



2012

PARLIAMENT OF TASMANIA

**REPORT OF THE
AUDITOR-GENERAL
No. 12 of 2011-12**

Follow up of Special Reports 75-81

June 2012

Presented to both Houses of Parliament in accordance with the provisions of Audit Act 2008

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26 June 2012

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Madam President
Dear Mr Speaker

REPORT OF THE AUDITOR-GENERAL
No. 12 of 2011-12
Follow up of Special Reports 75-81

This report has been prepared consequent to examinations conducted under section 23 of the *Audit Act 2008*. The objective of the audit was to ascertain the degree of implementation of recommendations made in the abovementioned Special Reports tabled between September 2008 and June 2009.

Yours sincerely



H M Blake
AUDITOR-GENERAL

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Foreword

Performance audits are conducted with the goal of assessing the effectiveness, efficiency and economy of activities undertaken by State entities whereas compliance audits are aimed at assessing compliance by State entities with laws, regulations or internal policies. Identification of areas where improvements can be made is one of our primary objectives as is gaining acceptance by State entities and their implementation of any resultant recommendations. Using a collaborative approach with State entities, we aim to reach agreement so that audit recommendations are practical and add value to State sector programs or processes. Accordingly, there is an expectation that our recommendations will be implemented and we regard an implementation rate of 70 per cent as satisfactory. Depending on the subject matter and status of matters followed up, we may extend audit testing.

This follow-up audit was completed to provide Parliament with information about the extent to which State entities acted on recommendations made in selected special reports tabled between September 2008 to June 2009, namely:

- Special Report No. 75, a compliance audit examining:
 - *Executive termination payments*
- Special Report No. 76, a compliance audit examining:
 - *Complaint handling in local government*
- Special Report No. 77, a performance audit examining:
 - *Food safety: safe as eggs?*
- Special Report No. 78, a performance audit examining:
 - *Management of threatened species*
- Special Report No. 81, a performance audit examining:
 - *Contract management.*

This Report addresses each of the above audits, examining the original context of the recommendations and detailing the subsequent rate of implementation. Where recommendations were not implemented, we sought explanations.

In addition to being a yardstick on the performance of State entities, the follow up process provides feedback on our own effectiveness. A low rate of implementation could indicate that recommendations were impractical or pitched at an inappropriate level. For each of the reports, our 70 per cent benchmark was satisfied or exceeded.

However, our approach to conducting follow-up audits will change from now onwards and be informed by the Public Accounts Committee's program of following-up our reports which it has now initiated.

H M Blake

Auditor-General

26 June 2012

List of acronyms and abbreviations

Charter	Customer Service Charter
DEDTA	Department of Economic Development, Tourism and the Arts (formerly Department of Economic Development)
DFTD	Devil facial tumour disease
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DPIPWE	Department of Primary Industries, Parks, Water and Environment (formerly Department of Primary Industries and Water)
EHO	Environmental Health Officer
FSANZ	Foods Standards Australia New Zealand
<i>LGA 1993</i>	<i>Local Government Act 1993</i>
NES	National Employment Standards
RMC	Resource Management and Conservation
Treasury	Department of Treasury and Finance
TSPA	<i>Threatened Species Protection Act 1995</i>

Executive summary

Executive summary

Background

We conduct audits with the goal of assessing the performance and compliance of state entities. Identifying areas for potential improvement is an essential part of such audits and recommendations are made in support of that objective.

Follow up audits inform Parliament about the extent to which state entities have acted on recommendations made in previous Special Reports.

The five reports selected for follow up are:

- Special Report No. 75, a compliance audit examining:
 - *Executive termination payments*
- Special Report No. 76, a compliance audit examining:
 - *Complaint handling in local government*
- Special Report No. 77, a performance audit examining:
 - *Food safety: safe as eggs?*
- Special Report No. 78, a performance audit examining:
 - *Management of threatened species*
- Special Report No. 81, a performance audit examining:
 - *Contract management.*

In addition to being a yardstick on the performance of state entities, the follow up process provides feedback on our own effectiveness. A low rate of implementation could indicate that recommendations were impractical or pitched at an inappropriate level. Consequently, in follow up audits we regard an implementation rate of 70 per cent as satisfactory.

Detailed audit conclusions

Overview

Overall, each of the departments exceeded our benchmark of 70 per cent, with 82 per cent of the recommendations implemented.

Executive termination payments

The majority of recommendations were implemented to a degree. Recommendations 1 and 6 had a high implementation rate, but the remaining recommendations were in most cases not implemented as intended.

Although Recommendations 3 and 5 did not apply to many of the entities, policies that supported payment of ex gratia amounts often did not reflect the intention of the recommendations regarding standards of documentation and approval.

The implementation of Recommendations 2 and 4 was also inconsistent with the underlying intention of detailed review.

Overall, only two of the 28 entities examined did not exceed our benchmark of 70 per cent, with 85 per cent of the recommendations implemented.

Complaint handling in local government

We found that most councils had made significant progress in implementing the majority of recommendations.

Kentish Council (Kentish) was the exception as it had made little progress against one of the original recommendations in that we recommended that councils develop systems that allow complaints to be analysed to identify systemic weaknesses and underlying problems. However, we noted its intention to implement a major upgrade of its records management system during 2012.

Overall, an implementation rate of 85 per cent exceeded our benchmark of 70 per cent.

Food safety: safe as eggs?

In the intervening time since we tabled Special Report 77 the majority of councils had made significant progress against the majority of recommendations.

Brighton Council (Brighton) was the exception as it had not made progress against one of the original recommendations in that we recommended management should monitor progress on food premises inspections and provide reports to Council. However, Brighton was in consultation with neighbouring councils to determine how such monitoring can be performed and was looking at adopting a suitable program in the near future.

Overall, an implementation rate of 88 per cent exceeded our benchmark of 70 per cent. This implementation rate is also supported by data which indicates that there has only been one major egg-related salmonella outbreak, resulting in two hospital admissions, since the 2008 audit was tabled.

Management of threatened species

The Department of Primary Industries, Parks, Water and Environment (DPIPWE) had made significant progress against the recommendations in our 2009 report.

A reallocation of funding allowed for the preparation of Listing Statements and the development of advisory tools between 2009 and 2011. As a result, Listing Statements, which provide a key role in the guidance of recovery actions for species, now cover an extra 156 threatened species. Of those 156 species now covered by a Listing Statement, 10 were prepared for newly listed species.

Overall, the Department of DPIPWE implemented 78 per cent of our recommendations.

Contract management

All recommendations were, at a minimum, partially implemented. Recommendation 3, which required departments to establish Steering Committees for major contracts, was fully implemented. However, work was still required in the areas of:

- risk management and risk mitigation
- monitoring
- use of contract management expertise and guidelines.

In terms of additional testing, DIER had achieved comprehensive and consistent performance monitoring and reporting for the Kingston Bypass project. However, further work was required in relation to:

- achievement of agreed outcomes
- consistency of project objectives
- risk management.

Overall, each of the departments exceeded our benchmark of 70 per cent, with 75 per cent of the recommendations implemented.

List of recommendations

The following table reproduces the recommendations contained in the body of this Report.

Rec No	Section	We recommend that...
1	1.4.2	... all entities review executive contracts with the aim of improving: <ul style="list-style-type: none"> ▪ redundancy clauses ▪ early termination clauses ▪ clarity between redundancy and early termination.
2	3.4	... Kingborough Council develop a forward inspection program.
3	3.4	... councils monitor activity against their forward inspection program.
4	5.4.1	... DIER implements stronger budgetary oversight.
5	5.4.1	... DIER improves the consistency of stated objectives in project documentation.
6	5.4.2	... DIER implements an ongoing risk management process.
7	5.4.2	... where aboriginal culture and heritage sites represent a major risk to the outcome of the project, DIER only awards a project once issues surrounding management of such sites is resolved.

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Audit Act 2008 section 30 — Submissions and comments received

Audit Act 2008 section 30 — Submissions and comments received

Introduction

In accordance with section 30(2) of the *Audit Act 2008*, a copy of this report, or relevant extracts of this report, were provided to the government departments and individuals indicated below.

