VICTORIA State Government | Education and Training

WORKING WITH INTEGRITY

THE DEPARTMENT OF EDUCATION AND TRAINING'S SECOND REPORT TO THE INDEPENDENT BROAD-BASED ANTI-CORRUPTION COMMISSION

CONTENTS

SECRETARY'S FOREWORD

I am pleased to provide the Independent Broad-based Anti-corruption Commission (IBAC) with this report on the Department of Education and Training's Integrity Reform Program.

The achievements described here are a testament to the determination with which the Department has responded to the findings in IBAC's Operation Ord and Operation Dunham.

Integrity reform is essential to building and sustaining trust in the Department and its stewardship of public education.

Our Integrity Reform Program strengthens our 'three lines of defence' for risk management. It is transforming our culture, strengthening our systems and controls, and ensuring independent and robust auditing.

We are proud of the significant steps we have taken since the Operation Ord and Dunham hearings. Our expectations about ethical conduct are not only clear, they are supported, encouraged and enforced with robust systems, policies and processes.

Our workplaces are already benefitting. We are in a very different and much more optimistic place than we were two years ago.

Staff optimism is reflected in our 2017 People Matter Survey results, which reflect a corporate workforce that understands and acts according to Public Sector Values. Respondents are now confident about raising concerns and increasingly see their leaders modelling ethical behaviours.

Through the Integrity Reform Program, the Department has not only addressed IBAC's recommendations, it is seizing the opportunity to be a leader on issues of integrity in the public sector.

Being an integrity leader doesn't just mean an absence of corruption. It means that behaving with integrity is part of the way we do things in the Department.

The Integrity Reform Program has entered a new phase since my last report. Following our immediate response to the hearings, we are now focused on embedding integrity in our business as usual processes and practices. We are continuing to foster an ethical culture and encourage ethical behaviours. For example, we have an integrity moment as a standing agenda item at Executive Board and Education State Board meetings. Executives rotate in bringing a relevant issue for discussion which has deepened our understanding of these issues greatly. Integrity moments are also included in other committee meetings, leadership and staff forums across the Department, ensuring that integrity is part of core business.

Victoria's public education system is focused on achieving excellence in outcomes for our students, building a world-class education system and – through addressing equity – creating opportunity for every Victorian. This cannot be achieved without professional and empowered staff who consistently work with integrity.

As the Department of Education and Training we are ideally positioned to model and teach ethical behaviour and leadership as part of delivering the best possible public education for our community.

The Department's commitment to integrity is ongoing. It is something that will continue to be talked about, focused on and championed well beyond the completion of the Integrity Reform Program.

I look forward to providing you with our final report, on Operation Dunham, in March 2018.

Gill Callister
Secretary
Department of Education and Training

OVERVIEW

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1. OVERVIEW

1.1 IBAC's investigations and findings

In Operation Ord and Operation Dunham, IBAC identified systemic failings that were exploited by the actions of a few individuals.

In Operation Ord, IBAC's investigation focused on allegations that senior officials misappropriated funds from the Department's budget, through false and inflated invoicing, and arranging payment of inappropriate expenses such as excessive hospitality, travel and personal items. These improper actions and behaviours were possible because of inadequate systems and controls and a culture that excused or ignored breaches of probity and process.

As with Operation Ord, Operation Dunham detailed a prevailing culture of non-compliance among some of the most senior Department officers, which contributed to misconduct, and hindered opportunities to expose and address misconduct.

Operation Dunham exposed improper action and behaviour by senior staff that corrupted the procurement process for a major IT project, the Ultranet. These included the receipt of gifts and travel; improper communications intended to influence the tender process; and a likely attempt to influence the tender evaluation outcome by 'stacking' an assessment team with like-minded colleagues.

The main findings of the two investigations were that the Department had:

- a culture of non-compliance, bullying and entitlement
- a lack of accountability, and lack of a culture of integrity in senior leadership
- inadequate controls around procurement
- inadequate governance of risk and major projects
- poor controls for financial management, in the Department and in schools
- incompatible financial systems
- inadequate auditing.

In its summary of investigation and outcomes for Operation Dunham, IBAC reported that the 'willingness of some senior leaders in the Department to deceive' had caused the waste of public funds.

But it was 'the collective failure of the Department's three lines of defence that ultimately allowed the conduct under investigation to continue unabated'.

1.1.1 IBAC's recommendations

The Department accepted IBAC's recommendations in both special reports for Operation Ord and Operation Dunham.

An index showing the Department's specific actions in response to each of IBAC's recommendations is provided at Appendix A.

IBAC's recommendations	Department actions
Understanding of public sector values, code of conduct and DET policies	**First line**
Leadership to set 'tone from the top'	A culture of integrity underpins everything we do
Whistleblower and complaints management	
Financial management, procurement and compliance	**Second line**
School governance and financial management arrangements	Smart systems and controls to oversee and guide our actions
Employment policies and practices, including exclusion and disciplinary processes	
Commercial opportunities	
Major project governance	**Third line**
Audit and risk management	Independent and robust assurance

1.2 A comprehensive response to IBAC findings

The Secretary's first report to IBAC detailed the initial, profound changes: this report demonstrates their effectiveness.

It also details the second phase of reforms that embed integrity in the Department's business-as-usual processes and practices, as well as its culture.

The Department has now acquitted all Operation Ord recommendations. A final report on Operation Dunham will be made in March 2018.

It is important to stress that integrity reforms will be ongoing. Maintaining, measuring and enhancing integrity is cemented as part of the Department's regular work, beyond the final report to IBAC in 2018.

1.2.1 Integrity Reform Program and the 'three lines of defence'

The Integrity Reform Program (IRP) is the Department's response to IBAC findings. It goes well beyond preventing corruption to embed a healthy, high-performing and ethical culture in the Department's corporate workplaces and schools.

The IRP strengthens the three lines of defence. The first line of defence is staff, their environment, systems and culture. In other words, 'functions that own and manage risk'. The second line oversees and supports the first line to manage risk. The third line is auditing: independent assurance of risk management.

Following the three lines of defence model, the IRP has taken an integrated approach. Reforms to each line of defence are mutually reinforcing and provide grounds for confidence in their success.

Success for each line of defence means that:

First line	Functions that own and manage risks

- 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

Second line	Functions that oversee and support management of risk

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

Third line	Functions that provide independent assurance over management of risk

- The Department has an independent and robust audit function

1.2.2 Integrity Reform Program: achievements and next steps

The Department's initial response was swift, commencing in the wake of the Operation Ord hearings in 2015 and closing with the conclusion of the Operation Dunham hearings in early 2016. The Secretary set clear expectations for ethical conduct and took decisive actions.

The initial response included strong actions that addressed deficiencies in the first line:

- all executives signed a Leadership Charter, holding them accountable to new standards for ethical leadership
- the 'Speak Up' campaign and service addressed one of the biggest workplace issues — the fear of raising concerns. It sent a clear signal that the Department's leaders were listening to staff, and would act appropriately
- the Department embraced the Public Sector Values as the Department's Values.

