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PARLIAMENT OF TASMANIA

**AUDITOR-GENERAL
SPECIAL REPORT NO 53**

FOLLOW-UP AUDITS

April 2005

*Presented to both Houses of Parliament in accordance with the provisions of Section 57 of
the Financial Management and Audit Act 1990*

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Tasmanian Audit Office

GPO Box 851

Hobart

TASMANIA 7001

Phone: (03) 6233 4030, Fax (03) 6233 2957

Email:- admin@audit.tas.gov.au

Home Page: <http://www.audit.tas.gov.au>

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12 April 2005

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Mr Speaker

PERFORMANCE AUDIT NO. 53
FOLLOW-UP AUDITS

This report has been prepared consequent to examinations conducted under section 44 of the *Financial Management and Audit Act 1990*, for submission to Parliament under the provisions of section 57 of the Act.

Performance audits seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities, thereby identifying opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance Parliamentary decision making to the benefit of all Tasmanians.

Yours sincerely

A handwritten signature in black ink, appearing to read 'H M Blake', with a stylized flourish at the end.

H M Blake

AUDITOR-GENERAL

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FOREWORD

The Tasmanian Audit Office conducts performance audits with the goal of assessing the effectiveness, efficiency and economy of activities undertaken by the public sector. Our identification of areas where improvements can be made is one of our primary objectives together with the client's acceptance and implementation of any resultant recommendations. Using a collaborative approach with our clients, we aim to reach agreement so that audit recommendations are practical and add value to public sector programs or processes. Accordingly, there is an expectation that our recommendations will be implemented.

This follow up audit has been completed to provide Parliament with information about the extent to which clients have acted on recommendations made in selected performance audit reports tabled during the period January 2000 to June 2001, namely:

No. 31: Literacy and numeracy in Government schools;

No 32: Assistance to industry;

No 33: Food safety;

No 34: Procurement in Tasmanian Government departments;

No 35: Software licensing;

No 36: Collection of receivables and loans in Government departments; and
Information security and Internet usage (report not tabled).

In revisiting each of the above reports, questionnaires were sent out to entities involved in the original audits. From those responses we were satisfied that management had, in the main, taken steps to implement recommendations made. There were instances where some recommendations had not been implemented either because of changed circumstances (e.g. legislative or technological) or because they were not regarded as practical. However, there were also cases where management had not yet implemented recommendations but where we continue to support our original position. One particular example was the 'Assistance to industry' report where all recommendations were still rejected by the Department of Economic Development, although a number of changes were introduced by management, the tenor of which was compliant with recommendations made.

This Report addresses each of the earlier reports examining the original context of the recommendations and detailing the subsequent rate of implementation.

H M Blake

Auditor-General

March 2005

LIST OF ACRONYMS AND ABBREVIATIONS

AE	Aurora Energy Pty Ltd
ASSR	Assisted school self-review
BEC	Business Enterprise Centre
BSAA	Business Software Association of Australia
DoE	Department of Education
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DJ	Department of Justice
DPAC	Department of Premier and Cabinet
DPIWE	Department of Primary Industry, Water and Environment
DPPS	Department of Police and Public Safety
DSD	Department of State Development (now Department of Economic Development)
EHO	Environmental Health Officer
ENI	Educational Needs Index
FT	Forestry Tasmania
ISO	Industrial Supplies Office
IT	Information technology
KILO	Key intended literacy outcome
KINO	Key intended numeracy outcome
LEI	Local employment initiatives
OER	Office for Educational Review
PC	Personal computer
SOE	Standard operating environment
TAO	Tasmanian Audit Office
TASSAB	Tasmanian Secondary Assessment Board
Treasury	Department of Treasury and Finance

Executive summary

EXECUTIVE SUMMARY

INTRODUCTION

Performance audits are conducted with the goal of assessing the effectiveness, efficiency and economy of activities undertaken by the public sector. Identifying areas for potential improvement is an essential part of the process and recommendations are made in support of this objective.

Where possible, we endeavour to reach agreement with our clients on recommendations for change. Because of this collaboration there is an expectation that audit recommendations will be implemented.

This follow up audit has been done to provide Parliament with information about the extent to which clients have acted on recommendations made in previous performance audit reports.

OBJECTIVE

The purpose of the audit was to:

- Ascertain the extent to which recommendations in previous performance audit reports were implemented; and
- Determine reasons for non-implementation.

SCOPE

The scope of this audit was limited to recommendations contained in the performance audits completed in the 18-month period January 2000 to June 2001, viz.:

- No 31: Literacy and numeracy in Tasmanian Government schools;
- No 32: Assistance to industry;
- No 33: Food safety;
- No 34: Procurement in Tasmania Government departments;
- No 35: Software licensing;
- No 36: Collection of receivables and loans in Tasmanian Government departments; and
- Information security and Internet usage¹.

¹ A report was not tabled in Parliament due to sensitivity and confidentiality concerns but reports were forwarded to the responsible Portfolio Ministers detailing the outcomes of the performance audit.

AUDIT METHODOLOGY

Findings in this audit are based on evidence collected from agencies through survey questionnaires that inquired specifically about the extent to which recommendations made had been implemented. As necessary, the surveys were supplemented by discussions and meetings with agency staff.

AUDIT OPINION

Overview

In making recommendations our aim is to add value to Tasmania's public sector and if the recommendations are not implemented it is unlikely that the ensuring benefits will be realised. Having collated responses to follow up questionnaires, we have been able to gauge with some accuracy the extent to which our recommendations were implemented.

Literacy and numeracy in government schools

Of 15 original recommendations, DoE had completely implemented 11. Three recommendations had been considered but ultimately were not proceeded with while one was partially implemented. Under these circumstances, we regard the overall rate of implementation (i.e. 77%) as satisfactory.

Assistance to industry

None of our recommendations were accepted or implemented. However, the Department has instituted some changes in the way that it assists industry in Tasmania. The tenor of these changes is consistent with recommendations in our 2000 report.

We stand by our original recommendations on the need for improved documentation of process, and the need for greater public disclosure.

Food safety

Although the overall rate of implementation rate was 68% it must be noted that one particular recommendation, concerning performance indicators, skewed the overall score. However, we are satisfied that Councils had taken steps to implement the key recommendations that dealt with risk-based assessment of food premises and the need to be able to demonstrate accountability and transparency in relation to inspections performed.

Procurement in Tasmanian Government departments

Since 2000 when we originally reported our findings, there has been significant activity by Departments to implement the recommendations of the original report. Overall, we found that 91% of all recommendations had been implemented to some extent. Of 31 individual recommendations made only two had not been implemented at all. Departments are now making greater use of guidelines or contacting Treasury directly, either for assistance or to seek exemptions.

Software licensing

There were three recommendations that organisations had fully implemented. In all three cases there was only one organisation involved. We stand by our 2001 recommendation that public sector entities should require all staff to sign an Employee Compliance Statement indicating their agreement to legal software use. Aurora Energy had not implemented recommendation eight as they consider their current arrangements as being more suited to their business needs.

Collection of receivables and loans in Tasmanian Government departments

One Department had put into operation all recommendations from our reports whilst another two had achieved better than 90% implementation.

For those entities where there was a lesser extent of implementation, various reasons were cited, e.g.:

- Policy constraints; and
- Timing problems.

Some responses indicated that recommendations will continue to be considered but this seems unlikely as some years have already passed without their being acted upon. The issue of performance indicators requires greater impetus from senior management. Agencies should both increase the use of debt collection targets and performance indicators, and then better assess the results obtained from these activities. The audit showed the Department with the lowest degree of implementation, DPIWE, still had a rating of 61%.

Information security and Internet usage

Since the original report was prepared, international terrorism and increasing sophistication of computer viruses, worms, Trojan horses etc, have provided an impetus to raise the profile of IT security. Both Departments have put our recommendations into force, either partially or completely.

However, in the light of the seriousness of security problems revealed by our audit we are concerned that Department of Health and Human Services has not achieved a higher degree of implementation.

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Introduction

INTRODUCTION

BACKGROUND

The Tasmanian Audit Office (TAO) conducts performance audits with the goal of assessing the effectiveness, efficiency and economy of activities undertaken by the public sector. Identifying areas for potential improvement is an essential part of the process and recommendations are made in support of this objective.

Where possible, we try to reach agreement with clients on framing recommendations for change. Because of this active collaboration we have an expectation that our recommendations will be implemented.

This follow up audit has been done to provide Parliament with information about the extent to which clients have acted on recommendations made in previous performance audit reports.

It is TAO policy to follow up actions taken following completion of performance audit reports and this is the second time that a follow up report has been prepared.

MANDATE

Under the provisions of section 44(b) of the *Financial Management and Audit Act 1990* the Auditor-General may:

‘Carry out examinations of the economy, efficiency and effectiveness of Government departments, public bodies or parts of Government departments or public bodies’.