The comments and submissions provided are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Submissions and comments received

Submissions and comments received for this Report, including comments from those individuals afforded the right to respond to this Report, have been included at the end of each Chapter. No submissions were received from the Treasurer or any Ministers.

Introduction

Introduction

Background

We conduct audits with the goal of assessing the performance and compliance of state entities. Identifying areas for potential improvement is an essential part of such audits and recommendations are made in support of that objective.

As a matter of course, we try to reach agreement with clients when framing our recommendations. Due to this collaboration we have an expectation that our recommendations will be actively implemented.

Follow-up audits are undertaken to provide Parliament with information about the extent to which state sector entities have acted on recommendations made in previous Special Reports.

In the public sector, resources are always limited and state entities reject recommendations unless they have a practical focus and are likely to lead to better outcomes such as increased effectiveness and efficiency. For that reason, we believe that the degree to which entities implement recommendations is also a reflection on the value that we seek to add through our audit processes.

Audit objective

The purpose of the audit was to:

- ascertain the extent to which recommendations in the previous audit reports were implemented
- determine reasons for non-implementation.

Audit scope

Our previous follow-up audit, Special Report No. 97, was tabled in May 2011. It covered the period from October 2007 to June 2008.

This follow up targets the next batch of Special Reports covering the time period September 2008 to June 2009, namely:

- Special Report No. 75 — *Executive termination payments*
- Special Report No. 76 — *Complaint handling in local government*
- Special Report No. 77 — *Food safety: safe as eggs?*
- Special Report No. 78 — *Management of threatened species*
- Special Report No. 81 — *Contact management.*

We did not follow up two audits that fell within the targeted time range. These were:

- Special Report No. 79 — *Follow up of audits April–August 2006*
- Special Report No. 80 — *Hydro hedges*.

The former was itself a follow up and required no further action. The latter report, which investigated the management of certain hedging transactions by Hydro Tasmania, did not lend itself to the follow up process.

Audit approach

We based the findings in this audit on evidence collected from state entities through survey questionnaires that gauged the extent to which clients implemented our recommendations. As necessary, we obtained supporting data or documentation and held discussions with entity staff.

In some instances, we re-applied the original audit tests to establish whether entities had implemented the recommendations and to re-assess current performance.

Future follow up audits

Our office may undertake further follow-up audits but subject to coordination with the follow-up program taken up by the Public Accounts Committee of Parliament. Notwithstanding, we reserve the right to conduct follow up audits as we see necessary. One such example concerns Special Report No. 87 *Employment of staff to support MPs* where it would be more appropriate for the Auditor-General to conduct the follow-up.

Our current Annual Plan of Work schedules that audit to commence during or after 2012–2013.

Timing

Planning for this follow-up performance audit began in August 2011. We sent questionnaires to clients in August 2011 with the fieldwork completed in April 2012. The report was finalised in June 2012.

The reason for the delay in fieldwork related to the retesting of executive contracts across a large number of entities involved in Special Report No. 75 — *Executive termination payments*.

Resources

The total cost of the audit excluding report production costs was approximately \$57 683.

As a result, the audit was completed within budget.

Acknowledgement

We acknowledge the assistance given by all the State entities involved with this follow up.

1 Executive termination payments

1 Executive termination payments

1.1 Background

The compliance audit *Executive termination payments* (Special Report No 75 of September 2008) focused on whether severance payments made to senior executives in the public sector were in accordance with the relevant terms and conditions of their employment. There were originally 31 State entities involved in this audit; however, as a result of consolidations, only 28 State entities were approached at the time of the follow-up audit. These entities are listed in the Appendix and include:

- government departments
- local government councils
- government business enterprises
- state-owned companies
- statutory authorities
- other public bodies.

Senior executives are usually employed on individual employment contracts. It is not unusual for these contracts to be terminated before they have run full term due to resignation, redundancy and changes in operational direction. Termination of an employment contract can be initiated by either the employee or the employer.

If the termination of an employment contract, without any due cause such as misconduct, is initiated by the employer then the employee may be entitled to an early termination or redundancy payment. Entitlements to these payments are specified in employment contracts or redundancy schedules.

Employers may also make *ex gratia* payments to departing employees. For example, an employer may offer an *ex gratia* payment as an incentive to an employee to accept termination of a contract or as mitigation if the position has become untenable due to factors beyond the employee's control. *Ex gratia* payments are negotiated in consideration of factors such as the amount an employee could reasonably have expected to earn if the contract had been allowed to run full term, legal expenses incurred defending an investigation or in recognition of significant upheaval expenses incurred in taking up or prematurely leaving a position.

The objective of the follow-up audit was to ascertain whether selected State entities had implemented recommendations made in the 2008 report. Of those recommendations, four of the six

recommendations applied to Government Departments, while three of the six applied to all other entities.

1.2 *2008 audit opinion*

The main findings of our original audit were that:

- The majority of severance payments did not appear to be excessive.
- Contractual separation had, in most cases, been calculated accurately in accordance with the terms and conditions of employees' employment contracts.
- Many severance payments did not have adequate documentation in terms of which party initiated the termination of contract, basis of payment and authorisation.
- Ex gratia payments were motivated by a perceived need to meet untested legal or moral obligations.
- Some ex gratia payments:
 - had not been ratified at the highest level of governance
 - were not supported by documented rationales
 - were used to offset contracts that provided inadequate compensation to terminated employees
 - varied widely between employees in similar circumstances.

1.3 *Status of recommendations*

The six recommendations, from the original report are summarised in Table 1 together with respective rates of implementation.

Table 1: Executive termination payments – Degree of implementation (%)

No	Recommendations (abbreviated)	All¹
1	Documents clearly indicate which party initiated a termination so that the basis for severance payments is transparent.	97
2	Review the standard instruments of appointment for SES employees and Heads of Agencies to determine whether they reflect the intended conditions and provide an appropriate balance between risk and reward.	69
3	Ex gratia payments should be approved or ratified at highest level of governance and be clearly identified in documentation as ex gratia payments with the rationale for the payment provided.	75
4	Review public sector executive contracts to determine whether they provide a fair and consistent basis for compensation for early termination of contracts, as well as redundancy provisions.	75
5	Authorise ex gratia payments at the highest level of governance.	100
6	Identify the basis on which all payments are made and who authorised them to be clearly recorded in the termination documentation.	97
Number of recommendations		6
Average % implementation		85

The implementation of recommendations was high for most of the entities.

It is important to note that where no ex gratia payment had been made between September 2008 and February 2012, Recommendations 3 and 5 were rated ‘not applicable’. For these recommendations, in approximately 80 per cent of cases ex gratia payments had not been made. Additional testing was conducted examining whether ex gratia payments made since September 2008 were approved at the highest level of governance. We found this to be the case, with one exception.

However, there were a number of instances in which policy did not reflect the intent of Recommendations 3 and 5. Specifically, entities had not, in general, implemented a policy requiring ex gratia payments to be approved or ratified at the highest level of governance.

Furthermore, where no terminations had occurred between September 2008 and February 2012, Recommendation 6 was also

¹ For the full list of respondents see Appendix.

rated ‘not applicable’. This applied to 25 per cent of the entities examined.

Recommendations 2 and 4 were not implemented as intended in that the majority of contracts did not contain clearly defined redundancy and early termination payments. This may have been a result of the way in which our original report was worded in that, on reflection, there may not have been sufficient connection between our finding and our recommendation, while the significance of the matter was also unclear. The ratings of 69 and 75 per cent for Recommendations 2 and 4 respectively were obtained through performing additional tests on current executive contracts. A detailed discussion of this testing is provided in Section 1.4.

1.4 *Additional testing*

When entering into an executive contract, individuals are exposed to a higher level of risk than permanent employees in the public service. As a result, compensation should be based on risks that may eventuate including failure to renew the contract at the end of the employment period as well as possible termination for various reasons including because the employee is not the right ‘fit’ for an organisation. Such risks should be reflected in an executive’s employment contract in the form of specific clauses including, for example, redundancy and early termination clauses.