At the same time, structural changes to the second and third lines were made as the basis for ongoing improvements.

These included:

- the immediate cessation of the program coordinator school model. Work commenced on a robust, alternative approach for providing targeted funding to schools
- the reconstitution of the Department's standing committees to address major deficiencies with oversight, accountability and transparency
- legislative reform to ensure the Department could deal with misconduct confidently and swiftly. This sent a clear message that misconduct of any kind would not be tolerated
- the overhaul of the Department's internal and school audit processes to improve the rigour of audits.

These initial actions, reported in the Secretary's first report to IBAC, reflected the deliberate and strategic prioritisation of reforms that would provide rapid structural assurance and protect public funds.

The Diagram demonstrates the themes in which projects in the IRP are grouped. It highlights the importance of cultural change and the Department's Values to the overall reform program.

The Integrity Reform Program is about more than preventing corruption – it is about building an ethical culture

After the initial response, the IRP moved into a second phase to position integrity reform as a key contributor to system and cultural changes.

In its second phase, the IRP has concentrated on further cultural reform and embedding integrity in business as usual processes and practices. Leaders continue to model values and set expectations from the top, reinforcing the first line.

This phase ensures that integrity underpins all Department work, now and in the future, and that ethical standards are continually maintained, measured and enhanced.

The ongoing focus on integrity is imperative for the Department to meet the evolving and dynamic needs of our Victorian education system. The second phase seeks to effect further cultural change to ensure that all staff embrace the Department's Values in their behaviour and delivery of work.

The Department's reform agenda has set new standards for the public sector and has allowed it to be a public sector leader in integrity reform. These reports are one of many ways it is sharing its expertise.

Our 2017 People Matter Survey data demonstrates the Department's success in effecting cultural change since the Operation Ord hearings. More than embedding a culture of integrity, the results show an organisational culture that is inclusive, responsive and collegiate. In relation to measuring our culture of integrity, the results paint a picture of progress and good health. Engagement in the People Matter Survey was record-breaking for the Department.

Percentage corporate staff participation in People Matter Survey

2015	2016	2017
39%	54%	71%
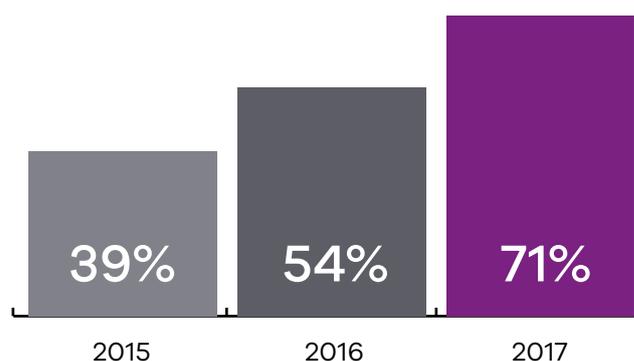
92% of staff were aware of the public sector values

92% of staff agreed that earning and sustaining a high level of public trust is seen as important in the Department

80% were confident to raise concerns with their manager

This demonstrates high levels of engagement in culture reform, a willingness to voice opinions and a confidence that these opinions will inform the shared direction.

A CULTURE OF INTEGRITY UNDERPINS EVERYTHING WE DO

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2. A CULTURE OF INTEGRITY UNDERPINS EVERYTHING WE DO

IBAC's Operation Ord and Operation Dunham identified a culture of non-compliance and entitlement among corporate and school employees.

IBAC also found people did not speak up about suspicious or unusual activity for fear of reprisal, and because they did not understand their obligations as public sector employees.

These constituted failures in the Department's first line of defence.

IBAC recommended strengthening the first line of defence by:

- ensuring that employees are aware of and compliant with the Public Sector Values and Code of Conduct, and related policies

- ensuring that employees are trained in appropriate financial management, procurement and school governance

- encouraging and supporting employees to speak up and report misconduct and corruption

- ensuring leaders are accountable for modelling integrity and Public Sector Values and set the tone from the top.

In response, the Department is building a high-performance culture by:

- embedding the Public Sector Values and a culture of integrity

- improving capability for financial management, risk management and ethical leadership, particularly of corporate and school leaders

- ensuring people feel safe to raise concerns.

2.1 The Values

The Department has adopted the Public Sector Values as the Department's Values. The Department has promoted the Values to staff by incorporating them in recruitment and induction processes and Performance Development Plans. The Department also encourages explicit consideration of the Values in everyday work.

'Values' packs were provided to all corporate workplaces and then schools in late 2016 and early 2017. The packs encourage and support behaviour and decision-making based on the Values. They include posters, quick reference sheets and guides, and conversation cards to promote discussions about common ethical dilemmas. Many schools have reported using the cards to support staff induction.

An eLearning module has been available since late 2016 as another tool to improve understanding about the Values.

To reinforce the Values, the Seven Values in Seven Weeks initiative (7in7) from April to May 2017 encouraged corporate staff to explore what the Values mean for them at work. The campaign included stories from leaders on 'living the values every day'. Cards were distributed to teams to acknowledge exemplary behaviour led by the Values.

The Department then launched a version of 7in7 for schools, to support school leaders to apply the Values at their school and in their everyday work. The school version focuses on one Value per month, starting with 'Responsiveness' in June and ending with 'Human Rights' in December.

A key objective of 7in7 in schools is strengthening the link between the IRP and positive Education State messages, such as building pride and confidence in our schools, and aligning each Value to practical, system-related reform.

For each monthly Value, 7in7 delivers information about how decision-making backed by a particular Value can improve school and student outcomes. The information also provides practical information that schools can use to reform existing systems.

For example, as part of 'Responsiveness' month, school council governance training packs and Values guides were distributed to school council members. In July, to support 'Integrity Month', Conflict of Interest Quick Reference Guides were distributed to all principals, with a letter from regional directors. For 'Impartiality Month' in August, the 'Thanks is Enough' campaign accompanied the launch of the Goods, Benefits and Hospitality policy.

The sustained focus on Values is increasing employees' awareness about the Values. The People Matter Survey results for 2017 indicated that 92 per cent of corporate employees in the Department were aware of the Values and how they apply to their work. This is a 2 per cent increase from 2016, but 22 per cent higher than the 2017 average for the seven other Victorian Government departments.

Among corporate participants in the 2016 Integrity and Risk Culture Assessment, 85 per cent reported understanding the Values and knowing what behaviour is acceptable. In the 2016 School Staff Survey, 85 per cent of school staff agreed that integrity was demonstrated at their school.

"Deputy Secretary, People and Executive Services Group Kate Rattigan, said the '7 in 7' values initiative helps us 'stop and think about what the Department values look like in our day-to-day lives'.

International Education Division Executive Director, Joel Backwell said for him, the values capture 'what it means to be a public servant supporting families, children and adults to learn for life.'

At Kallista Primary School, Principal Christine Finighan has posters on the staffroom door describing how the school values sit alongside DET's Values.

