Agencies strengthen their governance arrangements to ensure proper accountability.	13	8	5	0	0
Agencies consider setting up a risk management committee (whether combined with the Audit Committee or not) to oversee the risk management framework, systems, controls and procedures and provide assurance on their efficiency and relevance.	13	12	0	1	0
Agencies clarify the roles and responsibilities in relation to managing risk, as well as risk ownership across all levels and functions of the organisation.	13	9	4	0	0
Central agencies provide clear guidelines on the role and responsibilities of the risk management committee.	2	2	0	0	0

* Total number of agencies surveyed

3.4 Addressing skills shortages in Queensland

3.4.1 Summary of original audit

This section outlines the scope, audit conclusion and key findings from *Auditor-General Report to Parliament No. 7 for 2007 – Addressing skills shortages in Queensland* and is provided as contextual background information.

Scope

The objective of the audit was to determine whether the selected departments had suitable frameworks and appropriate systems in place to identify and address the skills shortages facing industries and businesses in Queensland.

The audit included the following departments:

- Department of Education, Training and the Arts (DETA)
- Department of Employment and Industrial Relations (DEIR)
- Department of Tourism, Regional Development and Industry (DTRDI).

At the time of the audit, all three departments played a significant role in addressing skills shortages in Queensland industries and businesses.

Audit conclusion

The Queensland Government had taken considerable steps to address the skills shortages across the state. The Queensland Skills Plan (QSP), announced in March 2006, aimed to better match the supply of skills with industry needs and economic demands. It provided over $1b in funding for new skills initiatives over a four year period.

The three departments subject to audit played a key role in implementing the QSP and audit noted a degree of interdependency and coordination between them. However, there was no evidence of formalised coordination beyond this initiative and across the wider Queensland public sector. In addition, there was no whole-of-government systems in place to address skills shortage across Queensland.

The audit found that no specific policy was in place to address shortages in professional occupations (e.g. doctors, engineers, accountants). Although qualifications gained through universities are largely a responsibility of the Commonwealth Government, no documented evidence was provided of formal consultation protocols between the Queensland and Commonwealth Governments on addressing professional skills shortages.

Identifying skills shortages requires access to relevant and reliable data. While the available data provided some understanding of skills shortages at the state level, audit noted significant limitations in data sources, such as small sample sizes and the inability to identify localised or specialised skills shortages. This impacted on DETA's ability to produce reliable future skills shortages' forecasts.

The audit findings from Report No. 7 for 2007 were grouped under two broad areas:

1.   Identifying skills shortages:

DETA is responsible for identifying skills shortages in Queensland. Audit found that the department had suitable systems and processes in place to identify current skills shortages, including the ability to identify skills shortages by occupation group at the state level and trends over time.

It is widely acknowledged that accurate forecasting for future skills shortages is complex. DETA uses data from the ABS Census of Population and Housing and the monthly Labour Force Survey. However, as the Labour Force Survey is based on a relatively small sample (around 20,000 people Australia-wide), the reliability of the conclusions that can be drawn from the statistics are limited. DETA's forecasting ability was therefore restricted to limited indicative short-term future forecasts. The lack of accurate data also limits the supply and demand analysis for individual occupation groups at a state level.

Understanding the factors contributing to skills shortages is necessary for developing strategies to address those shortages. While DETA was able to identify factors contributing to skills shortages, analysis of trade and associate professional skills shortages was last conducted in 2005 and analysis for professionals was performed for the first time in December 2006.

2.   Addressing skills shortages:

Overall, departments had suitable frameworks and systems in place to address skills shortages. DETA was responsible for implementing the QSP which includes 28 Skills Formation Strategies and the Skilling Queenslanders for Work initiative.

Ten of the Skills Formation Strategies were managed jointly with DTRDI, while the remainder were implemented by various private and public entities. DEIR was responsible for managing the Skilling Queenslanders for Work initiative.

3.4.2   Progress by the departments since 2007

Overall, the departments have made substantial progress in implementing the audit recommendations. Of the ten audit recommendations, six have been fully implemented and four partially implemented.

Responses to the follow-up from the Department of Employment, Economic Development and Innovation and the Department of Education, Training and the Arts show that:

*   Of the ten audit recommendations, six have been implemented fully. These recommendations relate to the conduct of regular analysis of the factors contributing to skills shortages and the sharing of this information between the relevant units, regular evaluation of the Skilling Queenslanders to Work initiative as well as individual industry initiatives, and improving governance arrangements which oversee industry-specific initiative including a performance reporting framework.