1.4.1 *Consideration of 2008 findings*

Our original report stopped short of recommending that both elements be included in contracts. Nonetheless, our recommendation that contracts be reviewed to determine whether they provide a fair and consistent basis for compensation was based on concerns that:

- Only one of the elements was typically addressed.
- There was confusion in terminology, with the term ‘redundancy payment’ sometimes used to describe compensation for early termination.
- Pay for some executive contracts was sometimes no better than non-executive administrative positions, yet the contracts generally provided little compensation for early termination imposed by the employer and no redundancy provision.

Although both redundancy and early termination payments are compensation payments, the two components should be considered separately for employee contracts. A supporting reason for this is that

genuine redundancy payments include a tax-free component, while early termination payments do not². Therefore, if the two payments are not covered separately in a contract, an employee will receive less after-tax income if they receive an early termination as opposed to being made redundant.

1.4.2 Contract testing

As a result of the 2008 findings, our follow up work included examination and assessment of all current contracts against the objective tests in Table 2.

Table 2: Tests applied to executive contracts

No.	Test	Success rate (%)	Failure rate (%)
1	Had executive contracts been reviewed since the original audit was been tabled in September 2008?	86	14
2	Do executive contracts include a standard termination clause?	100	0
3	Is the early termination clause adequate?	11	89
4	Is the redundancy clause adequate?	82	18
5	Is there clarity between early termination and redundancy clauses?	32	68

Details of what needed to be present to achieve success against the individual tests in Table 2 are explained below.

Evidence of review

To achieve success against the first test, one of two elements of review needed to be present. The contracts needed to have been reviewed since the 2008 audit. However, if there was no evidence available that documented such a review, a new contract that was demonstrably different from the previous contract also provided sufficient evidence of review.

We found that the majority of contracts had been reviewed since the 2008 audit.

² A genuine redundancy payment is regarded as a payment received by an employee who is dismissed because the position of the employee is no longer required due to changes in the operational requirements of the employer's business.

Existence of a standard termination clause

A standard termination clause provides an entity with an option to terminate the executive if, for example, the code of conduct is breached or a criminal conviction is recorded without the need to compensate for loss of contract. Success against this test is achieved if such a clause is included in the executive contract.

We noted that all contracts reviewed had a standard termination clause.

Existence of an early termination clause

To achieve success in this instance, an adequate early termination clause must be included in the standard executive contract. An adequate early termination clause:

- is based on the time remaining on the contract
- compensates for loss of contract
- provides compensation greater than that received for redundancy.

We found that the majority of contracts did not include an adequate early termination clause. For example, there were many instances in which an executive who is given an early termination is entitled to three months notice or three months pay in lieu of notice. If the executive is required to work through the notice period, they would not be entitled to any compensation for loss of contract.

Existence of a redundancy clause

An adequate redundancy clause needed to be present in the standard executive contract to achieve success against this test. An adequate redundancy clause was deemed to be, at a minimum, equal to the National Employment Standards (NES) shown in Table 3.

Table 3: NES redundancy amounts³

Employee's period of continuous service with the employer on termination		Redundancy pay period
At least	But less than	
1 year	2 years	4 weeks
2 years	3 years	6 weeks
3 years	4 years	7 weeks
4 years	5 years	8 weeks
5 years	6 years	10 weeks
6 years	7 years	11 weeks
7 years	8 years	13 weeks
8 years	9 years	14 weeks
9 years	10 years	16 weeks
10 years	-	12 weeks ⁴

We found that the majority of contracts contained an adequate redundancy clause.

Clarity between redundancy and early termination clauses

To achieve success in this instance, the redundancy and early termination clauses were required to be clearly differentiated. This is a necessity due to the tax considerations that were discussed in Section 1.4.1.

We noted that the majority of executive contracts did not substantially differentiate between redundancy and early termination.

Conclusion

As the intended meaning of Recommendations 2 and 4 was misunderstood by the majority of entities, we used the results of the additional testing as a proxy for the respective implementation rates. Specifically, the implementation rate for Recommendations 2 and 4 were 69 and 74 per cent respectively. The results for both

³ Fair Work Ombudsman, *How much redundancy pay?* — www.fairwork.gov.au

⁴ Long service leave entitlements provide the rationale for reducing the redundancy pay entitlement for employees who have a period of 10 years' continuous service or greater

recommendations were calculated by averaging the scores obtained from the additional testing summarised in Table 2.

The following examples taken from current executive contracts demonstrate the variation in executive contracts across Government entities.

Case Study 1

An employee made redundant would receive at least 12 months salary under current conditions, while an employee that is terminated early would receive 6 months notice or 6 months total remuneration.

The payment structure in Case Study 1 is illogical as redundancies are generally made in times of financial instability, making the payment of 12 months salary difficult. Early termination on the other hand, can occur at any time.

Case Study 2

An employee made redundant is entitled to two weeks pay for every year of service, while an employee that is terminated early is entitled to one month's payment in lieu of payment.

In Case Study 2, while the redundancy payment is adequate, the early termination payment is clearly inadequate compensation for loss of contract.

Recommendation 1

We recommend that all entities review executive contracts with the aim of improving:

- **redundancy clauses**
- **early termination clauses**
- **clarity between redundancy and early termination.**

1.4.3 Ex gratia payment testing

Additional testing was also performed on terminations at five of the 28 entities in scope. In all cases examined, ex gratia payments were approved at the highest level of governance and documentation clearly identified which party initiated the termination and the basis on which payments are made.

1.5 Conclusion

The majority of recommendations were implemented to a degree. Recommendations 1 and 6 had a high implementation rate, but the remaining recommendations were in most cases not implemented as intended.

Although Recommendations 3 and 5 did not apply to many of the entities, policies that supported payment of ex gratia amounts often did not reflect the intention of the recommendations regarding standards of documentation and approval.

The implementation of Recommendations 2 and 4 was also inconsistent with the underlying intention of detailed review.

Overall, only two of the 28 entities examined did not exceed our benchmark of 70 per cent, with 85 per cent of the recommendations implemented.

1.6 Submissions and comments received

Department of Health and Human Services

Since 2008, DHHS has reviewed executive employment contracts. In reference to Item 3 in Table 2 on Page 18 which asks ‘is the early termination clause adequate?’, the answer from DHHS is that in Senior Executive Service contracts there is a standard termination clause in accordance with Ministerial Direction 17.

Matthew Daly
Secretary

University of Tasmania

UTAS appreciates being included in the *Executive termination payments* audit and the follow up of Special Reports 75–81. As UTAS progresses through its current change program we will ensure the clear findings of the report are appropriately considered.

Professor Peter Rathjen
Vice-Chancellor

Other entities (refer to Appendix)

All of the other organisations involved in the audit accepted the report, indicated their satisfaction with the report or had no further comments.

2 Complaint handling in local government

2 Complaint handling in local government

2.1 Background

Local government councils are committed to providing timely, efficient, consistent and quality customer service. Inevitably, there will be times when that objective is not achieved, particularly from the viewpoint of customers, and complaints will ensue.

On the plus side, information obtained through dealing with complaints can lead to improvements in products, services and processes. Thus, proper handling of complaints can ultimately improve the reputation of an organisation.

In Tasmania, councils are required by the *Local Government Act 1993* (LGA) to have procedures to deal with complaints. The LGA also requires councils to develop a customer service charter (Charter) that must ‘... specify a procedure for dealing with complaints relating to services provided by the council’⁵.

The 2008 audit examined whether councils complied with the complaint-handling requirements of the LGA and its associated regulations. In addition, the audit assessed councils against the Australian Standard on customer satisfaction, as it provided an appropriate benchmark for best practice⁶. The local government councils involved in this audit included:

- Derwent Valley
- Devonport City
- Kentish
- Kingborough
- Meander Valley
- West Tamar.

Whilst LGA is silent as to what constitutes a complaint, most councils have adopted a common definition. For this audit, we have defined a complaint as dissatisfaction caused by:

- a council product or service
- unsatisfactory conduct of a council employee
- a council decision.