'Values education is most powerfully learned through relationships. The values we, as a staff group, demonstrate in our everyday interactions – the way we speak, listen and act – is the most powerful vehicle for teaching values to students,' she said.

At Keilor Views Primary School, Principal Charles Branciforte uses DET resources and conversation cards to stimulate discussion with staff about links to school community values of 'Vision, Integrity and Pride'.

'There has been a real cross pollination: we encourage staff to utilise both sets of values and understand that we operate by both.'"

LIVING OUR VALUES EVERY DAY

RESPONSIVENESS INTEGRITY IMPARTIALITY ACCOUNTABILITY RESPECT LEADERSHIP HUMAN RIGHTS

2.1.1 Investing in our People Strategy 2016–2020

The Investing in Our People Strategy focuses on the key areas for corporate employees that have the most impact on the Department's performance and delivery. It makes the key objectives of the IRP's culture reform project business as usual activities.

The strategy contains five objectives, which together provide clear direction for these key areas. The aim of each objective is to provide a holistic and balanced approach to the way staff work, ensuring they have appropriate skills, can perform at their best, and feel empowered, valued and supported.

The objectives are:

- Leading for outcomes – strengthening leadership practice and developing our future leaders

- Learning-centred organisation – developing staff to be their best

- Culture of integrity and respect – ensuring staff act with the highest ethical standards, and treat each other with respect

- Safe and inclusive workplaces, free from physical or psychological harm, where everyone's contribution is valued

- Empowered and responsible people who deliver on commitments at every level of our organisation.

The plan to achieve these objectives includes a Department-wide focus, and cohesive monitoring and reporting. This ongoing program of work reports biannually to the Department's Workplace Development and Culture Committee.

2.1.2 Culture of Integrity and Respect Strategy

The Culture of Integrity and Respect Strategy applies to all staff and was implemented in 2017. It provides a roadmap for cultural reform to 2020. The strategy establishes a collaborative, cross-department approach to align and strengthen engagement on relevant initiatives.

Under the strategy, the Department is taking steps to build and maintain a positive ethical culture by providing guidance to all staff about ethical decision-making, and encouraging awareness of the Values, and reflection on their use in everyday work.

The strategy reinforces the commitment the Department made to building an ethical culture, by:

- increasing awareness among employees about the Values and their relevance to their work

- ensuring leaders communicate explicitly the relevance of the Values to their teams

- encouraging employees to seek advice about acting with integrity, being accountable for their actions and speaking up about poor behaviour

- ensuring leaders act against poor behaviour and model exemplary behaviour.

2.2 Setting the tone from the top — ethical leadership

IBAC found the following ethical leadership failures:

- lack of accountability for decisions and enforcing actions
- lack of awareness of how to address concerns
- decisions made on trust and history, and not on policy or procedures
- lack of connectivity between schools and corporate
- lack of mobility of senior staff, leading to the development of unhealthy networks in some parts of the Department.

The Integrity Reform Program has raised the standard of expectation for ethical leadership across the Department and supported staff at all levels to lead ethically.

2.2.1 Expectations of executives

Department leaders are the key to fostering an environment that encourages ethical behaviour.

As reported to IBAC in 2016, all senior leaders have committed to the Leadership Charter to model the Values and the behaviours the community expects.

The Department's expectations of its leaders have been made clear in executive Performance Development Plans, position descriptions, induction materials and the assessment criteria of the Executive Officer Development Centre.

The Executive Officer Development Centre is a program introduced in 2016 to support executives to demonstrate ethical leadership in practice.

As part of the program, executives were assessed against ethical standards (including those related to the Values, people management and financial management). Participants in the Development Centre completed:

- '360-degree' surveys (that is, comprehensive feedback from manager, colleagues, staff and internal and external stakeholders)
- a half-day development activity including role plays, presentations and group problem-solving
- an intensive debrief and coaching session to guide officers through their results and establish a development plan.

The 360-degree surveys identified behaviours relating to leading with integrity (ethical practices and role-modelling the Values) as the second and third highest-rated strengths for the executive cohort.

The results have informed individual development plans, which leaders are now implementing to address their professional development. Another 360-degree survey will be undertaken with all executive officers in late 2017.

The Department is now participating in the whole of government Victorian Leadership Academy which supports leaders to develop the desired capabilities for the Victorian public sector underpinned by the Values.

The 2016 People Matter Survey results provided baseline data on VPS employee perception of how well leaders demonstrate the Values. Results in 2017 highlighted an eight per cent improvement from the 2016 results across the three questions regarding leadership behaviours.

In the 2016 Integrity and Risk Culture assessment, 87 per cent of corporate participants agreed that their immediate manager communicated the importance of professional and ethical behaviour to staff.

> Chris Thompson committed to the Leadership Charter around the same time as being appointed as one of the Department's 17 new Area Executive Directors.
>
> The timing was no coincidence. Chris said the expansion of the regional workforce demanded clear standards for authentic, effective and ethical leadership across the Department.
>
> 'The charter made it clear that we were accountable not just to government and the Department, but also to our communities.'
>
> 'It connected our daily work to the lived experiences of students and families, reminding us why we do our jobs, and who we are here to serve.'
>
> Chris said the relevance of the charter made it easy to use with his team. 'It was a strong motivating tool, particularly for the many new starters to the region.'
>
> In mid-2016, Chris completed the executive officer development centre, which was designed to help bring the leadership charter to life.
>
> 'This process provided a unique opportunity for reflection, both on myself and on the strengths, needs and styles of my colleagues. It supported me to better understand them at a time when we relied on strong collaboration.'
>
> 'By assessing my own development through a new lens, I was better able to support my team of Senior Education Improvement Leaders and VPS staff with their Performance Development Plans.'
>
> 'Six months on, we have made good progress developing our influencing, negotiating and partnership building skills.'

2.2.2 Pathways and rotation

To strengthen cross-Department leadership and knowledge-sharing, and to identify potential leaders, the Department has established two initiatives: a Pathways Program, to bring school leaders into corporate roles, and an Executive Rotation Program.

The Pathways Program is in its second intake and has involved 19 school leaders. The program improves understanding of public administration in schools, and improves the connection between schools and corporate areas. It also aims to increase staff transitioning from schools into corporate roles. Comments from participants in the first intake were positive. Some said the experience opened new potential career pathways and provided opportunities to better connect with and support their school communities. A formal evaluation of the Pathways Program will be undertaken in Term 4, 2017.

The Executive Rotation Program involves executives taking short-term placements to areas outside their roles. The expectation is that all executives will participate in this program and that it will form part of leadership development plans. The Department has committed to implementing the planned rotation of senior staff who have been in their roles for an extended period.

As of August 2017, 68 executive rotation opportunities have been advertised.

In an evaluation of the Executive Rotation Program, 79 per cent of participants said they were 'very satisfied' with the program, and 86 per cent said they were either 'likely' or 'very likely' to recommend the program to colleagues.