- Three of the recommendations that have been partially implemented relate to improved research methodologies to identify future skills shortages, the implementation of a state specific strategy for addressing skills shortages in professional occupations and improved timeframes to develop industry specific plans. Progress is still being made on these recommendations and both departments have provided information on future planned action.
- The implementation of the recommendation relating to leadership and a whole-of-government approach has been delayed due to the machinery of government changes, although audit have been advised that a new committee structure will be formed to address the recommendation.

3.5   South East Queensland – Towards a short-term water balance

3.5.1 Summary of original audit

This section outlines the scope, audit conclusion and key findings from *Auditor-General Report to Parliament No. 8 for 2007 – South East Queensland – Towards a short-term water balance* and is provided as contextual background information.

Scope

The audit objective of this audit was to determine whether appropriate systems and frameworks were in place at the Queensland Water Commission (QWC) to ensure the accuracy and integrity of information and data used to form current and future water demand and supply projections across SEQ.

The audit scope was limited to the QWC systems that supported the short-term water balance strategy until December 2009. Audit noted a reliance on third-parties to provide information to support QWC's systems. The audit looked at QWC processes for ensuring the completeness and accuracy of this information and QWC's capacity to control compliance with its mandated restriction regime by third parties (Local Governments).

The audit scope did not extend to examining:
- water quality
- costs of the various water supply methods
- potential environmental impacts of different supply options
- the effect of proposed dams at Traveston and Wrylalong, and the raising of the existing Hinze dam.

Audit conclusion

The Queensland Government responded to the water crisis through a drought management strategy. This included regulatory changes, creating the QWC and investment in infrastructure to increase storage capacity and provide alternate water supplies.

At the time of the audit the QWC had been operating for little over a year, yet audit found that there were adequate systems in place to measure the achievement of a short-term water balance for SEQ. The audit did identify some improvements in relation to data integrity and the need for more regular publication of actual water balance projections.

Key findings

The audit findings from Report No. 8 for 2007 were grouped under four broad areas:

1.   Inflow assumptions and calculations:

The QWC had adequate frameworks and systems in place to support underlying assumptions regarding water inflow.

2.   Managing and forecasting demand:

Users within the region had successfully reduced their usage to achieve the water use targets set by the QWC, particularly since the implementation of Level 5 water restrictions in April 2007.

QWC undertook extensive consultation and analysis of the potential impacts of the proposed water restrictions. However, there was no evidence of systematic, comprehensive and documented post implementation evaluations on the social, environmental and economic impacts experienced by both residential and non-residential users following the implementation of each stage of the water restrictions.

In addition, while QWC designed and implemented various restrictions and compulsory demand management measures, local governments are responsible to monitor and control compliance with the measures. Audit noted that the monitoring and control regimes were inconsistent between the 12 councils subject to Level 5 water restrictions.

3.   The SEQ emergency program:

This refers to projects approved under the *Water Amendment Regulation (No. 6) 2006* as alternate sources of water and demand reduction strategies for the SEQ region. These projects were scheduled to add to the water available for the region by December 2009.

Audit noted that comprehensive reporting on the emergency program was provided to the QWC's Executive Management Group and Commissioners every fortnight. This report included estimated completion times and expected yields for each of the projects. However, QWC had not obtained any formal certification of the final service provider reports from authorised senior officers of the project management entities responsible for the SEQ emergency water program.

4.   Achieving a water balance:

QWC had adequate systems in place to apply the water balance model and undertake reasonable validation checks on the model's various projected outcomes. QWC also had adequate systems for selecting the supply and demand scenarios.

On the other hand, QWC relied on various external sources for data to feed into the supply and demand models. QWC has limited control over the quality of the data it received which increased the risk over the integrity of the water balance model's final projections.

There was significant public interest in whether SEQ achieved a water balance to meet short and long term demand. Regular reporting of key information by QWC included the water level of dams in the region, the progress of the approved emergency projects, and details of demand management strategies, including water restrictions and their effectiveness. However, the projections of the water balance model used by QWC were only released to the public twice from July 2006 and the time of the audit in late 2007. Regular publication of this information would present a clear picture of the expected water balance for the region and would also provide an overview on how the various components of the short-term water balance contributed towards achieving that objective.