The conduct of such audits is often referred to as performance auditing.

STANDARDS APPLIED

This audit has been performed in accordance with Australian Auditing Standard AUS 806 (*Performance Auditing*), which states that:

‘The objective of a performance audit is to enable the auditor to express an opinion whether, in all material respects, all or part of an entity's activities have been carried out economically, and/or efficiently and/or effectively.’

The audit has included such tests and other procedures considered necessary in the circumstances.

OBJECTIVE

The purpose of the audit was to:

- Ascertain the extent to which recommendations in previous performance audit reports were implemented; and
- Determine reasons for non-implementation.

SCOPE

The scope of this audit was limited to recommendations contained in the performance audit reports completed in the 18-month period January 2000 to June 2001 as shown in Table 1.

Table 1: Reports and Clients reviewed - January 2000 to June 2001

No	Title	Client(s)
31	Literacy and numeracy in Tasmanian Government schools	DoE
32	Assistance to industry	DSD
33	Food safety	All councils
34	Procurement in Tasmania Government departments	All departments
35	Software licensing	DJ, DPIWE, FT, AE
36	Collection of receivables and loans in Tasmanian Government departments	DoE, DHHS, DIER, DJ, DPIWE, DSD, TAFE, Treasury
-	Information security and Internet usage	DoE, DHHS

AUDIT METHODOLOGY

Findings in this audit are based on evidence collected from agencies through survey questionnaires that inquired specifically about the extent to which recommendations made had been actioned. As necessary, the surveys were supplemented by discussions and meetings with agency staff.

TIMING

Planning for the performance audit began in August 2004. Questionnaires were forwarded to clients in September with the fieldwork completed in December 2004. The Report was finalised in February 2005.

RESOURCES

The total cost of the audit excluding report production costs was approximately \$60 300.

1 Literacy and numeracy in Tasmanian Government schools

1 LITERACY AND NUMERACY IN GOVERNMENT SCHOOLS

THE 2000 REPORT

In 1996 the Federal government announced that there would be a national literacy survey for Years 3 and 5 that aimed to establish benchmarking for educational programs. The following year, the Department of Education (DoE) required all schools to monitor and report their progress in achieving improvements in students' literacy and test outcomes. As well, a new numeracy policy was developed with similar principles of monitoring and reporting to apply.

Accordingly, we sought to ascertain test outcomes and identify the extent to which this information was made public. A related objective was to examine program linkages between results from literacy and numeracy tests and departmental action to address below-targeted performance.

The next sections in this Report briefly outline our original report together with audit findings and the recommendations made at that time. No management response to our original report was received from the Department.

1.1 Test outcomes - Primary sector

State-wide monitoring program 1998

All Year 3 and 7 students were tested in literacy and numeracy in July 1998 with individual / school results being distributed to schools in September 1998. State-wide outcomes for the monitoring program were measured against Key Intended Literacy Outcomes (KILOs) and Key Intended Numeracy Outcomes (KINOs).

However, there were no immutable standards in education measurement and developmental frameworks are reviewed periodically in the light of educational research. Consequently, KILO and KINO frameworks should be reviewed at regular intervals, and re-calibrated according to current professional knowledge.

Recommendation 1

Calibration of the Year 3 and 7 KILOs and KINOs should continue as an ongoing priority to further refine their suitability as a measure of performance at these year levels. This process should involve identification and subsequent adjustment of variance between the current standards and those appropriate for student performance in these year levels of schooling.

Also, DoE acknowledged that, in the absence of a moderation process that ensures a common understanding of expected standards of achievement, interpretations of the standards for KILOs vary among the staff involved.

Recommendation 2

DoE should continue to improve the commonality of understanding of assessments based on KILOs and KINOs through provision of appropriate work samples to teachers, curriculum officers and officers responsible for educational measurement.

KILOs and KINOs were not synchronised to the measurement of performance of the Year 3 and Year 7 cohorts and DoE acknowledged that there was uncertainty about their correlation to grade levels. The review of the KILOs led to the incorporation of benchmarks at years 3, 5 and 7 but a review of the KINOs and the subsequent introduction of KINOs for these year levels had not occurred. It would be desirable if this issue could be studied in the context of the national numeracy benchmarks that were themselves yet to be finalised.

Recommendation 3

A review of the KINOs should be conducted at an appropriate point in the future when national numeracy benchmarks have been finalised in order to align prescribed outcomes more closely with the year levels tested by the monitoring programs.

Research conducted by the University of Melbourne suggested that inattentiveness had a more significant effect on the variance of reading, writing and number scores than the combined effect of the 'intake' variables of sex, socio-economic status or Indigenous status.

Recommendation 4

The effect of inattentiveness on literacy and numeracy achievement should continue to be investigated to determine the nature of the bi-directional relationship between these variables.

1.2 Test outcomes - Secondary sector

TASSAB results 1990 - 1998

At the upper (Years 9-10) and senior secondary levels (Years 11-12), students were assessed by the Tasmanian Secondary Assessment Board (TASSAB) under the Tasmanian Certificate of Education (TCE) from 1990 to 1998. Accredited courses in literacy and numeracy per se have not been devised for the TCE.

Although DoE maintained that accurate enrolment data by subjects could not be provided, it nonetheless included the percentages of Year 12 students attaining awards in English and mathematics in a comparative summary of targets for Indigenous students. However, it appeared that more than half of the Year 12 cohort enrolled in English and mathematics did not gain an award. DoE should have verified this data through systematic collection of enrolment information.

Recommendation 5

The systematic collection of initial accurate enrolment data at the subject level is necessary if the number of students not completing English and mathematics syllabi is to be monitored. In order to facilitate this process, DoE should ensure that initial enrolment data and information on reasons for withdrawal are methodically collected through an appropriate central avenue.

Moreover, TASSAB did not systematically collect 'fail result' data due to the mandated requirement for TASSAB to only report on endpoint achievement. Therefore, it was not possible to accurately identify the proportion of enrolled students that did not meet the requirements of the English and mathematics syllabi at the upper and senior secondary levels.

Recommendation 6

Collation of statistics on failure to make an assessment is necessary for the identification of the number of students not meeting the requirements of English and mathematics syllabi. DoE should systematically collect fail data through an appropriate central avenue in order to facilitate the monitoring of syllabus failure.

1.3 *Extent of publicity*

Program monitoring and reporting

The Office for Educational Review (OER) prepared reports on aggregate outcomes of each monitoring program at the 'like-school', district, sector and state levels. DoE made hard copies of these reports available to members of the profession and the public on request. Aggregate outcomes were also made available to members of the school community including students, parents and teachers.

At the time of the audit, DoE expected schools to distribute reports to parents, but did not prescribe the process by which this should be done. Some schools chose to undertake this at parent-teacher meetings, some included the results in the normal school reports and others forwarded the reports directly to the parents with an explanatory note. However according to DoE, anecdotal evidence suggested that there had been instances where these reports were not distributed to parents.

Recommendation 7

TAO endorses the recommendation in the draft revision of the Reporting to Parent Policy requiring all student reports from State-wide Monitoring tests to always be made available to parents.

1.4 *Below-targeted performance*

Literacy

According to a joint investigation undertaken by the DoE and the Tasmanian Association for the Teaching of English, 21%, 39% and 16% of high school, district high school and college teachers respectively had 'zero specialisation' or non-attainment of a major or sub-major at tertiary level in English.

DoE claimed that the 'zero specialisation' of these teachers could not be equated with a lack of abilities to teach English although data was not available on the specific effect on the quality of English teaching

Recommendation 8

The extent to which effective English teaching requires specialist knowledge and skill should be ascertained by DoE through research on the collective quality of teaching delivered to secondary students in English by teachers with zero specialisation in this subject area.

Numeracy

Studies of mathematics during the 1990s indicated that, on a national scale, Tasmanian students performed at a lower level than other States. Additional evidence at the time suggested that numeracy was far from recognised as a cross-curriculum responsibility in the same way as literacy.

According to DoE, the contributing factors were the same as those for literacy: Less explicit teaching practices based upon a philosophical view that students learn through experience that was the widely adopted pedagogy prior to 1996. It was shown that 45% of high school and 30% of college mathematics teachers surveyed during 1996 had not taken mathematics as part of a degree to sub-major level.

Recommendation 9

The extent to which effective mathematics teaching requires specialist knowledge and skill should be ascertained by DoE through research on the collective quality of teaching delivered to secondary students in mathematics by teachers who had not studied mathematics as part of a degree to sub-major level.

Further results from a 1996 study indicated that the usual amount of time spent on mathematics in Australian schools was between 221 and 240 minutes per week. By contrast, the average that Tasmanian schools spent per week on mathematics was 175 minutes.

