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The role of audit in integrity and corruption prevention

IBAC Corruption Prevention and Integrity Conference

4 October 2017



What did this reveal about the Department?

Operation Ord

- An ethically neutral culture
- Significant non-compliance
- Weak governance and oversight
- Low accountability and lack of consequences
- Over reliance on inadequate internal audits
- Culture of entitlement
- Fear of speaking up

Operation Dunham

- Similar themes to Ord
 - Non-compliance with processes
 - Misuse of public funds
 - Inadequate systems and controls
 - Low adherence to Code of Conduct
 - Conflicts of interest

Key example: Operation Ord: Exploitation of ‘banker schools’

Funds earmarked for school programs used for:

- the benefit of senior Department officers and their families
- extensively used to pay for personal expenses, goods, lavish lunches, conferences or excessive travel

2010 audit of Program Coordination School program
– recommendations not addressed; inadequate governance



AMOUNT REDIRECTED FROM ...	
Sale Secondary College	\$26,400
Moonee Ponds West Primary School	\$90,630
Chandler Park Primary School	\$152,146
Kings Park Primary School	\$78,650
John Fawkner Secondary College	\$96,265.88
Norwood Secondary School	\$60,934

SOURCE: IBAC

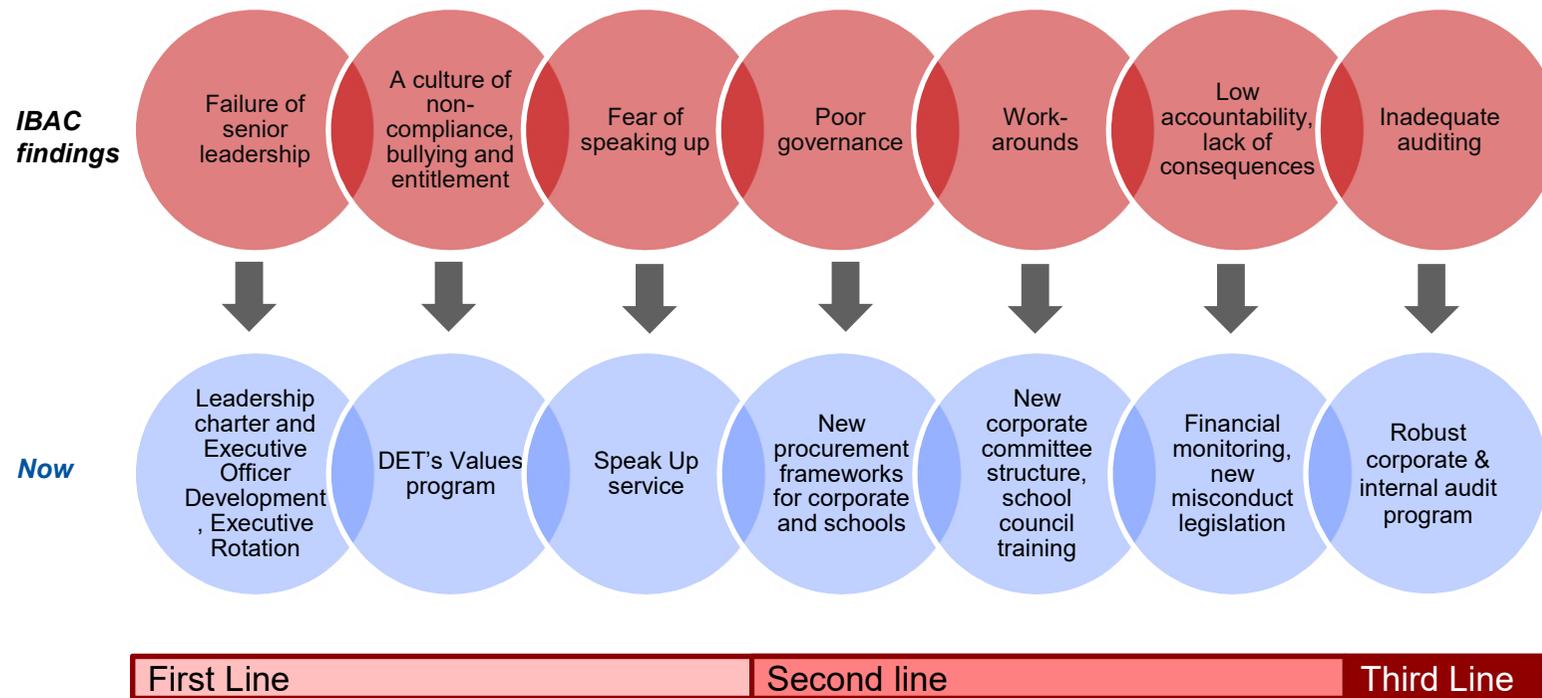


Key examples: Operation Dunham

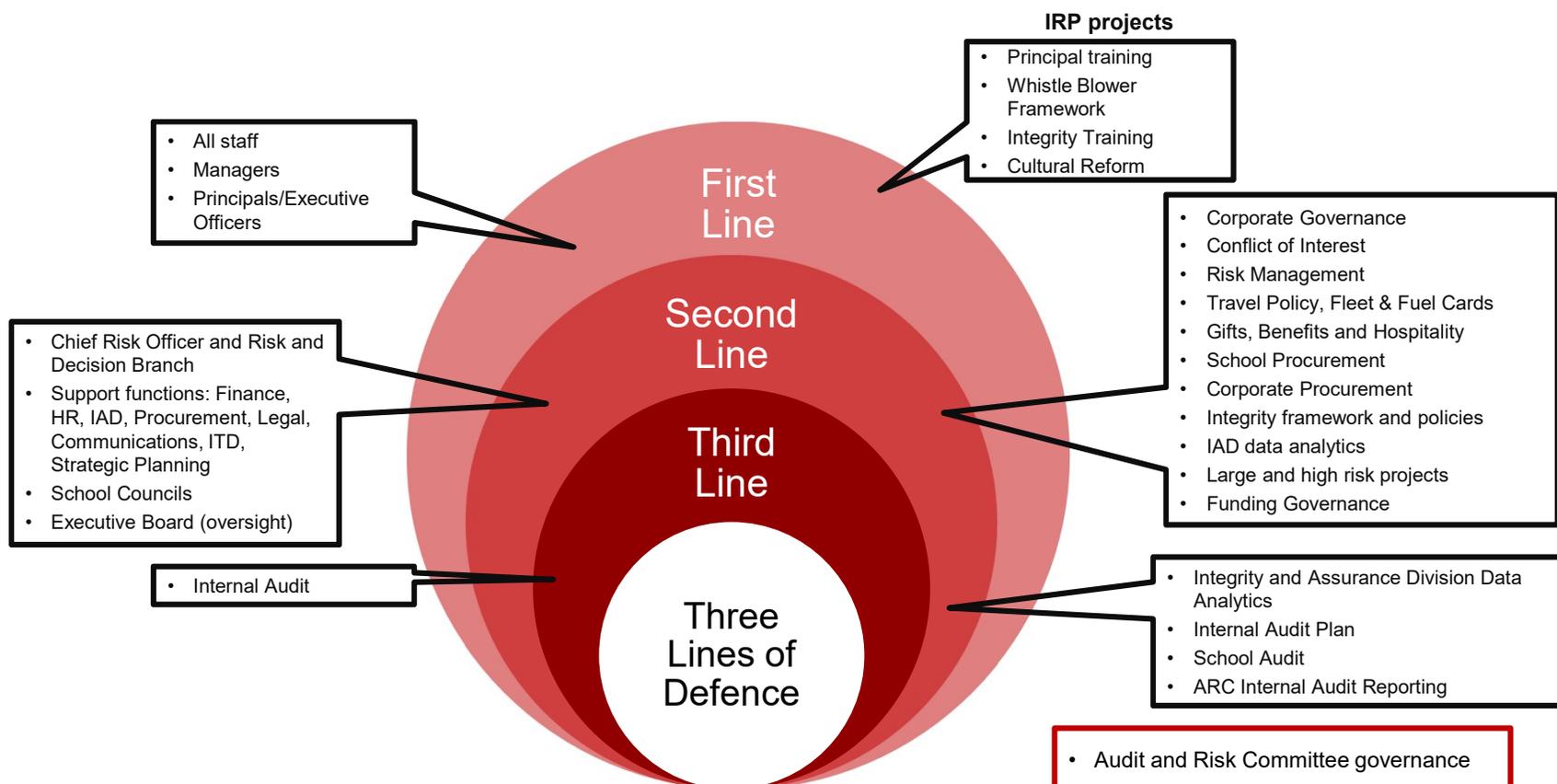
- **Ultranet tender process:** the tender process was improperly influenced and corrupted through improper relationships
- **Alliance Recruitment:** A \$1m DET project set up to keep preferred provider financially viable was a sham
- **Share trading:** Senior DET officers used confidential information—obtained as a result of their positions – to gain personal advantage
- **Flawed DET systems and culture:** It was a collective failure of the DET's 'three lines of defence' that ultimately allowed corrupt conduct to continue unabated



How did we address the issues identified?