2.2.3 Integrity Leadership Groups

The Department's five Integrity Leadership Groups are reference groups based in each region and central office. Their members are acknowledged for their ethical leadership and capacity to effect change.

The Integrity Leadership Groups were relaunched by the Secretary in early 2017, with some new members and a focus on ethical leadership. Eighty-four school and corporate leaders now champion the program across the system.

Since 2017, Integrity Leadership Groups have made a range of tangible contributions to the Integrity Reform Program. These include developing the 'Thanks is Enough' awareness campaign, enhancing school council governance guidance materials, preparing case studies on conflict of interest, supporting the development of the COI Quick Guide, evaluating the 7in7 corporate program and contributing to training material for business managers.

Members have also been engaging their peers in the Integrity Reform Program and sharing good-practice stories across the system through the 7in7 schools initiative. They will also support the implementation of the ethical decision-making model in new training opportunities and resources, including a tool to support business managers, by December 2017.

The Integrity Leadership Groups are currently supporting an action research project through the Department's Pathways program to identify the factors and measures that contribute to ethical and respectful school workplaces. The findings of this study will inform future school initiatives from Term 4 2017.

2.3 Supporting a culture of integrity in our workplaces

IBAC identified systemic problems that allowed senior officials to breach public trust, including perceived and actual lack of consequences, feelings of disempowerment, and fear of reprisal for speaking up. IBAC also found no ethical decision-making framework, a lack of accountability for decisions and actions, and a lack of awareness and emphasis on managing conflict of interest.

In response, the Department has supported staff to understand their obligations through training. They are also supported and encouraged to raise concerns.

To measure progress, the Department made an assessment of Integrity and Risk Culture in a staff survey. The 2016 results have provided a baseline measure, and the assessment will be conducted annually for at least the next two years to inform further work and gauge progress.

2.3.1 Speak Up service

Within six months of the Operation Ord hearings, the Department established Speak Up, a service for staff to make confidential, anonymous complaints and reports if something doesn't look or feel right.

Speak Up was launched by the Secretary in December 2015 and is open to receive reports 24 hours a day, seven days a week. The rapid establishment of the service sent a strong signal to staff that the Department was listening to and supporting staff. Speak Up was promoted again in Term 1, 2016, and continues to be promoted in schools and corporate workplaces

Speak Up has received 287 calls since its launch in December 2015. Employees also continue to raise concerns through established avenues, including with their managers and directly with the Integrity and Assurance Division.

Work to improve staff confidence in speaking up continues. By December 2017, all corporate leaders will have received resources and direction to reiterate the importance of raising concerns, and how to do so in their teams.

Survey results indicate that Speak Up and its promotion have supported employees to feel safe to raise concerns. For example, in the 2016 Integrity and Risk Culture Assessment, 88 per cent of corporate participants said they knew how to report misconduct. The 2016 School Staff survey found 84 per cent of school staff felt confident to raise concerns without fear of reprisal. Similarly, in the 2017 People Matter Survey of corporate staff, 80 per cent of respondents said they felt confident approaching their manager to discuss concerns and grievances —an increase from 75 per cent in 2016.

2.3.2   Integrity Liaison Officers

The Integrity Liaison Officers (ILOs) are based in the Department's four regions to engage staff in integrity reform and support the delivery of key integrity initiatives in regional workplaces and schools. The ILOs are also key contact points for advice about ethical decision-making and integrity.

In 2017, as engagement with schools increases, the ILOs have led 81 presentations with approximately 6000 school leaders compared to 48 presentations with 1555 school leaders in 2016. Engagement has included attendance at Term 2 Principal Regional Forums, Term 3 Area Forums and network meetings across the state.

The ILOs have been essential to improving the ability of staff to identify and manage conflict of interest in 2017. They are increasingly called on for advice and referrals, including from staff groups with particularly complex conflicts, such as allied health professionals.

The ILOs have contributed to the Department's library of case studies, based on de-identified examples, to support 'integrity moment' discussions in teams. As of September 2017, 42 are available on the dedicated Integrity Portal.

The ILOs have been critical to the reinvigoration of Integrity Leadership Groups. Throughout 2017, they have worked with the ILG chairs to ensure representation across all corporate groups and regional areas, and to develop and deliver work plans aligned to Integrity Reform Program priorities.

> The ILOs provided examples of how they help:
>
> South West Region ILO Kelly Bull assisted a new principal to mitigate a perceived conflict of interest relating to the employment of his wife at school.
>
> 'The Principal allocated decisions about performance, progression and allocation of duties to the Assistant Principal and Senior Education Improvement Leader.'
>
> In the North Eastern Region, Russell Polson advised a principal on a staff member's request to pursue other employment. This included measures to manage potential conflicts of interest and ensure the additional work did not affect their school responsibilities.
>
> Nicole Fausett ran a session with 140 staff at the South East Region's Moe office to increase their understanding of 'Thanks is Enough', a new standard for gifts, benefits and hospitality, and processes for speaking up.
>
> Colin Wellard, in the North West Region, supported a principal to lead discussions about the Department's Values with staff.
>
> 'She provided feedback that the discussions have been ongoing; that staff are more reflective and have greater confidence in talking about what they expect from each other at work.'

2.3.3 Integrity training and ethical decision-making

The ethical decision-making model has been embedded in induction programs for corporate staff, financial management training programs for corporate and school staff, school councillor training, principal professional development courses offered through the Bastow Institute of Educational Leadership (Bastow Institute), and the Schools Policy and Guidance resource.

Ethical decision-making is also used as a basis for 'integrity moments', when staff and leaders talk about integrity at the start of meetings. The Ethical Decision Making Framework is provided as a standalone resource which includes case studies and online learning materials.

The 2017 People Matter Survey of corporate staff showed 79 per cent of respondents agreed that people in their work group demonstrate objectivity in decision-making (an increase from 73 per cent in 2016), and 80 per cent agreed that their manager demonstrates objectivity in decision-making (up from 72 per cent in 2016).

Among the respondents to the Integrity and Risk Culture Assessment, 82 per cent said they knew the indicators for fraud or corruption, and 88 per cent believed people in their work area were good at recognising ethical issues.

2.3.4 Training and support for school leaders

Operation Ord identified a lack of appropriate school governance, particularly in relation to principals and business managers, a culture of non-compliance with financial and procurement policies, and a lack of oversight by the Department's central or regional offices of the program coordinator school model.

In response, the Department committed to strengthening financial controls and compliance in relation to school governance. This included strengthening the first line of defence with training to build the capacity of school leaders, including school councillors, to understand and comply with the requirements of their role. This training will allow the Department to improve the effectiveness of reforms to the second and third lines of defence, such as the school audit program, funding governance and the cessation of the program coordinator school model.