Recommendation 10

Factors influencing the achievement of students in numeracy such as the streaming of mathematics classes and the amount of contact time spent on mathematics per week as well as any other identified causes should be further investigated.

1.5 Departmental action

Literacy and numeracy plans

Systemic targets for 1999 were not specified by the *Literacy and Numeracy Plan 1999*. An emphasis was placed, however, on students who were at risk of failing to achieve appropriate outcomes. Further, DoE continued to focus on the development of literacy and numeracy programs for students from low socio-economic backgrounds considered to be at an educational disadvantage.

To determine an educational needs index (ENI), a formula is used that in part relies on national census data indicating socio-economic status. This indicator was developed by the Commonwealth Government although the Commonwealth has ceased to use it and the last available calculation was based on 1986 information.

DoE's failure to update the socio-economic component since it was first developed raised questions regarding its relevance in the current context. Populations that schools service have changed considerably since 1986 and DoE regarded the relative variations that may have occurred since then as a major problem.

Recommendation 11

DoE's proposal to review the method used to determine the 'socio-economic status' component of the Educational Needs Index should be implemented during the 2000 year.

Analysis revealed that although there was a correlation between a school's ENI and its mean literacy score it could only be regarded as moderate.

DoE has acknowledged that the ENI was not well suited as an indicator of disadvantage on which to base an allocative mechanism of funding. Even so, the ENI continued to be used for this purpose because schools expected funding to be provided according to the index.

Recommendation 12

Consideration should be given to the implementation of a funding model with higher accuracy and less leakage to address performance on the basis of educational need. The Audit Office understands that DoE is currently investigating the viability of other models and supports this action.

Assisted school self-review (ASSR)

ASSR was a comprehensive review by members of the school community including parents. For this process, schools were required to produce an Annual Report that, amongst other things, advised annual learning outcomes and target literacy and numeracy outcomes.

A report by the OER showed that the majority of schools provided meaningful, precise and comparative data about students' learning outcomes in relation to literacy and numeracy. Nevertheless, some schools did not make use of all available data.

According to preliminary analysis an emergent issue in the development of the target outcomes was the challenge of describing outcomes in a form that could be measured and reported with specificity in subsequent years. There was evidence to suggest that in some cases this objective was not met.

Recommendation 13

In order to improve the ASSR process, DoE should provide additional support (where required) to participating schools with the development of quantifiable target outcomes for literacy and numeracy achievement.

Consultation with stakeholders

Key DoE stakeholders were represented on the Literacy and Numeracy Coordinating Group. Although the group co-opted members on a needs basis there was limited representation of teachers and principals at meetings. Although primary principals and teachers were well represented on the committee, only one secondary teacher was present for the first two meetings since structural changes were implemented.

Recommendation 14

The Literacy and Numeracy Coordinating Group should be expanded to ensure proportional representation across the sectors. The Audit Office understands that expansion will occur when the Schools-Based Initiative Program is implemented and supports this action.

Indigenous students

The *Aboriginal Education Strategic Plan for 1997-2002* defined outcomes, strategies, responsibilities and completion targets. Programs and evaluations were implemented during 1999 to facilitate the improved performance of Indigenous students relating to literacy, numeracy and retention. However, of the 10 programs approximately half did not appear to have any evaluation strategies to assess their effectiveness.

Recommendation 15

In order to accurately gauge the effectiveness of interventions for Indigenous students, consideration should be given to increasing the number of evaluations of programs designed to improve the performance of this target group.

STATUS OF RECOMMENDATIONS

The above 15 recommendations are summarised below in Table 2, which also rates as a percentage the extent to which they have been implemented.

Table 2: Literacy and Numeracy – Degree of Implementation of Recommendations

	Recommendation (abbreviated)	Degree of implementation
1	Calibration of the Year 3 and 7 KILOs / KINOs should continue as an ongoing process that should also involve identification and subsequent adjustment of variance.	100%
2	DoE should continue to improve the commonality of understanding of assessments based on KILOs / KINOs.	100%
3	A review of KINOs should be conducted when national numeracy benchmarks have been finalised to align prescribed outcomes more closely with year levels.	100%
4	Effects of inattentiveness on literacy / numeracy should continue to be investigated to determine the nature of their bi-directional relationship.	0%
5	DoE should ensure that initial enrolment data at the subject level for English and mathematics (and information on reasons for withdrawal) are methodically collected through an appropriate central avenue.	100%

Recommendation (abbreviated)		Degree of implementation
6	DoE should systematically collect fail data through an appropriate central avenue in order to facilitate the monitoring of syllabus failure.	100%
7	TAO endorses the recommendation in the draft revision of the <i>Reporting to Parent Policy</i> requiring all student reports from State-wide Monitoring tests to always be made available to parents.	100%
8	DoE should ascertain the extent to which effective English teaching requires specialist knowledge and skill.	0%
9	DoE should ascertain the extent to which effective mathematics teaching requires specialist knowledge and skill.	0%
10	Factors influencing the achievement of students in numeracy should be further investigated.	50%
11	DoE's proposal to review the method used to determine the 'socio-economic status' component of the Educational Needs Index should be implemented during the Year 2000.	100%
12	Consideration should be given to the implementation of a funding model with higher accuracy and less leakage to address performance on the basis of educational need.	100%
13	To improve the ASSR process, DoE should provide additional support to participating schools with the development of quantifiable target outcomes for literacy and numeracy.	100%
14	The Literacy and Numeracy Coordinating Group should be expanded to ensure proportional representation across the sectors.	100%
15	To accurately gauge the effectiveness of interventions for Indigenous students, programs designed to improve the performance of this target group need to be evaluated.	100%
	All recommendations	77%

In response to our follow up questionnaire, DoE indicated that 11 of the 15 recommendations were fully implemented. One recommendation (No 10) relating to factors that influenced the

achievement of students in numeracy had a 50% implementation rate. DoE advised that some research into numeracy achievement had been undertaken and that it had focused on the differential effects of student demographic factors.

Three recommendations had not been implemented (No 4, 8, and 9) at all. With regard to Recommendation No 4, DoE reported that the earlier research into inattentiveness had been a one-off project. Subsequent investigation had led to the conclusion that it would be very difficult to design research that could establish a causal relationship because of contamination from other variables (socio-economic factors, student's previous experience etc.).

Recommendations 8 and 9 had not been implemented because DoE viewed the academic training of teachers as a minor variable. It was considered by DoE that other more significant factors affected literacy and numeracy outcomes for students.

CONCLUSION

Of 15 original recommendations, DoE had completely implemented 11. As noted above, three recommendations had been considered but ultimately were not proceeded with while one was partially implemented. Under these circumstances, we regard the overall rate of implementation (i.e. 77%) as satisfactory.

Follow up response from Department of Education

Since the preparation of the Performance Audit Report containing 15 recommendations for the Department of Education there has been significant curriculum reform in years K[indeergarten] to 10. The implementation of the Essential Learnings Framework has included changes to performance measurement that alters the relevance of recommendations 1, 2, 3, 5 and 6 in the current educational context. The changes to performance measurement have incorporated the principles underlying the recommendations even though the specifics of the recommendations are no longer applicable. For example, KILOs and KINOs are mentioned in the first three recommendations and these outcomes have been replaced by outcomes and standards appropriate to the Essential Learnings. The calibration of outcomes and moderation of assessment student performance of understanding is a major priority for the Department over the next four years. Significant funding and strategic planning accompanies this priority.

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2 Assistance to industry

2 ASSISTANCE TO INDUSTRY

THE 2000 REPORT

The objective of this audit was to assess the effectiveness and efficiency of assistance to industry processes as undertaken by the then Department of State Development (DSD)². Aspects examined were the various stages of assistance, including the methodology in developing overall assistance strategies, the degree of transparency and accountability present in the pre-proposal, assessment and negotiation stages, and post-award monitoring and evaluation of individual recipients and related programs.

We based our audit criteria on the Audit Office of New South Wales' 1998 report titled *Department of State and Regional Development – Provision of Industry Assistance*. The following criteria were developed, including:

- The assistance achieved its objective;
- Requests for assistance were made by proponents of projects where the decision to proceed was likely to be dependent on the provision of incentives;
- DSD's assessment mechanisms enabled it to determine the maximum and appropriate level of incentive that could be provided;
- DSD provided no more incentives than were necessary to attract or retain desired projects; and
- DSD had effective mechanisms in place to ensure accountability for any incentives provided.

The next sections in this Report briefly outline our original report together with audit findings and the recommendations made at that time. Management's response was published as part of the earlier report.

2.1 *Did the assistance achieve its objective?*

On the basis of the limited sample of assistance packages examined, DSD's assistance to industry has been effective in achieving the desired outcome, which in nearly all cases was the creation or maintenance of employment.