Each IRP project contributes to the improvement of each line of defence



We have made an impact in each line of defence

First Line success factors

- Leaders follow correct procedures and act with integrity
- People feel supported to act with integrity and manage risks
- People have confidence to raise concerns and speak up



Key Achievements to date

- Executives signed a leadership charter and committed to living the values
- 1383 school leaders have enrolled in finance training in 2017 so far
- 2533 school councilors participated in training in 2016-17
- 68 executive rotation job opportunities advertised
- 2017 People Matter Survey results show an increase in employee perception of Values being modelled by their managers (up by 8 percentage points)

- 2017 People Matter Survey results show an increase in employee awareness of Values
- 2017 People Matter Survey results show that 83% of respondents believe that avoiding conflict of interest is seen as important (up from 77%)
- 2016 School Staff Survey found 85% of school staff agreed that integrity was demonstrated at their school

- More than 275 calls to Speak Up since launch
- 2017 People Matter results show that more respondents are confident that they would be protected from reprisal for reporting improper conduct (up from 42% to 49%)
- 2016 School Staff Survey results show 84% of school staff felt confident to raise concerns without fear of reprisal



We have made an impact in each line of defence

Second Line success factors

- DET has smart systems and processes that are easier to use and support good practice
- DET has strong and clear policies
- A governance framework that provides effective oversight and monitoring of accountabilities



Key Achievements to date

- Cessation of Program Coordinator School arrangements
- New Targeted Funding Governance Model in place for all schools from Term 3 2017
- Strengthened acquittal process for SRP
- New Finance Services Division operating model to strengthen second line monitoring

- New travel, fuel and fleet policies and rules of used
- Corporate Gifts Benefits and Hospitality register published on DET's public website.
- Conflict of Interest quick guide mailed out to all school principals and online guidance material strengthened
- Ethical decision-making model developed and shared with staff.

- In 2015, DET's governance arrangements were assessed as 'developing'. In an updated assessment in April 2017, a rating of 'mature' was given to two of the three criteria and 'advanced' for the other
- Reporting dashboards used by EB and ESB each month track progress of identified priority projects against milestones.



We have made an impact in each line of defence

Third Line success factors

- An independent and robust audit function



Key Achievements to date

- Since 2016-17 the Portfolio Internal Audit Plan is risk-based and reflects Standing Directions and IBAC commitments
- Revised School Council Financial Assurance (SCFA) Program with an Agreed Upon Procedures (AUPs) approach that was rolled out to 269 schools in 2015-16. AUPs are in the second year of implementation and school visits to 267 schools have now been completed
- Risk-based school internal audits are in the second year of implementation with 104 schools visited in 2015-16 and 105 being visited in 2016-17. Examples of school internal audits include reviews on Key Financial Management and Processes, School Purchasing Cards, Payroll as these focus on high risk areas and on the concerns highlighted in IBAC's findings
- ARC and EB have better visibility of open audit actions with the focus on all internal audit reports (last report tabled at ARC on 28 June 2017)

Role of external audit – the 4th line

Why is it critical?

- Strong focus by the Department on driving and implementing the Integrity Reform Program
- However, external audit focus also critical to driving improvements and building assurance
- VAGO - key role in providing assurance to the Parliament and to the community about how effectively the Department is providing services and using public money
- In the context of reputational damage and loss of public confidence in the Department through the Ord and Dunham inquiries – the role of VAGO and a constructive and forward looking engagement with DET has been more important than ever



Role of external audit – the 4th line

What did we do differently / what has worked well?

DET

- Set first priority as developing an assurance framework that we could be satisfied with and have confidence in
- Developed a comprehensive problem identification and action plan – including through consultation with VAGO
- Recognised need to get the fundamentals right – a key priority
- Complete review of finance function to prioritise focus on controls and three lines of defence
- Actively worked to strengthen the relationship with VAGO and ensure two-way conversations

VAGO

(from DET's perspective)

- Moved to a highly constructive and proactive approach
- Clear feedback on opportunities for improvement – not just compliance focused
- Regular communication and willingness to consider new ideas and possible solutions

Consistent with role under the Audit Act – didn't seek to impose solutions or direct actions – but actively engaged in better practice discussions and considerations