Ethical decision-making model

Recognise the nature of the issue

Get the facts

Evaluate alternative actions

Make a decision

Test it

Act

Reflect on the outcome

"
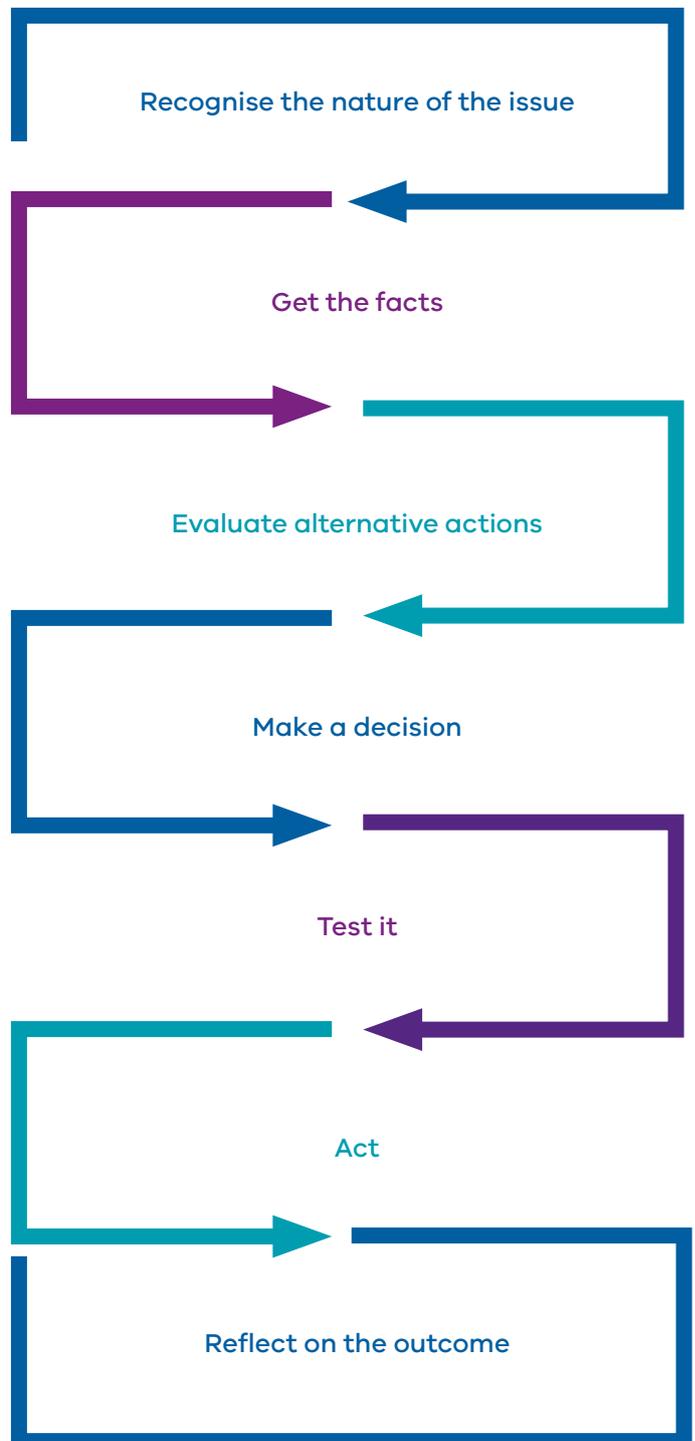
Melody Yang has two daughters in Grades Prep and One at Serpell Primary. In 2017, she joined the school council to make a difference to her school community.

Within a matter of weeks, Melody had completed face-to-face training in school council governance to help her feel confident in her new role.

'The training was very informative and assisted in making me an effective member and active contributor to meetings.'

Melody said the training also helped her understand and uphold high ethical standards. 'Practices on how to handle Conflict of Interest issues were shared by experienced school councillors. Having the opportunity to discuss these issues face-to-face was very valuable for somebody new to council.'

School Council Treasurer, Richard Turner and NEVR Integrity Leadership Group member has noticed the positive impact of the training on the council.

'I definitely believe the training has empowered new councillors to better communicate and participate in matters relating to our integrity and accountability. For example, a new councillor was confident to question the approval process for upcoming school camps. Councillors are also very receptive to hear about, and contribute to, issues raised through the Integrity Leadership Group, including the new Conflict of Interest Quick Guide, and their potential relevance to council members and leadership staff.'

"

2.3.4.1 Principal training

To ensure principals, assistant principals and business managers understand their finance and procurement responsibilities, the Department has developed two courses: Finance Matters and Procurement Mindset.

Finance Matters improves the financial competence of principals, assistant principals, business managers and, where relevant, leading teachers, and provides flexible and scalable training options. To date, 1767 school leaders have completed Finance Matters modules.

The Department's ethical decision-making model has been incorporated in Finance Matters and in the Strategic Management for School Leaders program, delivered by the Bastow Institute.

2.3.4.2 Business manager training

IBAC found some business managers failed in their financial management duty by not questioning illegitimate or inappropriate invoices.

The importance of the business manager role in schools was also noted in the 2015 Government Schools Funding Review (Bracks Review). It recommended the compulsory accreditation of business managers with an appropriate course and that accreditation be supported by a comprehensive framework for business managers.

In response to the Bracks Review and as part of its response to IBAC, the Department began developing a capability framework for business managers. This framework is now complete. It includes integrity and ethical practice as part of agreed professional standards. The framework was developed with Bastow and is based on a framework developed by the United Kingdom's National Association of School Business Management.

New position descriptions for business managers have also been developed. They define the capabilities against technical skills, people skills and self-mastery, which correspond to the Business Manager Framework. Key selection criteria for business managers reflect the capability framework and the Values, and have been included in Recruitment Online, the Department's online job advertisement and recruitment management system for Victorian Government school jobs.

The Department has partnered with RMIT as the lead TAFE to develop a program which draws on the capabilities included in the framework in consultation with relevant stakeholders. The Certificate IV in Business (BSB40215) will be nationally recognised and develop skills in managing teams, project management, governance, emotional intelligence, financial management and human resources.

The pilot of the training program began in Term 3, 2017. The Department is funding 60 places via TAFE institutes in specific school regions. An evaluation plan for this pilot is in development.

Engagement with principals to enhance understanding of the role of business manager began in August 2017.

As part of the Learning Management System (LMS), a central repository of business manager training programs and development opportunities will be available by December 2017. It is intended that the majority of business managers will have participated in the program within three years.

2.3.4.3 School councillor training

IBAC made no findings about school councils during the Operation Ord and Operation Dunham hearings, and they were not a key cohort targeted by IRP reforms. However, the Department is now improving the financial skills of school councillors as part of its efforts to strengthen school funding governance.

The Department has delivered a free school council training package, Improving School Governance. The training clarifies the roles and responsibilities of school councillors in financial decisions, ensuring greater transparency and oversight of program funding to schools.

In the last financial year, this training reached 2553 participants in Victorian government schools. In June 2017, all school councillors yet to complete the training were mailed training materials.

Additional support and resources are also available to ensure effective governance and best practice in school councils, including templates to support school council operations, reporting and oversight, and documents that detail the roles and responsibilities of school councils. School councils are now required to comply with the procurement thresholds in the Finance Manual for Victorian Government Schools.