At the time of the original audit a number of companies were considering setting up call centres in Tasmania. Inducing companies to establish their operations in one State rather than another required a balanced approach that on the one hand

² Restructured in August 2002 to become the present Department of Economic Development.

incorporated a sophisticated strategy to attract business but on the other a clear understanding of the benefit and cost implications that apply to the attraction package offered.

No recommendations were made for this criterion.

2.2 *Requests for assistance*

We examined requests for assistance made by proponents in order to establish whether the decision to proceed with the investment was likely to depend upon the provision of incentives.

It is probable that the projects in the sample, and in particular the call centres, would not have proceeded in the absence of assistance.

No recommendations were made for this criterion.

2.3 *DSD's assessment mechanisms*

We were interested to establish whether DSD's assessment mechanisms enabled it to determine the maximum and appropriate level of incentive that could be provided.

The maximum level of assistance offered by DSD was determined by a Board policy that was developed in relation to call centres but in practice appeared to apply to all assistance. The policy limited the Net Present Value of assistance to a project on a cost per job basis. However, in the case of a guarantee extended for one project in the sample, the assistance taken together with previous assistance over a long period would have comfortably exceeded the current limit.

In regard to DSD's strategy for development of call centres we considered that industry assistance was administered in a satisfactory manner, with the exception of the existence of a comprehensive tool for evaluating assistance for proposed projects.

Recommendation 1

In addition to the cost per job benchmark DSD should consider using a basis of evaluation of major projects for assistance (e.g. where the aid will exceed \$1M) that includes analysis of benefits to the State, as well as reflecting all related costs.

In reviewing DSD's approach to the administration of assistance we sought information on guidelines or manuals available to staff. Although we accepted that restrictive guidelines were not desirable, documentation of procedures did need to be available as a reference for staff and to clearly

articulate the objectives of processes. In the absence of such material, roles and responsibilities were not clear and control weaknesses could evolve.

Recommendation 2

DSD should produce its own departmental guidelines on the administration of assistance.

The Board paper template should include a section dealing with the potential risks and exposures relating to proposed project assistance.

2.4 *Provision of incentives*

Our objective was to establish whether DSD provided no more incentives than were necessary to attract or retain desired projects.

The DSD records of negotiations were not sufficiently detailed to enable an opinion to be given on whether the minimum incentive sufficient to attract/retain the project was provided. Nevertheless, internal review and approval processes would tend to ensure this outcome.

No recommendations were made for this criterion.

2.5 *Were there effective mechanisms in place to ensure accountability?*

The Audit Office reviewed the DSD processes that surrounded the successful establishment of five call centres in Tasmania. We framed a number of audit test criteria around salient control points.

Pre-proposal stage

Although it was possible to construct an audit trail, except for the negotiation stage, we believed that transparency could be improved. By keeping all relevant papers, including notes on monitoring and on-site visits, on a client file it would place management in a stronger position to support, review or confirm decisions made.

Assessment stage

Board papers were examined during the audit but it was found that supporting documentation on some of the files relating to assistance were incomplete. When these cases were followed up with DSD, additional documents were usually obtained from other files or sources. This incomplete audit trail on assistance files reduced the level of transparency making it difficult to understand the decision-making process.

Recommendation 3

Assistance to industry files should contain complete documentation to allow straightforward examination of projects and to ensure transparency of management processes.

Negotiation stage

We considered the existence of an audit trail as being essential at the negotiation stage to ensure that transparency and probity issues were addressed. We could only find evidence of negotiation documentation relating to one of the cases reviewed. However, when asked for comments on this matter we were told that documentation on the negotiation phase was rare due to concerns about maintaining confidentiality during this crucial stage. A need for confidentiality during the negotiation stage does not imply a need for confidentiality of the outcome.

Recommendation 4

The issue of commercial confidentiality should not take precedence over governmental accountability and DSD should document the rationale for all decisions made during the negotiation stage.

Public disclosure

We agree with the Industry Commission's³ recommended policy of public disclosure of the estimated value of assistance provided on a project-by-project basis. It is acknowledged, however, that public disclosure is a sensitive issue and the Industry Commission had noted significant variability both between and even within States. In balancing considerations of commercial confidentiality with the public's right to know, DSD informed proponents that as grant funds were sourced from public moneys it reserved the right to make general disclosures regarding the assistance given.

Recommendation 5

There should be public disclosure regarding firms or projects receiving government assistance and details of benefits provided.

3 Industry Commission, *State, Territory and Local Government Assistance to Industry*, Report No. 55 29 October 1996.

STATUS OF RECOMMENDATIONS

In the original departmental response the then Secretary of DSD advised that the Department did not accept the recommendations contained within the original report and that he found the methodology adopted by the audit as flawed.

Follow up response from Department of Economic Development

In response to this follow up audit the current Secretary for the Department of Economic Development has advised us that:

The department is unable to advise of progress against the specific recommendations of the Assistance to Industry performance audit conducted in the year 2000. The department advised at the time that it did not agree with the recommendations made by the TAO notwithstanding that some of the recommendations were not inconsistent with departmental practice.

...even though the department does not support the recommendations that were provided by the TAO in 2000, a number of new best practice models, policies and procedures have been implemented since this audit. These are as follows:

- Administration of Grants – Best Practice Model;
- Records Management Standards – Best Practice Standards;
- Revised Board Paper Templates; and
- Review of measurement and Reporting of Key Performance Indicators.

We note that even though DSD did not support the five recommendations contained within our original report the Department engaged external consultants to review its operations and as a consequence has implemented:

- o New departmental guidelines and policies (Recommendation 2); and
- o The use of Departmental Key Performance Indicators (Recommendation 1).

CONCLUSION

None of our recommendations were accepted or implemented. However, the Department has instituted some changes in the way that it assists industry in Tasmania. The tenor of these changes is consistent with recommendations in our 2000 report.

We stand by our original recommendations on the need for improved documentation of process, and the need for greater public disclosure.

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3 Food safety

3 FOOD SAFETY

THE 2000 REPORT

The objective of this performance audit was to assess Local Government's performance in monitoring food safety through activities of Councils' Environmental Health Officers (EHOs). All 29 Tasmania Councils were included in the audit and the evidence upon which our opinion was based was derived from:

- A questionnaire circulated to all Councils;
- Detailed field work conducted in seven Councils across Tasmania; and
- Discussions with staff from the office of the Director of Public Health (DHHS).

Audit criteria that we applied to food safety activities undertaken by EHOs covered the following broad areas:

- Staffing of EHO positions;
- Planning and conducting of inspections;
- Integrating the results of inspections; and
- Program monitoring and reporting.

The next sections in this Report briefly outline our original report together with audit findings and the recommendations made at that time. No management responses to our original report were received from the Councils.

3.1 Staffing of EHO positions

This part of our testing was aimed at ascertaining whether EHOs were suitably qualified and trained, could exercise their authority without hindrance and were guided by documented policies and procedures.

We found that for larger Councils, that had a team of EHOs, the development of policies and procedures would help ensure a consistent approach. In the case of smaller Councils with one EHO or a part-time position, the policies and procedures would be beneficial where new staff were recruited. In either scenario, there was the opportunity for Councils to clearly articulate their objectives and priorities in relation to food safety.

Recommendation 1

Councils should develop policies and procedures for EHOs to ensure that the food safety function is managed in accordance with their objectives and priorities and in a manner consistent with best practice principles.

3.2 *Planning and conducting of inspections*

Planning of food safety inspections should aim to measure compliance against the *Food Act 1998* (the forerunner of the *Food Act 2003*) and guidelines.

Routinely, inspections of food premises should be done in accordance with a pre-determined coverage plan, in response to complaints or follow up activity and result in relevant reports for both Council and the operator.

There were Councils that did not achieve compliance with the frequency of inspections that was required for higher-risk premises. Commonly, backlogs were caused by either staff shortages (due to unforeseen absences) or conflicting work priorities.

Recommendation 2

Councils should adhere to the food premises inspections schedule, particularly for high-risk businesses.

Inspection frequency and procedures undertaken should be determined by a risk management approach. Categorisation of potential hazards depends on the type of food, the method of handling and processing, as well as consideration of the type and number of consumers at risk.

We found that it was not always possible to determine the rationale for the assignment of a particular risk rating due to inadequate record keeping.

Recommendation 3

In the interests of transparency, documentation should be available to justify an EHO's assessment of each food premise's risk categorisation.

EHOs used various methods to convey the results of inspections to operators of food premises. At some Councils pre-printed inspection reports were used and the EHO discussed the outcome with the operator before giving them a copy of the form (which they may or may not be required to sign as an acknowledgement) at the conclusion of the inspection. On the other hand, some Councils used exception reporting, where a written report would only be used if there were a situation that required remediation.