⁵ *Local Government Act 1993* Section 339F(2)(b)

⁶ AS ISO 10002 — 2006 *Customer satisfaction — Guidelines for complaints handling in organisations*, Standards Australia, 2006.

The objective of the follow up audit was to ascertain whether selected State entities had implemented recommendations made in the 2008 report.

2.2 *2008 audit opinion*

The main findings of our original audit were that:

- Some Charters had not been reviewed within the legislated two-year period.
- Procedures at a number of councils were inadequate or incomplete.
- Training was not always up to date.
- General Managers had failed to report annual complaint information to councils as required by legislation.
- Complaint-handling systems failed to facilitate follow up of complaints, systemic review, identification of emerging issues or creation of useful reports.
- Possible breaches of the LGA were dealt with at a council level rather than being referred to the Local Government Division of the Department of Premier and Cabinet (DPAC).
- Initial response times could not be effectively monitored because of deficiencies in information management.
- There was no evidence that councils had systematically used complaint information to improve products, services and decision making.

2.3 *Status of recommendations*

Twelve recommendations from the original report are shown in abbreviated form in Table 4 together with respective rates of implementation by audit clients.

Table 4: Complaint handling in local government — Degree of implementation (%)

No	Recommendations (abbreviated)	Derwent Valley	Devonport City	Kentish	Kingborough	Meander Valley	West Tamar	All
1	Review customer service charter	100				100	100	100
2	Include definition of complaints in charter			100				100
3	Develop complaint-handling procedures		50	100	75	100	100	85
4	Follow complaint-handling procedures	100	50	50	90	100	50	73
5	Provide staff with appropriate training	50	100	100	100	100	50	83
6	Implement systems to identify and log complaints	75	75	75	100	100	100	88
7	Implement systems to ensure compliance with LGA	75	100	50	100	100	100	88
8	Publish annual statistics	100	100	100	100	100	100	100
9	Monitor response and resolution times	100	90	25	100	100	50	78
10	Develop system to allow data analysis	75	25	0	100	75	100	63
11	Put complaint mechanism in charter			100				100
12	Refer alleged LGA breaches to DPAC	100	100	100	100	100	100	100
No. of recommendations		9	9	11	9	10	10	
Ave % implementation		86	77	73	96	98	85	85

In relation to Recommendation 3, we noted that Devonport City had not formally updated its complaint-handling procedure and that Kingborough had developed an electronic workflow to specifically manage its complaints.

Councils offered the following comments regarding Recommendation 4:

- Some changes to the current complaint-handling procedure will be required at Devonport City, upon formalisation of existing procedures.
- Employees have been provided with a copy of the revised complaint management process at Kentish. However, we found that these processes were not always followed.
- Further refinement of the complaint information system at Kingborough will assist in referring complaints to external agencies.
- Officers had not immediately registered complaint correspondence at West Tamar.

In relation to Recommendation 5, Derwent Valley and West Tamar did not provide staff with ongoing customer service training, since either staff were first inducted or subsequent to the introduction of Customer Service Charters.

Three of the six councils audited had not implemented complaint-handling systems allowing the correct identification and logging of complaints as defined in their charters and required by Recommendation 6. Furthermore, in relation to Recommendation 7, the complaint-handling system at two councils only provided brief customer complaint and request information details.

Regarding Recommendations 9 and 10, most councils were upgrading their information system capabilities. The only exception was Kentish Council who had not yet upgraded its records management system, but noted its intention to do so during 2012. As a result, these recommendations have been implemented to varying degrees.

2.4 *Additional testing*

Additional testing that we conducted in five of the areas identified in the original audit report generated consistent results (see Table 5).

**Table 5: Complaint handling in local government —
Additional testing**

No	Question	Derwent Valley	Devonport City	Kentish	Kingborough	Meander Valley	West Tamar
1	Had council reviewed its customer service charter?	✓	✓	✓	✓	✓	✓
2	Did the customer service charter clearly define a complaint?	✓	✓	✓	✓	✓	✓
3	Did council publish complaint-handling data in its annual reports?	✓	✓	✓	✓	✓	✓
4	Did Charters have external contacts for unsatisfied complainants?	P	✓	✓	P	✓	✓

Key:	✓	Relevant activity completed
	P	Relevant activity partially completed
	×	Relevant activity not completed

Most of the additional tests were met with two minor exceptions.

The majority of councils provided external contact information for unsatisfied complainants in the Customer Service Charter. Derwent Valley and Kingborough suggested other avenues to remedy grievances, such as the Ombudsman, Officer of the Anti-Discrimination Commissioner and the Local Government Division, but lacked direct contact information.

2.5 Conclusion

We found that most councils had made significant progress in implementing the majority of recommendations.

Kentish Council was the exception as it had made little progress against Recommendation 10. However, we noted its intention to implement a major upgrade of its records management system during 2012.

Overall, an implementation rate of 85 per cent exceeded our benchmark of 70 per cent.

2.6 *Submissions and comments received*

Kentish Council

The new records management system has now been implemented.

Gerald Monson

General Manager

Other councils

All of the other councils involved in the audit accepted the report, indicated their satisfaction with the report or had no further comments.

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3 Food safety: safe as eggs?

3 Food safety: safe as eggs?

3.1 Background

Consumers need to know that the food they buy and eat is safe. The consequences of unsafe food reaching the market are that people become sick or are hospitalised. Amongst vulnerable sections of the community, such as the aged or very young, fatalities are possible. Also, significant damage to the ‘clean and green’ image and reputation of Tasmania’s food industry could ensue.

Eggs are a nutritious component of the diet of most people but, because of the risk of salmonella contamination, can be hazardous to health if not handled or processed properly. Between 2005 and our audit in 2008, Tasmanian outbreaks of egg-related salmonella poisoning affected 181 people (with 20 people hospitalised) and raised public concerns regarding egg safety.

In its 2006 report, the Australian Government Department of Health and Ageing estimated the total annual cost of food borne illness (encompassing productivity, lifestyle, premature mortality and health care services) in Australia of \$1.249 billion⁷. Given the magnitude of the problem, health authorities need to act quickly to respond to food outbreaks when they occur.

Through appropriate regulation of food production, distribution and sale, governments minimise the risk of food-borne illness. In Australia, the development of food safety standards is coordinated at an international level with New Zealand. Food Standards Australia New Zealand (FSANZ) is the controlling body and similar legislation exists in each jurisdiction. In Tasmania, the principal government entities are:

- DHHS whose Director of Public Health is a statutory officer with wide powers under the Food Act 2003
- DPIPWE that is empowered to ensure compliance with approved egg production plans through annual inspections
- local government councils that are responsible for food safety in their respective areas.

When instances of food-related illness occur, the Director of Public Health investigates following notifications provided by doctors and testing laboratories. Local councils become involved in the required

⁷ *The annual cost of foodborne illness in Australia*, Department of Health and Ageing, March 2006.

corrective work at the offending food business. Likewise, DPIPWE works with primary producers if a particular incident requires it.

Our 2008 audit examined the effectiveness of government's role in food safety, particularly in relation to eggs. Strategic planning, strategies, performance indicators, monitoring and reporting were also covered. The entities involved in this audit included:

- Department of Health and Human Services (DHHS)
- Department of Primary Industries, Parks, Water and Environment (DPIPWE)⁸
- Brighton Council
- Devonport City Council
- Huon Valley Council
- Kingborough Council
- Latrobe Council.

3.2 *2008 audit opinion*

The main findings of our original audit were that:

- It is possible for eggs to enter the market from non-approved suppliers meaning there is a risk that, in the event of an egg-related food outbreak, the identification of the producer may not be determined.
- There were inconsistencies in the use of checklists and provision of feedback to food premises that deviated from the national standard.
- Shortages of Environmental Health Officers contributed to an inability of most councils to conduct inspections at the required frequency.
- Management of inspection programs was poor.
- High-level strategic cooperation between the various government entities involved in food safety needed to be improved.
- When outbreaks of food borne illness occurred, the Director of Public Health responded quickly and effectively, in line with DHHS guidelines, to investigate incidents and eliminate sources of contamination.