SMART SYSTEMS AND CONTROLS TO OVERSEE AND GUIDE OUR ACTIONS

3

3. SMART SYSTEMS AND CONTROLS TO OVERSEE AND GUIDE OUR ACTIONS

The IBAC investigations found that many of the Department's second line of defence systems and processes were inadequate.

Operation Ord found an over-reliance on internal auditing to identify non-compliance and a failure to mitigate non-compliance through effective risk management. This allowed unscrupulous individuals to exploit vulnerabilities in the Department's systems over an extended period.

IBAC found issues including:

- a failure of controls and general lack of rigour around procurement, such as business managers failing to check goods and services outlined on invoices had been delivered

- poor financial management controls, including a general acceptance of informal 'banker' school arrangements, the maintenance of unofficial records, and the failure of some principals to properly fulfil financial administration obligations

- different financial systems in schools and corporate areas made it difficult to oversee schools' detailed financial data

- a culture of non-compliance with important policies and procedures, including those relating to procurement, financial management, recruitment, travel and use of corporate credit cards.

In Operation Dunham, IBAC also found that a failure of the second line of defence had enabled excesses associated with the Ultranet project.

In particular, IBAC identified significant failings in relation to governance and procurement arrangements for major projects. IBAC recommended that the Secretary report on action taken to strengthen internal procurement and governance arrangements for major projects, including proper record keeping, maintenance of conflict of interest registers, and proper documentation of complaints regarding probity.

In response, the Department prioritised rapid changes to processes and systems to develop structural protection against misuse of public funds. These changes included:

- new or improved policies and frameworks to guide and support staff to work in a way that results in value for money, compliance with requirements and improved accountability

- new monitoring and reporting systems (including technology) to ensure the new processes are being followed, and that staff are held accountable

- refreshed governance bodies that use a risk-based approach to reporting.

3.1 Corporate governance

The Secretary committed to implementing a strong governance model to address:

- lack of clarity about accountability at every level, allowing people to avoid responsibility

- delegation of authority not clearly documented in a holistic way

- lack of oversight, compliance and monitoring of accountabilities and responsibilities

- unclear roles and responsibilities between schools, head office and regions

- misalignment and gaps across and between committees, and to the Executive Board.

In early 2015, the Department conducted a broad-based review of departmental governance. Of the five stages of maturity ('weak', 'developing', 'integrated', 'mature' and 'advanced'), the review found the Department's governance arrangements were 'developing'. It set a target of 'mature' by the end of 2017.

In response, the Department reconstituted its standing committees to address major deficiencies with oversight, accountability and transparency. Committee terms of reference, work plans, delegations and committee review processes were strengthened and aligned. Independent expert members were engaged to scrutinise and enrich decision-making and engaged a principal governance adviser was appointed to oversee reform.

An assessment in April 2017 indicated that the Department was on course to achieve a 'mature' rating by the end of 2017.

The Department is confident that work to improve governance will achieve its objectives. Ongoing work includes the development of a new corporate policy framework and a new compliance framework. These will be benchmarked for good practice against departments of education in New South Wales and Western Australia, as well as universities.

3.1.1 Enterprise Portfolio Management Office (EPMO)

To improve large-scale project management, the EPMO division was established to develop and introduce a methodology for project, program and portfolio management across the Department.

Through this, the EPMO is providing a Centre of Excellence for the business life-cycle. It supports the Department's leaders to make decisions, by guiding prioritisation and investment, aligning activity, and creating productive connections across the Department.

The EPMO is integral to ensuring that:

- Education State and Department strategies are implemented, and performance requirements are realised via well planned programs using rigorous project methods

- an integrated set of program benefits are measured, managed, monitored and refined for optimal investment and so that the Department's strategic goals are achieved

- programs and projects are invested in, designed and implemented within a framework of transparency, accountability and integrity.

To achieve this, the EPMO has introduced a scalable, industry-standard methodology for project implementation. An executive dashboard has also been introduced as a monitoring tool for departmental executives. It supports decisions about implementation of major projects, prioritisation and future investments. The dashboard includes key milestones and health indicators for projects, giving executives greater visibility over the life of a project and benefits realisation for the Education State Board.

Importantly, this extends to identifying the relationship between projects, the interventions associated with treatments of the Department's Strategic Risks, and the relationship with the Department's output performance targets.

3.1.2 Integrity Committee

Established in May 2016, the Integrity Committee oversees the Integrity Reform Program.

The Secretary chairs the committee, which includes four other members of the Department's Executive Board. The committee also has three independent members, including two subject matter experts and the independent Chair of the Department's Audit and Risk Committee.

Apart from Executive Board and Education State Board, the Integrity Committee has the most senior membership of all committees in the new governance structure launched in 2015.

The committee receives updates on the progress of the Integrity Reform Program at each meeting and makes decisions about program priorities and integrity issues across the Department.

The Integrity Committee offers stewardship and advice to support integrity reform as a whole and provides an important forum to debate and discuss integrity issues at the most senior level.

3.1.3 Procurement and Probity Committee

The Procurement and Probity Committee provides strategic oversight of procurement activities to ensure value for money, accountability and probity. Its role includes ensuring compliance with Victorian Government Purchasing Board (VGPB) guidelines, the *Financial Management Act 1994* and any standing orders made under the Act.

The committee has two permanent members: a chair without direct 'line management' responsibility for procurement, and the Executive Director of Procurement Division. Other members are drawn upon from the range of executive functions across the Department.

3.1.4 Integrity and Assurance Division

Operation Ord found an urgent need to establish a new division to manage and deliver integrity measures cohesively.

The Integrity and Assurance Division (IAD) was established in late 2015 and is now the Department's central point for integrity reform and oversight. IAD leads communication, promotion and coordination of integrity reform activities across the Department. It supports delivery of the Integrity Reform Program projects as well as its own projects. These include projects relating to audit, assurance and the Speak Up service.

IAD also investigates fraud and corruption and delivers internal audit and assurance functions. IAD reports to the Secretary directly on serious integrity matters.

IAD continues to work closely with key stakeholders, including principal groups and business manager peak bodies, to build effective integrity reforms and identify issues.

IAD also draws on the Department's experience of corruption and the consequent Integrity Reform Program to provide expert leadership to the broader Victorian Public Sector. It has made presentations to leading public administration bodies, the Australia and New Zealand School of Government and the Institute of Public Administration Australia.

3.2 Risk management

The Strategy and Performance Group (SPG) was created in 2016 to unite the functions of risk management with strategic planning, data and evidence, and program management office functions.

SPG is now the central hub for frameworks and standards for data, evaluation, system performance and accountability. Incorporating risk management with planning and strategy emphasises how risk management should always be part of enduring planning, strategy and decision-making.

In 2017, the Department introduced a new Risk Management Strategy, which describes how it will implement the Risk Management Framework. The strategy is based on the Victorian Managed Insurance Authority's (VMIA) seven domains of effective risk management.