Recommendation 4

Inspections of food premises should be recorded by Councils in a form that satisfactorily addresses the issues of accountability and transparency.

3.3 *Integrating the results of inspections*

We examined the linkages between the inspection of food premises and registration/licensing functions.

Administration of registration and licence procedures often seemed to require considerable effort by EHOs that could be more appropriately performed by other Council staff. These administrative tasks included such things as invoice production for renewal notices, follow up of outstanding payments and the issue of annual registration and licence certificates.

Recommendation 5

Responsibility for billing of food premises registration and licensing of operators, together with follow up of payments, should be assigned to administrative staff so that EHOs have more time to devote to their professional duties.

3.4 *Program monitoring and reporting*

To effectively manage monitoring of food safety, Councils should measure the completeness and consistency of inspections, evaluate performance of the food premises inspection function, and publish annual reports on food safety activity.

Our survey questionnaire revealed that 38% of Councils had some form of measurement while the majority did not. Field-testing showed that such monitoring as was carried out varied in frequency and content.

Recommendation 6

Regular reporting of food premises inspections should be made to Council management by EHOs.

Meaningful performance indicators would give Council management a clear picture of food premise inspections undertaken. Such information would provide a baseline against which future productivity could be measured. From our observation of records available, it was likely most Councils had the raw data to be able to evaluate their performance with respect to monitoring food safety.

Recommendation 7

Appropriate performance indicators should be established to permit Councils to evaluate the food premises inspection function.

Councils are required to produce strategic and operational plans that state their public health objectives, policies and programs. The extent of Councils' actual performance against these plans should be detailed in Annual Reports.

In response to the survey question: 'Is there formal reporting to the Director of Public Health?' 59% of Councils gave a positive response. Discussions with staff at Public Health, however, indicated that this apparently high rate of reporting was misleading and that in several cases the quality of Council data provided fell short of what was actually required.

Recommendation 8

Councils should comply with their public health reporting obligations as contained in the *Local Government Act 1993*.

STATUS OF RECOMMENDATIONS

All 29 Tasmanian Councils were sent the follow up questionnaire and all responded. Where necessary, additional information was sought from individual Councils. We also took the opportunity to meet with a limited number of Councils in order to confirm the results we received.

Table 3: Food Safety – Degree of Implementation of Recommendations

	Recommendation (Abbreviated)	Average degree of implementation	Range of implementation
1	Policies and procedures for EHOs consistent with best practice principles.	55%	0% to 100%
2	Adhere to the food premises inspections schedule, particularly for high-risk businesses.	68%	0% to 100%
3	Documentation available to justify an EHO's assessment of each food premise's risk categorisation.	73%	0% to 100%
4	Inspections of food premises recorded by Councils and in a form that satisfactorily addresses the issues of accountability and transparency.	86%	50% to 100%
5	Remove administrative tasks (e.g. billing, following up payments) from EHOs so they have more time for their professional duties.	73%	0% to 100%
6	Regular reporting of food premises inspections to Council management by EHOs.	62%	0% to 100%
7	Appropriate performance indicators established to permit Councils to evaluate the food premises inspection function.	47%	0% to 100%
8	Councils should comply with their public health reporting obligations as contained in the <i>Local Government Act 1993</i>	81%	0% to 100%
	Overall average degree of implementation	68%	

Table 3 indicates that a number of Councils had not implemented recommendations contained within the original report. Only one Council indicated that it had completely implemented all recommendations. We found that every recommendation had at least been partially implemented with no recommendation entirely rejected by all Councils.

The lower rate of implementation of our recommendation on performance indicators (Recommendation No 7) was to some degree expected. Councils who have limited resources often see performance indicators as a low priority. We believe it is

important there is a mechanism operating to effectively evaluate the food premises inspection function.

Figure 1: Implementation of Recommendations by Tasmanian Councils

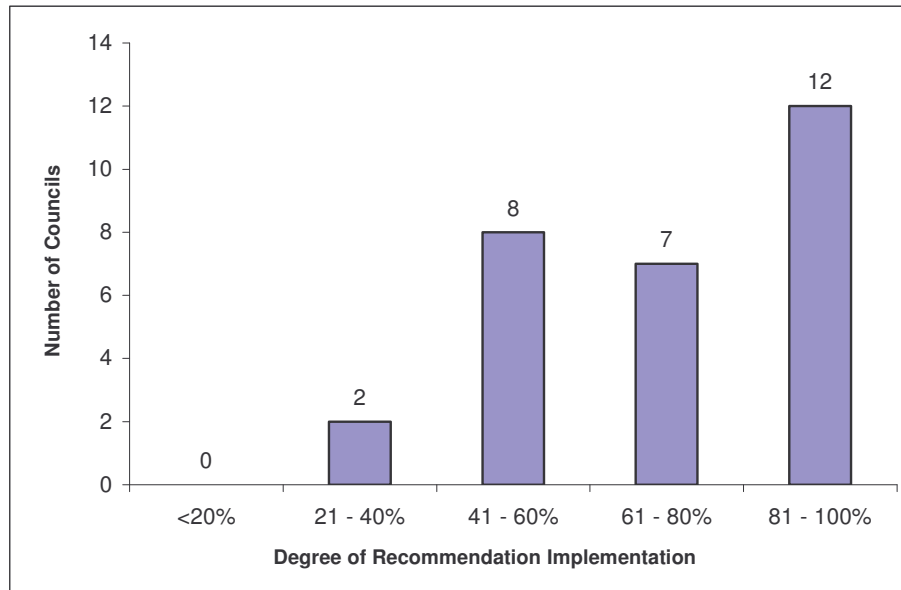


Figure 1 shows the number of Councils that have significantly implemented the recommendations as well as the number of those that have not. There were 10 Councils with an average rate of recommendation implementation of 60% or less. Notwithstanding the above, there were also 12 Councils that had a rate of recommendation implementation in excess of 80%.

During the more than three years since we reported our findings and recommendations, the *Food Act 1998* that Tasmanian Councils were subject to in relation to food safety was repealed and replaced by the *Food Act 2003*, new legislation that is based on a uniform national model. This change to the legislative framework altered the context against which some of our recommendations were made.

CONCLUSION

Although Table 3 indicates an implementation rate of 68% it must be noted that the Recommendation No 7, concerning performance indicators, has lowered the overall score. However, we are satisfied that Councils had taken steps to implement the key recommendations that dealt with risk-based assessment of food premises and the need to be able to demonstrate accountability and transparency in relation to inspections performed.

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4 Procurement in Tasmanian Government departments

4 PROCUREMENT IN TASMANIAN GOVERNMENT DEPARTMENTS

THE 2000 REPORT

The *Handbook for Government Procurement*, released by Treasury in May 1997 (with revisions in June 1999 and September 2000), consolidated existing policies and practices into an articulated structure.

The objective of the performance audit was to ascertain the degree to which departmental procurement practices complied with the *Handbook*. The audit also examined the broader concepts of probity and accountability.

The scope of our audit was restricted to Departments because Government Business Enterprises, Statutory Authorities and State-Owned Companies were not subject to the *Handbook*, relying instead on entity-specific policies and procedures.

The audit looked at the performance of individual departments. The criteria for this audit were established in line with the objectives that underpinned the *Handbook*, viz.:

- Value for money utilising open and effective competition;
- Enhancement of opportunities for local business;
- Management; and
- Tender processes.

The next sections in this Report briefly outline our original report together with audit findings and the recommendations made at that time. Management responses were included as part of the earlier report.

4.1 *Open and effective competition*

We examined open and effective competition according to the tender and quotation requirements of the *Handbook*. For goods and services greater than \$50 000 tenders should be sought, while for those falling between \$10 000 and \$50 000 three quotations should be obtained. Where evaluative criteria were comparable, we also investigated variability of tender prices.

Recommendations

The recommendations made under this audit criterion varied between individual departments. There was, however, one recommendation, relating to the requirement that three written quotations be obtained for purchases between \$10 000 and \$50 000, that was mentioned more than once. We also noted that numerous recommendations required Departments

to either seek exemptions from, or further guidance in relation to, provisions of the *Handbook*.

4.2 *Opportunities for local business*

The *Handbook* had been revised to reflect Tasmanian Government policy to assist small to medium-sized firms increase their opportunity to gain a share of Government business. To this end, the guidelines require Departments to contact the Industrial Supplies Office (ISO) for all proposed purchases over \$50 000 and to seek at least one quote from local business directly, or through ISO, for items valued between \$10 000 to \$50 000.

Recommendations

All of the recommendations in this section either recommended the department include reference in printed materials to the ISO or that at least one quote be sought from local businesses for purchases between \$10 000 to \$50 000.