3.5.2 Progress by Queensland Water Commission since 2007

QWC reported that six of the eight recommendations have been fully implemented and two partially implemented. Their response on the status of the implementation of the recommendations is included below:

Managing demand

- QWC is in the process of undertaking an evaluation and benchmark study. Analysis was planned for September 2009 and the final report is due in March 2010. QWC also note that they are undertaking ongoing market research to assess restriction impacts.
- QWC has advised that it has introduced Notes of Procedures which provide comprehensive guidance for water service providers, including councils.
- QWC have provided Bulk Grid Entities with guidance for the collection, storage and aggregation of data. It has also engaged an independent review over the information provided and the file content and security over the electronic transfer of data between QWC and other entities.
- QWC has incorporated regulatory powers over the collection of data into s.360T of the *Water Act 2006*. Other changes have been made to ensure data integrity and storage security.
- QWC has employed specialist staff (rather than using teams of contractors) and provided in-house training on the Commission models. QWC has also clarified intellectual property arrangements in respect of their model.
- QWC now undertake a quarterly review process to compare actual results with forecasts and to incorporate into future demand modelling. A revised Demand Forecasting Module is under development to enhance this process and will be introduced in January 2010. It will further enhance the capacity of QWC to perform comparative analysis between actual and planned demand.

SEQ emergency program

- In response to the recommendation to ensure final monthly service provider reports are reviewed and authorised by a senior officer of the service provider prior to submission to QWC, QWC now request that service providers provide assurance over the data QWC receive.

Achieving a water balance

- The water balance model chart is now included in the monthly report on water supply projects which is published on the QWC website.

4 | Agencies subject to audit

4.1 Summary of machinery of government changes relevant to each audit

As a result of significant machinery of government changes in March 2009, the agencies subject to this follow-up were not the same as those audited in 2007. Changes are outlined in the table below.

Figure 4A – Agencies subject to this audit

Audit	Agencies Subject to Audit	Agencies Subject to Follow-up Audit
Auditor-General Report to Parliament No. 2 for 2007 - Results of Performance Management Systems audits of management of funding to non-government organisations	● Department of Communities ● Department of Child Safety ● Disability Services Queensland	● Department of Communities ● Recommendations were also made in relation to enhancing governance, which impact all departments. Communities agreed to take the lead role in ensuring this recommendations are implemented
Auditor-General Report to Parliament No. 6 for 2007 - Beyond agency risk	● Department of the Premier and Cabinet ● Treasury Department ● Nine agencies audited, plus survey completed by all 23 agencies	● All 13 departments
Auditor-General Report to Parliament No. 7 for 2007 - Addressing skills shortages in Queensland	● Department of Education, Training and the Arts ● Department of Employment and Industrial Relations ● Department of Tourism, Regional Development and Industry	● Department of Education and Training ● Department of Employment, Economic development and Innovation
Auditor-General Report to Parliament No. 8 for 2007 - South East Queensland – Towards a short-term water balance	● Queensland Water Commission	● Queensland Water Commission

5 | Appendices

5.1   Acronyms

AS/NZS	Australian/New Zealand Standards
DEEDI	Department of Employment, Economic Development and Innovation
DEIR	Department of Employment and Industrial Relations
DETA	Department of Education, Training and the Arts
DLGSR	Department of Local Government, Sport and Recreation
DTRDI	Department of Tourism, Regional Development and Industry
NGO	Non-Government Organisation
PMS audit	Performance Management Systems audit
QWC	Queensland Water Commission
SEQ	South East Queensland

5.2   References

NSW Audit Office Guide to Better Practice: A guide for monitoring the implementation of audit recommendations, May 2009.

Official Journal of the Queensland Audit Office, *Inform*, Issue 2 April 2009.

6 | Auditor-General

Reports to Parliament

6.1 Tabled in 2010

Report No.	Subject	Date tabled in Legislative Assembly
1	*Auditor-General Report to Parliament No. 1 for 2010* *Audit of A1 Grand Prix Agreements* **A Financial and Compliance audit**	4 February 2010
2	*Auditor-General Report to Parliament No. 2 for 2010* *Follow-up of selected audits tabled in 2007* **A Performance Management Systems audit**	23 March 2010

Publications are available at *www.qao.qld.gov.au* or by phone on 07 3149 6000.