The three lines of defence risk management model was incorporated into the Risk Management Framework. This strengthens the ownership, accountabilities, resources and governance for risk management activities across the Department by ensuring the right support mechanisms and controls are in place.

The increased focus on risk management by the Department's governance bodies is evidenced by:

- strategic and operational risks have or will be considered at the four major planning sessions for the Executive Board in 2017
- key risks are discussed at the Executive Board as a result of the Quarterly Strategic Review (QSR) process
- the Audit and Risk Committee (ARC) has dedicated time to discuss risk and for each of the Groups discusses its priorities and risks at every ARC meeting
- relevant risk management information is included in procurement activities and papers that are presented to the Probity and Procurement Committee.

The focus by senior leaders on risk has required all corporate areas to be more focused on risk management in their everyday work. In addition to managing risks in their projects, staff are seeking advice and attending workshops on risk management.

The Department has explored ways to encourage school leaders to broaden their risk management processes beyond a focus on immediate risks, such as occupational health and safety. A new pocket Schools Risk Guide was distributed at 2017 regional principal forums. A risk module has also been included in the Business Manager Capability Framework which is currently being piloted.

Over the next 12 months, reform activities to increase risk management capability include:

- improve awareness, understanding and engagement across the Department of the three lines of defence model
- improve alignment of risk, planning, budgeting and project management to effectively use risk management to prioritise and invest
- develop a training and learning module about risk management specifically for schools
- co-design and finalise the risk management training material in the Business Manager Capability Framework
- develop risk categories for easier reporting on risk focus areas
- include risk questions in the school annual attestation
- develop an assurance map for the Department (in conjunction with Internal Audit).

" Through the Department's Pathways program, Fairfield Primary School Principal, Allana Bryant spent one school term in central office working with Chief Risk Officer Michael Kral to tailor risk management training to schools.

The result is a new Strategic Risk Management for School Leaders professional learning online module. The module supports schools to achieve their objectives by applying risk management practices to decision-making, including resource allocation, investment and safeguarding student and employee wellbeing.

Ms Bryant said this will help bring a risk management focus to the forefront of the school community decision-making.

'The challenge for schools is integrating risk management beyond everyday operations and into longer term strategic planning and decision-making processes,' she said.

The benefit of the Pathways program is twofold, said Mr Kral.

'This collaboration is illustrative of how we are working together to improve corporate and school governance, while supporting the right decision-making with relevant training,' he said. "

3.3 Finance and funding changes: improved support and oversight of expenditure

IBAC identified weaknesses in the Financial Services Division's (FSD) operating model, including gaps in its analytical capability and skills, and a poor second line of defence.

A cultural issue was also identified: staff did not feel supported to challenge or question spending, particularly in relation to senior officers.

IBAC also suggested establishing clear links between FSD and divisional business planning and budgeting processes.

IBAC identified serious misuse of Program Coordinator School (PCS) funds, as a consequence of an inadequate governance framework. It highlighted the potential misuse of other funding channels and the need to determine if a rationale exists for PCS-type arrangements.

IBAC also drew attention to inadequate governance of funding outside the Student Resource Package (SRP), which allowed for differences between the control environments at schools and the central office to be exploited.

In response, the Department has overhauled its approach to financial management by establishing new finance operating and funding governance models. Collectively, these reforms will be effective as they support each of the three lines of defence.

The reforms support the first line of defence because they:

- build financial management capability for schools through the Finance Manual for Victorian Schools and Finance Matters training
- build financial management capability for corporate staff through business partnering and greater access to corporate financial management training
- increase awareness of who to contact in FSD for support and advice
- improve financial policies and processes to be fit-for-purpose, easier to understand and consistently applied.

Reforms relating to the second line of defence include:

- a new Financial Compliance team responsible for the outputs of the Schools Targeted Funding Model, and for monitoring and oversight of compliance
- a new corporate trainer role to strengthen the first line of defence
- improved data analytic capability, to be used in the new business monitoring unit
- clear measures to monitor and report on the effectiveness of changes.

The Department's audit function, its third line of defence, leverages FSD's increased monitoring, oversight and use of data analytics in the second line of defence. This provides assurance to the Secretary that the Department's financial and operational controls are working efficiently and effectively.

To monitor and improve the effectiveness of these reforms, a post-implementation review is being undertaken after six and 12 months.

3.3.1 New finance operating model

The Department has implemented a robust finance operating structure that supports financial controls within the three lines of defence model. The new finance operating model strengthens the second line of defence.

Key features of the new operating model are:

- a robust financial monitoring and assurance framework, which includes an FSD data analytics strategy and established links between business planning and budget processes
- an increased level of financial management capability through investment in financial training, in FSD and across the Department
- clearly articulated roles and responsibilities for all FSD staff, including ongoing employment of School Strategic Financial Management Advisors and School Finance Liaison Officers.

The creation of two new units, Financial Compliance and Business Monitoring, mean greater focus on financial management compliance and the second line of defence. The units provide dedicated resources to support compliance and assurance programs across FSD. A data analytics strategy has been developed which supports FSD in the implementation of robust financial monitoring and assurance processes.

Positive feedback from the broad range of stakeholders engaged in the project provides confidence in its success. Assessment of outcome measures have been considered as part of the 2018-19 business planning process and will be the responsibility of the Chief Financial Officer.

3.3.2 Funding governance

In response to IBAC findings, PCS arrangements were abolished and a risk assessment made of all school funding channels.

All central and regional PCS arrangements had ceased by June 2017, including those provided an initial exemption by the Secretary. The PCS framework has been decommissioned. The Department has confidence that PCS-type arrangements have stopped: the cessation and recall of funds has been monitored by system checks, including an audit report on school payments to ensure no new arrangements.

For school funding outside the scope of the SRP a new Schools Targeted Funding Governance Model was developed, piloted and implemented to capture the expenditure and acquittal process. The model was fully implemented in Term 3, 2017 and improves the way central and regional offices provide schools with targeted funding, formerly known as 'grants'.

The new model increases controls, oversight and visibility of schools' targeted funding and enhances the Department's capability to monitor and report on program expenditure.

The model:

- strengthens corporate oversight and accountability for targeted funding, from allocation to monitoring and acquittal
- uses unique project codes in the Department's financial system so expenditure against each school program can be tracked efficiently
- gives staff and the community confidence that funds are spent as intended, and not used to cover other operating costs
- improves the quality of programs by fostering closer relationships between the officers who administer them, and the school staff who deliver them.

The Department is confident the new model for funding governance will overcome the deficiencies of past funding channels. The final model is based on a successful pilot, and a broad range of stakeholders, including principals and business managers, have been engaged throughout the process. A review is included in the transition plan and will assess the project's effectiveness.