4.3 *Management*

A requirement of the *Handbook* is that when engaging consultants and contractors, Head of Agency or Deputy Secretary level authorisations in writing must be obtained and adhered to.

Recommendations

There were few recommendation made in this section. Those that were made related to the:

- Level at which contractors and consultants were engaged;
- Need for an exemption from Treasury to be sought before selective tendering could be undertaken; and
- Undertaking of administrative reviews where it was desirable to facilitate open and effective competition.

4.4 *Tender processes*

The tender process prescribed in the *Handbook* requires that tenders be advertised, outcomes be advised in writing, tenderers be given the opportunity for a debriefing and information for all tenders over \$50 000 be advised to Treasury.

Recommendations

Tender processes attracted five recommendations that only applied to three departments. Recommendations in this section referred to the need to:

- Conduct a review into the means by which procurement data was collected;
- Advertise tenders and seek quotations unless otherwise authorised by Treasury;
- Document informal ongoing arrangements subsequent to the lapsing of a contract;
- Consult with Treasury in order to establish guidelines for purchasing items where the numbers of suppliers are limited or there is only one specialised supplier; and
- Endorse the requirement to undertake a tender process for goods and services with a value greater than \$50 000, and a quotation process for goods and services valued between \$10 000 and \$50 000.

STATUS OF RECOMMENDATIONS

Recommendations relating to this audit have been aligned to the individualised findings made in each department. The extent to which recommendations have been taken up is illustrated in Table 4.

Table 4: Procurement – Degree of Implementation of Recommendations

Departments ⁴	Recommendations									
	Open and effective competition		Local opportunity		Management		Tender processes		OVERALL	
	Made	Imp	Made	Imp	Made	Imp	Made	Imp	Made	Imp
Education	1	100%	1	100%	1	100%			3	100%
Health and Human Services.	1	100%	1	100%			1	100%	3	100%
Infrastructure, Energy and Resources	3	100%	1	100%	1	100%			5	100%
Justice	4	63%	1	100%			3	67%	8	69%
Police and Public Safety	3	100%	1	100%			1	100%	5	100%
Premier and Cabinet	1	100%	1	90%					2	95%
Primary Industries, Water and Environment	1	95%			1	100%			2	98%
Treasury	2	100%	1	100%					3	100%
All departments	16	90%	7	99%	3	100%	5	80%	31	91%

CONCLUSION

Since 2000 when we originally reported our findings, there has been significant activity by Departments to implement the recommendations of the original report. Overall, we found that 91% of all recommendations had been implemented to some extent. Of 31 individual recommendations made only two had not been implemented at all. Departments are now making greater use of guidelines or contacting Treasury directly, either for assistance or to seek exemptions.

⁴ No recommendations made in Department of Economic Development or Department of Tourism, Parks, Heritage and the Arts

Follow up response from Department of Treasury and Finance

...the Handbook for Government Procurement has now been superseded. All mandatory procurement requirements are contained in an expanded set of Treasurer's Instructions (TI 1101 - 1406). All guidance material previously contained in the Handbook is available on the *purchasing.tas.gov.au* website, predominantly under the "Buying for Government" section.

This change was done to clearly separate those actions and processes which are required, now all contained in the TIs, from those that are recommended, which are briefly referenced in the TIs and contained in detail on the purchasing website.

[Treasury] believe that the references in the FUPA report to the Handbook are appropriate, given that the 2000 audit report focussed on the Handbook and that the Handbook remained in existence until late last year.

5 Software licensing

5 SOFTWARE LICENSING

THE 2001 REPORT

The focus in this audit was on the effectiveness and efficiency of public sector management of software licenses. Particular emphasis was placed on the conditions imposed by licence agreements and the degree of adherence to them.

The aim was to produce a ‘snapshot’ of performance across a range of public sector bodies, viz.:

- Department of Justice⁵;
- Department of Primary Industries, Water and Environment;
- Forestry Tasmania (government business enterprise); and
- Aurora Energy Pty Ltd (state-owned corporation).

At the time of the audit, there were no whole of government guidelines covering management of software licences so public sector entities needed to develop their own policies and procedures.

Internationally, an industry association exists to combat illegal copying and use of software. It is represented in Australia by the Business Software Association of Australia (BSAA) and has developed strategies to safeguard their industry’s interests. BSAA has published a guide (*Software Compliance and Audit Manual*) to help organisations understand and comply with their legal obligations and thereby reduce the risk of costly and embarrassing legal action.

We derived audit criteria from the *Software Compliance and Audit Manual* and grouped them into the following broad areas:

- Management’s commitment to legal software use;
- Security of software;
- Monitoring of licence conditions; and
- Acquisition and payment.

The next sections in this Report briefly outline our original report together with audit findings and the recommendations made at that time. No management responses to the earlier report were received from clients.

⁵ Formerly known as the Department of Justice and Industrial Relations

5.1 *Management's commitment to legal software use*

In acquiring and using software packages, senior management should recognise the obligations imposed under the *Copyright Act 1968*. Management's commitment to ethical business standards should be demonstrated through such things as policies in relation to software licensing, a software code of ethics and signed Employee Compliance Statements.

We found that the first two sub-criteria were met but the standard of Employee Compliance Statements varied between the organisations we audited. Evidence of employees' acceptance of usage conditions was not always available.

Recommendation 1

Organisations should implement a procedure for all staff to sign an Employee Compliance Statement indicating their agreement to legal software use. Evidence of acceptance should be centrally retained and readily retrievable.

Follow up response from Department of Justice

With regard to the assessment on software licensing I note that you stand by the first recommendation of your 2001 report that public sector entities should require all staff to sign an Employee Compliance Statement indicating their agreement to legal software use. I am, however, not convinced about the utility of such a process. The Department of Justice encourages all employees to be aware of software usage conditions and has not noted any breaches of software licenses by them.

5.2 *Security of software*

Software, like other business assets (such as cash, plant, inventory and intellectual property) should be protected by physical security and be backed by reliable and accurate records. Accordingly, we carried out testing to confirm whether the organisations had software registers and whether original copies of software were secured.

At the time of our audit the Department of Justice had not implemented a software register.

Recommendation 2

The Department of Justice [and Industrial Relations] should develop a software register to manage software licences.

5.3 *Monitoring of licence conditions*

As well as physical security measures, it is also essential that strict compliance with licence conditions and organisational policy be achieved. So, ongoing monitoring of software usage should be instituted. We tested to determine whether organisations carried out spot or annual checks and if automated tools were used for monitoring. Records in relation to monitoring were also examined.

We found that the use of automated software monitoring tools was limited.

Recommendation 3

Organisations should consider implementing automated tools to aid management of software licences.

None of the organisations had a procedure regarding spot checks to confirm compliance with software licence conditions nor was there evidence of *ad hoc* checks.

Recommendation 4

Organisations should consider developing procedures on spot checks of software on PCs that would include documentation of processes and results.

Similarly, organisations had not conducted annual audits of software.

Recommendation 5

Organisations should consider annual checks of software on PCs, including documentation of processes and results.

5.4 *Acquisition and payment*

The final audit criterion that we applied considered whether:

- Sound processes were used to acquire software;
- Terms of the software licence were being met; and
- Licence payments complied with licence conditions.

We found extensive use of the standardised process known as the Government Information Technology Conditions for software acquisition.

At the Department of Justice, the lack of a software register made it difficult to gauge the state of licensing. To avoid non-

compliance, a conservative approach had been taken so that it was more likely that the Department held more licences than required rather than too few.

Recommendation 6

The Department of Justice [and Industrial Relations' IT] records should be improved to ensure that monitoring of software licensing could be more effectively managed.

Forestry's software licence fees were paid centrally in the IT branch with invoices verified against vendors' licence conditions prior to payment approval. However, we noted an instance where central authorisation had been bypassed and an account paid directly by a business unit without reference to the IT branch. On subsequent examination, the particular software item was not recorded in Forestry's software register.

Recommendation 7

Forestry's expenditure reports on cost code P11 (Software licence fees) should be provided to IT branch to ensure that effective central control is maintained.

At Aurora Energy, software licence fees were bundled with other 'corporate charges' that were internally transfer-priced to business units. Not being separately identifiable, there was little opportunity for managers to recognise or control software licence fees.

Recommendation 8

Aurora should consider whether providing users with more detailed reports on software licence fees would allow greater flexibility in controlling resources.

STATUS OF RECOMMENDATIONS

Not all of the original report's recommendations applied to each of the organisations participating in the audit. Accordingly, individual organisation's responses did not have to address each and every recommendation. Table 5 summarises which recommendations applied to which organisations and what was the approximate degree of implementation of each recommendation.

Recommendation No 5 concerned annual checks of software installed on PCs. Since making that recommendation in 2001 we now believe that the increasing sophistication of monitoring tools available, combined with 'life cycle' management, has lessened the need for annual checks.