⁸ Formerly known as the Department of Primary Industry and Water.

3.3 Response to salmonella outbreaks

An estimated 5.4 million cases of food borne disease occurs annually in Australia, costing approximately \$1.2 billion per year. In 2009, 163 outbreaks of food borne gastroenteritis affected 2 679 people, resulted in 342 hospitalisations and caused eight deaths⁹. A number of pathogens are associated with gastroenteritis and these include campylobacter and salmonella¹⁰.

Salmonella is a notifiable disease and DHHS guidelines require reporting to the Director of Public Health within one working day.

Over the period 2001–08, the average yearly rate of laboratory-confirmed salmonella infections in Tasmania increased as shown in Table 6.

Table 6: Average yearly rate of laboratory confirmed salmonella infections, 2001–08

Area	2001–04	2004–08
Tasmania (cases per 100 000 people)	31.2	42.4
Australia (cases per 100 000 people)	37.6	40.8

Also evident in Table 6 is that the Tasmanian rate of infection was below the national average in 2001–04, but rose above the national average in 2004–08.

Since our report was tabled in 2008, there have been 38 egg-related outbreaks nationally and of those, two substantial salmonella outbreaks involving eggs or egg-based products occurred across Tasmania. Table 7 indicates the extent and severity of outbreaks from 2005 to 2010.

⁹ *Monitoring the incidence and causes of diseases potentially transmitted by food in Australia: Annual report of the OzFoodNet Network, 2009*, Office of Health Protection, www.ozfoodnet.gov.au.

¹⁰ *Communicable Diseases Intelligence*, 2010, Department of Health and Ageing, Vol. 34, No. 4. www.health.gov.au.

Table 7: Egg-related salmonella outbreaks in Tasmania: 2005–10*

Date	Region	Known hospital admissions	Laboratory confirmed cases
Oct 2005	North	63	6
Oct 2005	South	10	0
Nov 2005	North	5	0
Dec 2005	South	36	3
Mar 2007	North	20	2
Jan 2008	South	47	9
Apr 2008	South	3	0
Dec 2010	North-West	19	2
Total		203	22

*Statistics sourced from Director of Public Health

As shown in Table 7, the severity of egg-related salmonella outbreaks in Tasmania has fallen since the audit was tabled in November 2008.

3.4 *Status of recommendations*

Thirteen recommendations from the original report are shown in abbreviated form in Table 8 together with respective rates of implementation by audit clients.

Table 8: Food safety — Degree of implementation (%)

No	Recommendations (abbreviated)	DHHS	DPIPWE	Brighton	Devonport City	Huon Valley	Kingborough	Latrobe	All
1	Eggs to be stamped		50						50
2	EHO told about new food businesses			100	100		100	75	94
3	Inspection program for all food businesses.				100	75	25		67
4	Use FSANZ system to classify food businesses				100		100	100	100
5	Prioritise adequately staffed EHO positions			100	100	100	100	100	100
6	Administrative support for EHOs			100	100	100	100	100	100
7	FSANZ standard inspection checklist				100		100	100	100
8	Business operators use monitoring schedules			100	100	80	100	75	91
9	Business operators sign and keep checklists			100	50	100		50	75
10	Management monitor progress on inspections and report to council			0	50	50	50	75	45
11	Record business types in council systems			100	100	100			100
12	Report fully in Annual Reports			100	100	100	100	100	100
13	Complete <i>Draft Food Safety MoU</i>	100	100						100
No. of recommendations		1	2	8	11	8	9	9	
Ave % implementation		100	75	88	91	88	86	86	88

With respect to Recommendation 1, DPIPWE advised that the *Primary Production and Processing Standard for Eggs and Egg Products* is a newly finalised standard that contains the requirement for egg stamping. This standard will be implemented in Tasmania under regulations contained in the new *Primary Produce Safety Act 2011*, which was tabled in Parliament on August 2011. Once the legislation has been passed, DPIPWE will commence the development of regulations specifying egg stamping requirements.

In relation to Recommendation 3, Kingborough indicated its intention to implement a forward inspection program.

In the case of Recommendation 9, Devonport City felt it would be inefficient to leave an inspection checklist with the proprietor following the inspection, as the EHO would be required to duplicate the checklist at the premises. This was partly remedied by the Council sending operators a copy of the inspection report once processed. Latrobe indicated that the checklist can be signed by the proprietor and a copy left following the inspection. However, the evidence provided indicated otherwise in that the checklists provided were not signed by the proprietor.

In relation to Recommendation 10, we found that although all councils, with the exception of Brighton, provided activity statements to council. In its response, Brighton indicated that it was in consultations with neighbouring councils to determine how to implement the recommendation. The full intention of this recommendation however, was to ensure that management monitored progress on food premises inspections by monitoring progress against the forward inspection program and report that to council. As such, this recommendation was partially met by the majority of councils.

Recommendation 2

We recommend that Kingborough Council develop a forward inspection program.

Recommendation 3

We recommend that councils monitor activity against their forward inspection program.

3.5 *Additional testing*

Additional testing that was conducted in four of the areas identified in the original audit report generated consistent results, as shown in Table 9.

Table 9: Food Safety — Additional testing

No	Question	DHHS	DPIPWE	Brighton	Devonport City	Huon Valley	Kingborough	Latrobe
1	Did councils maintain forward inspection programs?			✓	✓	✓	*	✓
2	Did Annual Reports comply with section 72 of LGA?			✓	✓	✓	✓	✓
3	Was the <i>Food Safety Memorandum of Understanding</i> completed?	✓	✓					
4	Does DPIPWE make surprise visits to egg producers?		✓					

Key: ✓ Relevant activity completed

* Relevant activity not completed

Most of the additional tests were satisfied, but for two exceptions. In relation to the requirement for Kingborough to maintain a forward inspection program, the Council recognised that its system has deficiencies in determining automatic forward inspections. Kingborough advised us that it will continue to work on this matter.

Additional testing, that was not part of the 2008 audit, included an examination of surprise visit made to egg producers. We were advised that DPIPWE has a program of unannounced animal welfare inspections at egg production facilities. Such visits occur based on identified risk and specific intelligence, in addition to the scheduled food safety audits of individual approved egg production programs. Furthermore, the new *Primary Produce Safety Act 2011* also empowers authorised officers to enter and inspect egg production premises at any time unannounced.

3.6 Conclusion

We found that the majority of councils had made significant progress against the majority of recommendations.

Brighton had failed to make progress against Recommendation 10, but it was in consultation with neighbouring councils to determine how to implement the recommendation.

Overall, an implementation rate of 88 per cent exceeded our benchmark of 70 per cent.

3.7 *Submissions and comments received*

Department of Health and Human Services

Since the 2008 Audit Office Report, the Public and Environmental Health Service (PEHS) of DHHS has continued to enhance information exchange between PEHS and Local Government (LG) – as evidenced by 2012 being the first year where LG are required to provide the Director of Public Health with an Annual Report which specifically seeks more detailed information pertaining to Food Safety Management. This annual report will be focused solely on environmental health and more comprehensive than the annual reports submitted previously by LG Environmental Health Officers. It will contain information such as numbers of registered food businesses, details on the number of inspections undertaken and information relating to compliance activities such as the issuing of Improvement notices, Prohibition Orders and Infringement Notices. This new form of mandatory environmental health reporting will enhance the Director Public Health’s ability track issues associated with food safety management in Tasmania and provide Local Governments with a standardised system for reporting food safety management activities.

Matthew Daly
Secretary

Other entities

All of the other entities involved in the audit accepted the report, indicated their satisfaction with the report or had no further comments.

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4 Management of threatened species

4 Management of threatened species

4.1 Background

There are a number of species previously found on mainland Australia but now only present in Tasmania. Also, the state promotes itself as a location that provides visitors with a unique wilderness experience, with its abundance of flora and fauna. Tasmania, therefore, has a highly significant role in the conservation of threatened species.