Accordingly, we have not included that recommendation in Table 5.

Table 5: Software licensing – Degree of Implementation of Recommendations

	Recommendation (Abbreviated)	DJ⁶	DPIWE⁷	FT⁸	AE⁹	ALL
1	Evidence of employees' awareness and acceptance of software usage conditions.	0%	50%		25%	25%
2	Register to manage software licences.	100%				100%
3	Automated tools to manage software licences.	100%	75%	75%	50%	75%
4	Spot-checks of PC software.	50%	80%	50%	50%	58%
6	Improved IT records so software licensing can be more effectively managed	100%				100%
7	Expenditure reports to reflect software purchases.			100%		100%
8	More detailed reports on software licence fees to allow greater flexibility in controlling resources.				0%	0%
	All recommendations	70%	68%	75%	31%	60%

CONCLUSION

There were three recommendations (recommendations No 2, 6 and 7) that organisations had fully implemented. In all three cases there was only one organisation involved. We stand by the first recommendation of our 2001 report that public sector entities should require all staff to sign an Employee Compliance Statement indicating their agreement to legal software use. Aurora Energy had not implemented recommendation eight as they consider their current arrangements as being more suited to their business needs.

⁶ Department of Justice

⁷ Department of Primary Industries, Water and Environment

⁸ Forestry Tasmania

⁹ Aurora Energy

6 Collection of receivables and loans in Tasmanian Government departments

6 COLLECTION OF RECEIVABLES AND LOANS IN TASMANIAN GOVERNMENT DEPARTMENTS

THE 2001 REPORT

This audit examined the way in which the public sector managed its debtors. Like any business, the Tasmanian public sector is obliged to accept a certain level of outstanding debtors but there is an opportunity cost associated with disruptions to revenue streams. Government agencies need to actively manage outstanding receivables to optimise cash flows and minimise interest costs on borrowings. The Government's 'Financial Management Reform Strategy', that dates from the late 1990s, fostered a more commercial approach to the management of public finances including collections from customers.

The objective of our performance audit was to review the effectiveness and efficiency of receivables and loan collection practices across these government agencies:

- Education¹⁰;
- Health and Human Services¹¹;
- Infrastructure, Energy and Resources;
- Justice (Fines Enforcement Unit only);
- Primary Industries, Water and Environment;
- State Development (now Economic Development);
- TAFE¹²; and
- Treasury and Finance.

The criteria that we applied in this audit were:

- Agency accounting controls and collection procedures;
- Credit management, recovery and assessment practices; and
- Performance measures and management reporting.

¹⁰ At the Department of Education testing covered the following business units:

- Accounts Receivable;
- Library Service;
- Archives Office;
- Human Resource Operations; and
- Derwent District Office.

A small sample of schools and colleges was also examined and included Hobart College, Clarence High and Cambridge Primary Schools.

¹¹ Testing at DHHS was conducted in two divisions, namely Housing Tasmania and the Hospitals and Ambulance Service (at the Royal Hobart Hospital).

¹² TAFE Tasmania is a Statutory Authority within the Education Portfolio and was separately reported.

Our 2001 report was structured in two parts, reflecting a dichotomous approach to the fieldwork. The report's first section backgrounded the management of receivables in the entities reviewed and then followed with a discussion of the audit findings across these entities, conclusions and recommendations. The second section provided detailed departmental summaries with audit findings, conclusions and recommendations specific to each department.

In collating survey responses from clients, we aggregated reporting to a level that summarises progress made in implementing audit recommendations.

The next sections in this Report briefly outline our original report together with audit findings and the recommendations made at that time. Management responses were received from the clients and included in the original report.

6.1 Agency accounting controls and collection procedures

This part of the audit was the most extensive in terms of resources dedicated to fieldwork and the sub-criteria that we applied were:

- Existence of a policy framework -
 - Internal policy framework and coverage;
 - Staff knowledge and awareness;
- Internal control mechanisms -
 - Debt origination and payment options;
 - System integration;
 - Staff training;
 - Organisational structure;
- Debt follow up practices -
 - Frequency of debt follow up and review;
 - Debt collection techniques and the use of commercial debt collection services; and
 - Write off practices.

Recommendations

The recommendations made under this audit criterion varied between individual departments. There were three instances where recommendations were repeated:

- Development of accounts receivable procedures;
- Regular review and follow up of outstanding receivables; and

- Formalising bad debt write off procedures.

Follow up response from Institute of TAFE Tasmania

TAFE Tasmania considers it inconsistent with current State Government policies such as Learning Together, Tasmania Together and the Industry Development Plan to apply financial penalties to student debtors. This view is predicated on the fact that the majority of delinquent debtors are receiving concessions, often unemployed or disabled, and are educating themselves in order to gain entry to the workforce or seeking further personal development.

6.2 *Credit management, recovery and assessment practices*

In line with a methodology recommended by the Australian National Audit Office, we investigated risk profiling and prioritising of debt collection as well as policy differentiation for high-risk and low-risk debtors. We also examined the issue of cost-effective recovery action by agencies including their processes of identification, analysis and assessment of the probability of recovery and subsequent strategies after assessment.

Recommendations

The recommendations made under this audit criterion varied between individual agencies.

Follow up response from Department of Health and Human Services

Following the recommendations of the Performance Audit – January 2000 to June 2001 the Department has developed and implemented new procedures not only at the Royal Hobart Hospital but also across all areas of the Department.

The Department has undertaken a complete review of and updated the Financial Management Manual with a particular emphasis on debtor management and recovery policies and practices. An active management strategy for debt recovery is now in place.

The Department has also expanded electronic payment options for the majority of its debtors and this is also contributing to an overall improvement in debtor management performance.

6.3 *Performance measures and management reporting*

On the subject of performance monitoring we covered the extent to which agencies set debt collection targets and used performance indicators, as well as the mechanisms for assessment against these targets and indicators.

Recommendations

We recommended that most agencies should establish and monitor performance measures.

Follow up response from Department of Health and Human Services

As part of the implementation of the new debt management strategy, the Department has now commenced the review of management reporting and performance monitoring to ensure it is relevant, timely and supports decision-making. It is planned to have a new suite of reports developed and in use by the middle of 2005.

STATUS OF RECOMMENDATIONS

Recommendations made following completion of the audit were tailored to the individualised findings made in each agency. Table 6 shows the extent to which recommendations were taken up.

Table 6: Receivables and loans – Degree of Implementation of Recommendations

Agencies*	Original recommendations made and degree of implementation							
	1		2		3		OVERALL	
	Agency Accounting Controls and Collection Procedures		Credit Management, Recovery and Assessment Practices		Performance Measures and Management Reporting			
	Made	Imp	Made	Imp	Made	Imp	Made	Imp
DED ¹³	1	100%					1	100%
DoE ¹⁴ - Div	5	98%	1	100%			6	98%
DoE - Schools	1	100%	1	50%	1	100%	3	83%
DHHS - RHH ¹⁵	7	93%	1	50%	1	0%	9	78%
DHHS - Housing ¹⁶	4	75%			1	100%	5	80%
DIER ¹⁷	3	67%			1	100%	4	75%
DJ ¹⁸	8	78%			2	88%	10	80%
DPIWE ¹⁹	7	64%			2	50%	9	61%
TAFE	5	90%	1	100%	1	75%	7	89%
Treasury	8	100%			2	88%	10	98%
All agencies	49	85%	4	75%	11	75%	64	83%

CONCLUSION

One department had put into operation all recommendations from our reports whilst another two had achieved better than 90% implementation.

For those entities where there was a lesser extent of implementation, various reasons were cited, e.g.:

- Policy constraints; and
- Timing problems.

Some responses indicated that recommendations will continue to be considered but this seems unlikely as some years have

¹³ Department of Economic Development

¹⁴ Department of Education

¹⁵ Department of Health and Human Services – Royal Hobart Hospital

¹⁶ Department of Health and Human Services – Housing Division

¹⁷ Department of Infrastructure, Energy and Resources

¹⁸ Department of Justice

¹⁹ Department of Primary Industries, Water and Environment

already passed without their being acted upon. The issue of performance indicators requires greater impetus from senior management. Agencies should both increase the use of debt collection targets and performance indicators, and then better assess the results obtained from these activities. The audit showed that even with the lowest degree of implementation DPIWE still had a rating of 61%.

Follow up response from Department of Treasury and Finance

Notwithstanding the TAO comment "Some responses indicated that recommendations will continue to be considered but this seems unlikely as some years have already passed without their being acted upon", in relation to the particular recommendation for which Treasury has reported as 75% implemented, Treasury is still progressing work on that particular recommendation.