Management and protection of native species is a topical issue underlined by widespread concern about the Tasmanian devil facial tumour disease (DFTD) and continuing strategies to eliminate foxes in Tasmania. In Tasmania *Together* 2006 revised Goals and Benchmarks the maintenance of biodiversity is listed as being a key component of natural heritage conservation (Goal 11).

At the time of our audit in 2009, Tasmania had 674 species listed as threatened under the *Threatened Species Protection Act 1995* (TSPA) and categorised as either:

- endangered — in danger of extinction because long-term survival is unlikely while the factors causing them to be endangered continue operating
- vulnerable — likely to become endangered while the factors causing them to become vulnerable continue operating
- rare — a small population in Tasmania that is at risk.

The large number and diversity of threatened species pose a significant challenge for conservation agencies.

Our 2009 audit examined the:

- effectiveness of measures to identify, report on and protect threatened species
- management of functions and areas related to the identification and protection of threatened species.

Whilst other divisions within the Department of Primary Industries, Parks, Water and Environment (DPIPWE)¹¹ are also directly involved in managing threatened species, Resource Management and Conservation (RMC) is the lead division. Accordingly, we focused

¹¹ Formerly known as the Department of Primary Industries and Water

the audit on evaluating RMC's role in implementing and managing threatened species strategies.

The audit scope did not include the activities of Forestry Tasmania, Natural Resource Management organisations, Parks and Wildlife Service or other public sector entities with a conservation role.

4.2 *2009 audit opinion*

The main findings of our original audit were that:

- No comprehensive listing of the important habitats of threatened species had been prepared.
- Eighteen per cent of listed species had completed listing statements as required by the TSPA and only twenty per cent of threatened species had a recovery plan.
- RMC rarely assessed the effectiveness of recovery plans.
- The approach to cataloguing key habitats and planning for their management or recovery was not structured.
- Threat abatement planning for pests and diseases had not been extended to the whole state.
- Implementation of the recommended actions against high or extreme risk pests was inconsistent.
- Only 16 per cent of threatened wildlife species were monitored.
- A DPIPWE review concluded that its monitoring program was ad hoc and lacked clear guidelines as to which species should be monitored.
- There was little systematic habitat monitoring.
- Most threatened species had observational data, although this was, in many cases, more than ten years old.
- The divisional plan:
 - identified strategies that mainly related to RMC's policy and procedural framework rather than service delivery
 - outlined performance indicators that were not particularly useful measures of RMC's work.
- The organisational structure did not encourage a strategic approach to management of threatened species.
- The funding model tended to promote substantial funding for a small number of high-profile programs with little or no funding for others.

4.3 Status of recommendations

Nineteen recommendations from the original report are shown in abbreviated form in Table 10 together with respective rates of implementation by DPIPWE.

Table 10: Management of threatened species — Degree of implementation (%)

No	Recommendation (abbreviated)	DPIPWE
1	Prepare complete catalogue of important habitats	55
2	Adopt a structured approach to conservation	100
3	Prioritise listing statement preparation. Use listing statements to provide advice and cross-references to other reports	100
4	Prioritise threatened species needing a recovery plan	100
5	Undertake implementation review of recovery plans as due	60
6	Seek resources to complete listing statements	100
7	Liaise with local government to ensure all threatened species receive appropriate protection	100
8	Develop plans that provide coverage of important habitats not included in existing documentation	50
9	Pursue greater use of Public Authority Management Agreements with public sector entities	50
10	Develop statewide strategy for introduced pest species	50
11	Implement strategies to manage introduced pest species	100
12	Develop statewide strategy for addressing diseases affecting threatened species	50
13	Implement strategies to manage identified diseases	100
14	Ensure monitoring of threatened species based on a species priority rating	90
15	Consider monitoring unlisted species that are at risk	100
16	Update the Threatened Species Strategy for Tasmania	30
17	Review RMC's key performance indicators	50
18	Ensure effective input to Australian Government processes to determine funding programs	100
19	Review whether the current organisation structure supports strategic approach to threatened species management	100
Ave % implementation		78

DPIPWE has fully implemented ten of the original 19 recommendations that targeted improvements in management of threatened species. A reallocation of funding allowed for the preparation of Listing Statements and the development of advisory tools between 2009 and 2011. As a result, Listing Statements, which provide a key role in the guidance of recovery actions for species, now cover an extra 156 threatened species. Of those 156 species now covered by a Listing Statement, 10 were prepared for newly listed species.

The following comments address those recommendations partially implemented.

In addressing Recommendation 1, RMC continues to map important habitat for threatened species. RMC has also been working closely with the Forest Practices Authority to develop habitat maps for forest-related threatened fauna. Habitat mapping for threatened species has also been progressed through the Vegetation Mapping Program, which is a primary data source for habitat modelling, as well as the preparation of listing statements.

For Recommendation 5, RMC has reviewed high-priority recovery plans, including those for Burrowing Crayfish, Stuart's Heath, Shy Susan and 66 species of orchids. Reviews for the Threatened Tasmanian Eagles Recovery Plan 2006–2010 and the Fauna recovery plan: forty-spotted pardalote were also due in 2011 but were not completed.

In relation to Recommendation 8, RMC has been involved in several projects to identify important habitats relevant to specific threatened species. Planning and decision-making tools will incorporate such habitats once identified.

For Recommendation 9, RMC has initiated discussions to explore opportunities for preparation of species management plans for managing threatened species on State forest. RMC will also begin discussions with local councils with the objective of entering into public authority management agreements for specific threatened species.

Initiatives are underway within RMC addressing the issue of pest species in Tasmania (Recommendation 10). RMC has eradication programs in place for emerging pests such as the rainbow lorikeet.

For Recommendation 12, RMC continues to implement statewide initiatives in wildlife disease monitoring and management.

In relation to Recommendation 16, a business case is currently being prepared for a review of both the *Tasmanian Nature Conservation Strategy* and the *Tasmanian Threatened Species Strategy*.

For Recommendation 17, the Business Plan 2010–12 for the Biodiversity Conservation Branch within RMC identified performance indicators for measuring progress towards the objective of identification, conservation, and recovery of Tasmania’s threatened species. These performance indicators were the number of species with:

- changed conservation status as a result of new information
- active conservation/recovery actions undertaken
- recovery planning undertaken or updated.

However, these performance measures are likely to be an indicator of the general performance of threatened species management in Tasmania and are therefore not directly attributable to RMC’s Biodiversity Conservation Branch.

4.4 *Additional testing*

No additional testing was conducted in relation to this audit as we regarded the information provided by DPIPWE as comprehensive.

4.5 *Conclusion*

Overall, DPIPWE has achieved a high rate of implementation (namely 78 per cent) of our recommendations. For those recommendations still outstanding, work is ongoing.

4.6 *Submissions and comments received*

Department of Primary Industries, Parks, Water and Environment

Since the Department responded to the performance audit questionnaire in September 2011, an additional 27 Listing Statements have been prepared. Therefore the number on page 21 of the report can be increased from 156 to 183 Listing Statements.

In relation to Recommendation 16, a natural heritage strategy is now being prepared to provide strategic direction to the Department’s conservation and environmental biosecurity activities. This will include threatened species.

Kim Evans
Secretary

5 Contract management

5 Contract management

5.1 Background

The public sector frequently needs or chooses to purchase goods and services from the private sector. Such procurements may relate to ongoing service provision, such as a school bus service. Alternatively, they may involve the construction of major infrastructure projects, such as a roads and bridges.

Responsibility for managing contracts in Tasmania rests with the agencies procuring the goods or services. For some types of contracts, the agency acquires expertise through repetition, for example, the Department of Infrastructure, Energy and Resources (DIER) with road construction. Many other contracts are ‘one-offs’ posing additional challenges to the managing agency.

While a clearly defined contract is a necessary first step, there is an increasing awareness that effective contract management is essential to achieving good contract outcomes. As with project management, contract management requires investment of time and resources and application of sound management principles.

Over the past decade, a wealth of materials has been developed on what constitutes best practice contract management¹². The Department of Treasury and Finance (Treasury) also has guidelines, manuals, checklists and document templates relating to aspects of procurement including contract management.