7 Information security and Internet usage

7 INFORMATION SECURITY AND INTERNET USAGE

THE 2001 AUDIT

During the planning phase of this audit it was decided that the report would not be tabled in Parliament. Instead, the Auditor-General briefly mentioned it in the TAO Annual Report for 2000 – 2001:

‘The Office also conducted [another] performance audit – namely Internet Security. A report was not tabled in Parliament due to sensitivity and confidentiality concerns but reports were forwarded to the responsible Portfolio Ministers detailing the outcomes of the performance audit.’²⁰

The objective of the audit was to ascertain whether the following aspects of information security and Internet usage had been addressed:

- Risk management and security policy;
- Physical security;
- Safeguarding networks;
- Access controls; and
- Appropriate Internet usage.

The audit was conducted at Department of Education (DoE) and Department of Health and Human Services (DHHS).

We developed criteria for the audit from national standards that addressed risk management and security policies for information security, viz.:

- AS/NZS 4444.1:1999 Information Security Management;
- AS/NZS HB 231:2000 Information Security Risk Management Guidelines;
- Australian Communications – Electronic Security Instruction 33; and
- Commonwealth Protective Security Manual.

The next sections in this Report briefly outline our original report together with audit findings and the recommendations made at that time. Management responses were received and included in the original report.

7.1 Risk management and security policy

Recommendations that we made in this area concerned:

- Evaluation of critical information assets for potential adverse business impacts arising from loss of confidentiality and integrity;

²⁰ The Auditor-General: Annual Report 2000 – 2001

- Threat assessment should be conducted and documented; and
- Risk evaluation to prioritise risks faced.

7.2 Physical security

At the time of our audit, physical security standards had not been developed for Tasmanian government networks – at either whole of government or agency levels. Accordingly, we relied on the national standards referred to above, recommending that departments should:

- Have input to the drafting of whole of government standards;
- Develop site plans for premises and determine access conditions; and
- Ensure that adequate locks and alarm systems were installed.

7.3 Safeguarding networks

Under this broad heading we examined the ways that the departments protected computer networks from threats (internal or external) posed by unauthorised connections. Recommendations that we made concerned:

- Bolstering network security controls (network diagrams, virus protection and logical boundaries);
- Protecting gateways (firewalls, dial-in connections, router configurations and intruder detection); and
- Developing systems for incident management, data encryption, awareness programs and change control.

7.4 Access controls

The standards that we referred to defined security controls regardless of the operating environment of the systems. The controls were all-embracing and it was highly unlikely that all controls would have applied to any given site or system. Recommendations that we made related to:

- Development of system access policies (user access policy, registration and de-registration of users, segregation of duties and password controls);
- Optimising the use of system administrator functions (individual usernames and passwords for system administrators, key staff dependency and password crackers); and
- Monitoring system access (logging security events, fault logging and audit trail of administrator tasks).

7.5 *Appropriate Internet usage*

In 1997, the Department of Premier and Cabinet published *A Guide for the Use of the Internet by Tasmanian Government Agencies*. According to the guide, agencies were to produce their own statements of acceptable Internet use. Furthermore, all Internet users were to read and agree to abide by the conditions of the statement.

Within this section of the audit we made recommendations about:

- Development of policies for acceptable use;
- Monitoring Internet usage and alerting staff to this fact; and
- Managing breaches when they occur.

STATUS OF RECOMMENDATIONS

Significant work in the area of security management has been done within the two departments since the audit of 2001.

At DoE changes have included:

- Implementation of a revised governance structure that incorporated a high-level Risk Management Committee (IT risks are incorporated in an agency-wide view of risk and receive appropriate attention);
- Development of a draft Information Security Plan as a response to a whole of government IT Security Charter; and
- Creation of a dedicated senior position to ensure that a quality IT Security Management regime is implemented for the Department.

DHHS has achieved partial implementation of most recommendations. As an example, high-level risk management had been completed but detailed threat assessment plans remain outstanding. Similarly, progress has been made in the development of high-level security policies but at lower levels work remains incomplete. Further, IT issues such as Identity Management need to be addressed before more progress can be made.

Our recommendations in respect of the two Departments varied in some details. Consequently, we have grouped the recommendations into the five criteria classifications outlined previously. Table 7 indicates the extent to which the Departments have achieved implementation.

Table 7: Information Security and Internet Usage – Degree of Implementation of Major Recommendations

Audit Criteria	Recommendations			
	Department of Education		Department of Health and Human Services	
	Made	Implemented?	Made	Implemented?
Risk management and security policy	5	5	5	5 **(40%)
Physical security	3	3	2	2 **(50%)
Safeguarding networks	5	4*	3	3 **(50%)
Access controls	4	4	4	4 **(25%)
Appropriate Internet usage	3	3	1	0***
Total	20	19	15	14 ** (35%)

* The department indicated that the outstanding recommendation continues to be the subject of ongoing research and testing.

** Recommendations partially implemented – average degree of implementation.

*** Requires 'Identity Management' to be in operation.

CONCLUSION

Since the original report was prepared, international terrorism and increasing sophistication of computer viruses, worms, Trojan horses etc, have provided an impetus to raise the profile of IT security. Both Departments have put our recommendations into force, either partially or completely. However, in the light of the seriousness of security problems revealed by our audit we are concerned that DHHS has not achieved a higher degree of implementation.

8 Recent reports

8 RECENT REPORTS

2000	SPECIAL REPORT NO. 31	LITERACY AND NUMERACY IN TASMANIAN GOVERNMENT SCHOOLS
2000	SPECIAL REPORT NO. 32	ASSISTANCE TO INDUSTRY
2000	SPECIAL REPORT NO. 33	FOOD SAFETY
2000	SPECIAL REPORT NO. 34	PROCUREMENT IN TASMANIAN GOVERNMENT DEPARTMENTS
2001	SPECIAL REPORT NO. 35	SOFTWARE LICENSING
2001	SPECIAL REPORT NO. 36	COLLECTION OF RECEIVABLES AND LOANS IN TASMANIAN GOVERNMENT DEPARTMENTS
2001	SPECIAL REPORT NO. 37	ARCHIVES OFFICE OF TASMANIA
2001	SPECIAL REPORT NO. 38	THE IMPLEMENTATION OF GOODS AND SERVICES TAX IN GOVERNMENT AGENCIES AND LOCAL GOVERNMENT ENTITIES
2001	SPECIAL REPORT NO. 39	BANK ACCOUNT RECONCILIATIONS
2002	SPECIAL REPORT NO. 40	ENVIRONMENTAL MANAGEMENT AND POLLUTION CONTROL
2002	SPECIAL REPORT NO. 41	KEEPING SCHOOLS SAFE
2002	SPECIAL REPORT NO. 42	FOLLOW UP OF PERFORMANCE AUDITS
2002	SPECIAL REPORT NO. 43	ORAL HEALTH SERVICE: SOMETHING TO SMILE ABOUT?
2002	SPECIAL REPORT NO. 44	MANAGING COMMUNITY SERVICE ORDERS
2003	SPECIAL REPORT NO. 45	BUSINESS NAMES AND INCORPORATED ASSOCIATIONS: WHAT'S IN A NAME?
2003	SPECIAL REPORT NO. 46	LEAVE IN GOVERNMENT DEPARTMENTS
2003	SPECIAL REPORT NO. 47	PUBLIC SECTOR WEB SITES
2003	SPECIAL REPORT NO. 48	GRANTS TO THE COMMUNITY SECTOR
2003	SPECIAL REPORT NO. 49	STAFF SELECTION IN GOVERNMENT AGENCIES
2003	SPECIAL REPORT NO. 50	POLICE RESPONSE TIMES
2004	SPECIAL REPORT	EX-GRATIA PAYMENT TO THE FORMER GOVERNOR MR R W BUTLER AC
2004	SPECIAL REPORT NO. 51	SPECIAL PURPOSE AND TRUST FUNDS: DEPARTMENT OF HEALTH AND HUMAN SERVICES
2004	SPECIAL REPORT NO. 52	INTERNAL AUDIT IN THE PUBLIC SECTOR

9 Future projects

9 FUTURE PROJECTS

Details of performance and compliance audits that the Auditor-General is considering are:

PERFORMANCE AUDITS

GUN CONTROL	CURRENTLY UNDER WAY
PUBLIC HOUSING – MANAGEMENT OF HOUSING STOCK	CURRENTLY UNDER WAY
ASSET MAINTENANCE – BRIDGES	BEING PLANNED

COMPLIANCE AUDITS

INFRASTRUCTURE FUND	CURRENTLY UNDER WAY
CREDIT CARDS	CURRENTLY UNDER WAY
FRINGE BENEFITS TAX	CURRENTLY UNDER WAY
MEMBERS TRAVEL	CURRENTLY UNDERWAY
PAYMENT OF ACCOUNTS IN GOVERNMENT AGENCIES	CURRENTLY UNDER WAY