In this audit, we sought to determine the quality of contract management by government departments, particularly with respect to large-scale and on-going projects with the private sector.

Based on these parameters we selected the following five contracts listed in Table 11.

¹² *Developing and Managing Contracts: Getting the right outcome, paying the right price*, ANAO, February 2007

Table 11: Details of contracts selected for audit

Name of contract	Provider	Date commenced	Responsible agency
Rail Management and Maintenance Deed	Pacific National Tasmania	2007	DIER
Upgrading of the Bass Highway, Westbury and Hagley Bypasses	Leighton Contractors Pty Ltd	1999	DIER
Gas Distribution Development Agreement (Stage 2A: Restated)	Powerco Tasmania Pty Ltd	2003–04	DEDTA ¹³
Operations and Maintenance Agreement for the Optic Fibre Backbone	Downer Connect Pty Ltd	2003 and 2006	Treasury
Deed of Agreement	The Federal Group	2003	Treasury

5.2 2009 audit opinion

The main findings of our original audit were that:

- In three of the five contracts examined, risk assessments prior to the commencement of contracts and risk management undertaken once contracts were in operation were inadequate.
- In two of the five contracts examined, there was no evidence that a monitoring system had been developed to ensure compliance with all the reporting and performance requirements of the contracts.
- Key performance indicators were deemed inadequate in relation to one contract and no reporting against these indicators took place.
- Documentation of informal decision-making could not be sourced in relation to one contract.

¹³ Department of Economic Development, Tourism and the Arts, formerly known as the Department of Economic Development

5.3 Status of recommendations

The recommendations from our original report are in abbreviated form in Table 12, together with respective rates of implementation by audit clients.

Table 12: Contract management — Degree of implementation (%)

No	Recommendations (abbreviated)	DEDTA	DIER	Treasury	All
1	Formally recognise major risks and develop strategies to manage those risks prior to entering into contract	75	25	100	67
2	Regularly monitor major contracts		75	50	63
3	Establish steering committees		100		100
4	Use contract management expertise and guidelines from entities with relevant experience	75	100	75	83
Number of recommendations		2	4	3	
Average % implementation		75	75	75	75

Two recommendations applied to the Department of Economic Development, Tourism and the Arts (DEDTA) and both were partially implemented¹⁴. In terms of progress, DEDTA had reviewed its risk management framework, but a review of the contract management module was still underway. In addition, DEDTA advised that it intended to:

- develop formal contract management guidelines
- provide contract managers with supporting guidance notes to identify and manage risk.

DIER had fully implemented two out of four recommendations. Although DIER undertook a major review of its Contract Manual in 2011 in response to Recommendation 1, we found, as part of additional testing conducted, a robust risk management process did not support the Kingston Bypass project. In the case of Recommendation 2, the monitoring of all construction contracts occurs through DIER's formal Contract Management System. DIER is progressively rolling this system out for all other contracts.

¹⁴ Formerly known as the Department of Economic Development.

Treasury had fully implemented one recommendation and partially implemented the remaining two. With Recommendation 2, the Federal Hotels deed had contained undertakings in relation to its commitment to gambling harm minimisation and the use of Tasmanian labour. Treasury has not yet sought periodic confirmation from the company as to its compliance with these undertakings. Furthermore, Aurora Energy has managed the Operations and Maintenance Agreement or the Optic Fibre Backbone since November 2008, so there has been no requirement for Treasury to monitor that contract. In the case of Recommendation 4, Treasury advised it is preparing a new Treasurer's Instruction, and making amendments to several current Treasurers' Instructions, to deal with contract management matters.

5.4 *Additional testing*

Additional testing was conducted on the recent Kingston Bypass project. Project documentation was examined and assessed against the following criteria:

- Were the agreed outcomes achieved?
- Did risk management underpin the contract management approach?
- Was performance reporting and monitoring comprehensive and consistent?

The following sections address these criteria.

5.4.1 *Were the agreed outcomes achieved?*

Evaluation of the project against the project objectives determines whether the agreed outcomes were achieved. Such evaluations are usually contained in project closure, or debrief, reports as was the case with DIER.

The project was completed on time but not within budget. The initial budget was \$41.5m, while the total project cost will be \$51.2m as at 30 June 2012. This overrun represents approximately 23 per cent of the budgeted amount. Based on early signs however, the project's high-level objectives were achieved. These were to:

- reduce congestion and travel times in Kingston
- improve safety at existing Channel Highway junctions
- design so as to facilitate future development.

Despite this, the abovementioned objectives were not contained in the Project Proposal, which documented high-level strategies, but were listed in the Channel Highway Kingston Bypass Submission to the Parliamentary Standing Committee on Public Works.

In the documentation provided, there was a general lack of consistency relating to the objectives, with no explanation regarding changes to the objectives provided. These changes were however, understood and agreed to by the relevant stakeholders. One explanation was that objectives were dropped from the documentation once they had been achieved.

Recommendation 4

We recommend that DIER implements stronger budgetary oversight.

Recommendation 5

We recommend that DIER improves the consistency of stated objectives in project documentation.

5.4.2 Did risk management underpin the contract management approach?

We expected to see evidence of an adequate risk management approach that included identification of major risks as well as control measures or mitigation strategies to address those risks.

We noted that there was no qualitative risk management process used during the Kingston Bypass project. Some quantifiable risks were identified, with mitigation achieved through the use of a contingency fund. However, a number of risks, including planning, heritage and geotechnical risks, were either not identified or underestimated. Many of the risks outlined were descriptive but their likelihood and consequence were not evaluated.

Further, a list of issues to be resolved was provided but there was no documented follow-up of the resolution of these issues available. One such issue related to aboriginal culture and heritage. Aboriginal culture and heritage sites were a major risk to the outcome of the project and, in this instance, not handled appropriately. Specifically, the contract was awarded before the management of aboriginal culture and heritage sites was resolved even though the risk was identified by the Tender Committee prior to the contract being awarded. The lack of required approvals resulted in an increase to the risk profile of the project and additional costs.

Recommendation 6

We recommend that DIER implements an ongoing risk management process.

Recommendation 7

We recommend that, where aboriginal culture and heritage sites represent a major risk to the outcome of the project, DIER only awards a project once issues surrounding management of such sites is resolved.

5.4.3 Was performance monitoring and reporting comprehensive and consistent?

Ongoing performance monitoring and reporting helps keep a project on track in terms of both resources and time. Comprehensive and consistent monitoring and reporting also assists in managing contractors and ensuring that the job is being performed to an appropriate standard.

Whilst the reporting and monitoring methods were not clearly outlined in the planning documentation, with the exception of high-level planning milestones and cost-benefit analysis, the ongoing reporting and monitoring was comprehensive.

Reports, cost tracking, meetings, audits and inspections were undertaken on a regular schedule and were clearly and comprehensively documented.

5.5 Conclusion

All recommendations were, at a minimum, partially implemented. Recommendation 3, which required departments to establish Steering Committees for major contracts, was fully implemented. However, work was still required in the areas of:

- risk management and risk mitigation
- monitoring
- use of contract management expertise and guidelines.

In terms of additional testing, DIER had achieved comprehensive and consistent performance monitoring and reporting for the Kingston Bypass project. However, further work was required in relation to:

- achievement of agreed outcomes
- consistency of project objectives
- risk management.

Overall, each of the departments exceeded our benchmark of 70 per cent, with 75 per cent of the recommendations implemented.

5.6 *Submissions and comments received*

Department of Infrastructure, Energy and Resources

As a general comment, the Department considers that significant improvements have been made within DIER since the time that the planning, design and procurement of the Kingston Bypass Project was completed between 2008 and 2010. I provide the following management comments in relation to the recommendations of this section.

Section 5.3 — Status of recommendations

In relation to Recommendation 1, DIER implemented in 2011 the practice of not awarding any capital works contract without evidence of an up to date Risk Management Plan/Register being in place for the project. In relation to Recommendation 2, all major works contracts are monitored by the assigned Project Manager who is required to ensure effective contract administration by the appointed Contract Administration Team, consisting of a contract Superintendent supported by Superintendent Representative(s) and Contract Supervisor(s). Status and progress reporting by both the Project Manager and Contract Administration Team is provided on a monthly basis (or more frequently if required). In addition, Project Boards (Steering Committees) have routinely been established to assist with the contract delivery of the more high risk/critical projects, such as was the case for the Kingston Bypass project. For these reasons, DIER considers that the degree of implementation of the recommendations of the report should be at a higher percentage of completion.

Recommendation 4

This recommendation is supported.

The Kingston Bypass Project was implemented at a time when there was strong and growing community pressure for the issues of congestion at Kingston to be addressed. Due to the prior tendering of two other major bypass projects (Brighton and Dilston) and multiple other projects already under construction, Kingston was tendered at a peak in both the market

and economy that resulted in higher than original forecast costs incurred in both construction and property acquisition. In addition, compliance with imposed environmental, heritage and planning conditions further compounded the challenges associated with budget management and project timeframes.

Since that time, DIER has introduced a Major Capital Projects Oversight Committee with the overall objective being to improve the way in which DIER delivers its Infrastructure Investment Program.

In addition, DIER has implemented the practice of using the Australian Government Department of Infrastructure and Transport's Best Practice Cost Estimation Standard for Publicly Funded Road and Rail Construction (May 2011) for all DIER road and bridge capital works projects (State and National), irrespective of funding source. For major projects, these estimates are prepared using risk assessment based probabilistic models rather than deterministic models developed from past averages as was contemporary practice when the Kingston Bypass Project was procured.

The project estimates and corresponding budget allocations are reviewed in detail when a project is initiated, after project scoping, after preliminary design, prior to tendering and prior to contract award. As part of its contract administration processes, DIER implements performance monitoring and cost tracking and cost control in accordance with its Contract Manual (April 2011) and using its Contract Management System.

Recommendation 5

This recommendation is supported.

DIER now implements principles of the Australian Government's Notes on Administration for Nation Building Projects (July 2009) to all DIER road and bridge capital works projects, irrespective of funding source. These require the preparation of Project Proposal Reports (PPRs) for approval prior to the commencement of project scoping and prior to project development and delivery, including the description of performance objectives and intended outcomes for the project. To ensure consistency, the content of these PPRs are used as the basis for corresponding submissions to the Parliamentary Standing Committee on Public Works and the preparation of internal Project Execution Plans.

Recommendation 6

This recommendation is supported.

An internal audit by DIER in 2010 identified that risk assessments were not being carried out consistently and effectively. This has been addressed by further enhancements to DIER's Project Methodology and standardising the Risk Assessment Plan. Further improvements are being pursued in this area and ongoing revisions and enhancements are currently being implemented.

In addition, DIER's Tender Review Committee does not support the award of a capital works contract unless an up to date Risk Management Plan/Register is in place for the project.

In relation to financial risks, the potential cost of residual project risks that cannot be fully mitigated through effective management are priced into project cost estimates using the Best Practice Cost Estimation Standard for Publicly Funded Road and Rail Construction (May 2011), as described above.

Recommendation 7

DIER has generally adopted the recommended practice of not awarding contracts until after the management of known and potential Aboriginal cultural heritage values has been resolved. However, given the diverse nature of projects and the variety of non-traditional contracting methods available, in a limited number of cases where the objectives of the project warrant it, early contractor engagement may be justified and potentially beneficial for the effective management of project risks.

The Kingston Bypass Project commenced at a time when substantial changes were occurring in the way Aboriginal heritage was assessed in Tasmania. Whilst the outstanding heritage issues were an accepted risk at award of the contract, the time required to resolve these matters was not able to be fully estimated given the wide range of factors external to DIER at the time.

Norm McIlfrick
Secretary

Other entities

DEDTA and Treasury accepted the report and had no further comments.

Recent reports

Recent reports

Tabled	No.	Title
Apr 2011	96	Appointment of the Commissioner for Children
May 2011		Other State Entities 30 June 2010 and 31 December 2010, including University of Tasmania
May 2011	97	Follow of special reports 69–73
May 2011		Volume 5: Other State Entities 30 June 2010 and 31 December 2010, including University of Tasmania
Jun 2011	98	Premier's Sundry Grants Program and Urban Renewal and Heritage Fund
Jun 2011	99	Bushfire management
Jun 2011		Volume 4 Part 1: Local Government Authorities and Business Units 2009–10
Jun 2011		Volume 4 Part 2: Local Government Authorities and Business Units 2009–10
Jul 2011	100	Financial and economic performance of Forestry Tasmania
Sep	No. 1 of 2011–12	Tourism Tasmania: is it effective?
Sep	No. 2 of 2011–12	Children in out of home care
Nov	No. 3 of 2011–12	Financial Statements of State entities: Volume 1 — Analysis of the Treasurer's Annual Financial Report 2010–11
Nov	No. 4 of 2011–12	Financial Statements of State entities: Volume 2 — Executive and Legislature, Government Departments and other General Government Sector entities 2010–11
Nov	No. 5 of 2011–12	Financial Statements of State entities: Volume 3 — Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010–11
Nov	No. 6 of 2011–12	Financial Statements of State entities: Volume 4 Part I — Local Government Authorities 2010–11
Dec	No. 7 of 2011–12	Financial Statements of State entities: Volume 5 — Other State entities 30 June 2011 and 31 December 2010
Mar	No. 8 of 2011–12	The assessment of land-use planning applications
Jun	No. 9 of 2011–12	Financial Statements of State Entities: Volume 6 — Other State Entities 30 June 2011 and 31 December 2011
Jun	No. 10 of 2011–12	Public Trustee: Management of minor trusts
Jun	No. 11 of 2011–12	Updating the Motor Registry System

Current projects

Current projects

Performance and compliance audits that the Auditor-General is currently conducting:

Title	Subject
TasPorts amalgamation	Assesses whether the promised benefits of amalgamation have been achieved.
Managing hospital bed demand	Assesses the effectiveness of the Department of Health and Human Services' efforts to manage the demand for hospital beds through alternatives to hospital treatment.
National Partnership Agreement on Homelessness	Examines whether the state is effectively and efficiently meeting its obligations under the National Partnership Agreement on Homelessness. The audit will be done concurrently with other jurisdictions with oversight by the Australian Council of Auditors-General.
Auditor-General's review of TOTE sale	In accordance with the <i>TOTE Tasmania (Sale) Act 2009</i> , the audit examines whether Government achieved a fair and reasonable price for TOTE.
Fraud control in local government	Assesses whether local government Councils' fraud management strategies are effective to prevent, detect and respond to fraud.

Appendix

Appendix

Entities approached for executive termination payments

We re-examined senior executive contracts as well as termination payments made to senior executives drawn from the public sector entities listed below. Not all of these entities had made severance payments within the period September 2008 to June 2011.

Government departments:

Economic Development, Tourism and the Arts, — formerly:

- Economic Development
- Tourism Arts and the Environment

Education

Health and Human Services

Infrastructure, Energy and Resources

Justice

Police and Emergency Management

Premier and Cabinet

Primary Industries, Parks, Water and Environment
— formerly Primary Industries and Water

Treasury and Finance

Government Business Enterprises:

Forestry Tasmania

Hydro Tasmania

Motor Accidents Insurance Board

Port Arthur Historic Site Management Authority

The Tasmanian Public Finance Corporation

The Public Trustee

State-owned companies:

Aurora Energy Pty Ltd

Tasmanian Ports Corporation Pty Ltd

Transend Networks Pty Ltd

TT Line Company Pty Ltd

Statutory authorities and public bodies:

Retirements Benefits Fund Board

Skills Institute — formerly TAFE Tasmania

University of Tasmania

Local government:

Devonport City Council

Launceston City Council

Northern Midlands Council

Latrobe Council

Flinders Council

Kentish Council

Entities not approached

TOTE Tasmania Pty Ltd was not approached during this audit as it was sold to Tatts Group Limited in March 2012.