> " Denise Sadler, President of the Association of Business Managers in Victorian State Schools (ABMVSS) said the new funding governance model has given schools clarity and confidence about the process.
>
> 'Everybody knows the rules and why we're doing it and that means that we're getting better outcomes. It helps us spend our money wisely, which means students are the ones who benefit in the end.'
>
> 'It also gives the Department and the public confidence that program funding is spent as intended.'
>
> Denise said the model has also strengthened relationships between officers who administer the programs funded by the model and the schools who deliver them. 'Schools have much more access to program areas for specific information about the funding of the model. This is good for transparency and collaboration.' "

3.3.3 Acquittal of the Student Resource Package

Schools receive the vast majority of their funds through the SRP. The SRP calculates a funding amount for each student and school according to a range of evidence-based factors.

As reported in 2016, the SRP acquittal process has been strengthened: school principals must not only acquit expenditure but now must confirm that it was used for its intended purpose. It is now mandatory for schools to confirm that funding was used for staff to deliver programs consistent with Department and school council policies and decisions.

Audit testing of the SRP data analytics in December 2016 resulted in an overall audit rating of 'good'.

These changes have improved accountability for the use of SRP funds. They have also improved confidence that the SRP control environment is sound, and not vulnerable to reputational and financial risk.

3.3.4 Review of additional program coordinator schools

IBAC required the Department to 'undertake a review of, identify and audit any schools in addition to those identified by Operation Ord that may have been used inappropriately as banker schools to expend funds on behalf of either regional or central office'.

As part of the cessation of program coordinator school arrangements, all schools reported and declared any central or regional office funds held, other than through the SRP. Based on this information, the Department identified 11 schools warranting further investigation of funds. These schools were identified on the basis of the amount of funds returned, or the codes attached to those funds — not because there was evidence of misuse of funds. In a further investigation, school payment information and documentation was analysed, and suppliers and Department staff were interviewed to validate the amounts spent and the purpose of the selected expenditure.

The review of these schools is now complete. No inappropriate or fraudulent payments were identified. However, the review found a pattern of control weaknesses in areas such as procurement, funding governance and the budgeting processes in regional offices. It also found that staff had not felt supported to raise concerns about financial practices. These issues are already being addressed by the Integrity Reform Program.

3.4 Policies for purchasing or receiving goods and services

IBAC found a failure of controls and general lack of rigour around procurement. Evidence included business managers failing to check that goods and services outlined on invoices had been delivered. IBAC also drew attention to a culture of non-compliance with important policies and procedures, including those relating to procurement, financial management, recruitment, travel and use of corporate credit cards. This enabled inappropriate conduct and inappropriate expenditure of public funds — such as the purchase of alcohol.

In response, the Secretary committed to implementing strong, smart, intuitive systems. These enforce good governance and transparent procurement and funding to allow staff to operate efficiently and effectively.

Each of the reforms undertaken in response has been guided by the strategic prioritisation of reforms that strengthen the systems and controls in the Department's three lines of defence. The reforms will:

- simplify and make the policies, rules of use and procedures fit-for-purpose and easier to find on the intranet. This will improve awareness, understanding and compliance
- clarify roles and responsibilities described in the policies, rules of use and procedures, to assist with compliance with the policies.
- improve alignment with Whole of Government policies to ensure consistent advice and guidance

- be smart in the use of technology and data to improve monitoring and oversight
- ensure compliance with policies is included in the Department's Portfolio Internal Audit Plan, strengthening the connection with the three lines of defence.

Procurement division is continuing to work with FSD's Data Analytics Strategy team to leverage greater financial data oversight which will improve procurement decision-making, and to identify further areas for improvements such as compliance reporting.

3.4.1 Procurement

Operation Ord found a general failure of procurement controls, contributing to corrupt conduct, and a widespread lack of accountability for public money. Operation Dunham found procurement controls were inadequate due to the failures of the three lines of defence.

The work completed in response to these findings aims to improve practices and support staff to ensure they make evidence-based procurement decisions that result in value-for-money for the Department. They also seek to ensure that staff follow the agreed, best-practice, documented rules and obligations for procurement activities.

New procurement functions, led by the central office, are being developed to support corporate and school needs. The functions will provide strategic advice and procurement expertise about policy, governance, market contestability, supplier evaluations and supplier performance management, supporting select individual procurements, as well as improving procurement capability. This will mean continual improvement of staff skills. It will also ensure value-for-money and the most efficient and effective outcomes, in accordance with policy.

These new measures will be supported by a monitoring process, including use of monitoring technology where appropriate, and effective staff training.

"

The new School Procurement Branch assisted Essendon North Primary to seek the best value for money, while lifting probity and accountability standards.

Principal Scott Mullen said this advice helped him confidently navigate challenging process to recontract a long-term service provider.

'The Instrumental Music Program had been in place for years and many of the parents on the School Council had students in this program and were happy with the current provider,' he said.

'The School Procurement Branch guided us through every step of the competitive tender process, from advertising to setting up the review panel and negotiating the contract.'

'While we ended up reappointing the same provider, the result is greater value for money for our families, with services such as the school band, fete performance and a new strings stream being added to the contract.'

'This was high quality outcome for both the school and students.'

"

3.4.1.1 Schools procurement

New School Procurement Policy and Procedures are in place. These include agreed and documented rules and obligations for all procurement activities, in accordance with best practice, that minimise administration for schools.

The policy was developed with broad consultation and engagement with stakeholders including corporate staff, school principals and business managers and related external associations. The result is a set of documents that are easy to follow.

A new Schools Procurement Portal is now on the Department's intranet. This will be supported by a fit-for-purpose schools' procurement framework underpinned by the principles of the Victorian Government Purchasing Board guidance, with appropriate mechanisms for compliance ensuring that probity considerations are exemplary.

As part of the governance framework, we will also implement support mechanisms to ensure accountability through regular monitoring, analytics and reporting of school procurement activities to ensure value for money and compliance with policies.

We have established the Schools Procurement Branch and the Schools Procurement Helpdesk, which can be reached by email through the portal.

A suite of eLearning modules on procurement and contract management has been developed and is available on the portal. Detailed analysis in the next few months will allow further tailoring and the introduction of a face-to-face training program.

3.4.1.2 Corporate procurement

Corporate Procurement Policy and Procedures have been revised and improved. They establish a fit-for-purpose model to support the Department's business units to meet policy objectives. The changes will result in improved accountability for all corporate staff and better value for money.

A review is underway of the contract workspace system, which is used to execute procurement activities. The review aims to remove complexity and align the system with the five step procurement process, described in the policy.

In parallel with schools procurement training, a suite of eLearning modules for corporate staff focused on procurement and contract management is now on the Department's intranet. Again, analysis in the next few months will allow further tailoring and the introduction of a face-to-face training program. This will mean staff undertaking procurement activities will continue to improve their capability.

This project is in the implementation phase until the end of January 2018.

3.4.2 Travel policy and use of fleet and fuel cards

The Department has revised the Travel Policy for corporate and school staff, which aligns with the Victorian Public Service Travel Policy. It has also created rules of use for corporate areas and schools to deliver fit-for-purpose guidance to travellers and approvers of Department travel.

The Department has also improved the Fleet and Fuel Cards Policy and accompanying rules of use, which align with the State Motor Vehicle Policy.

The Travel Policy and Fleet and Fuel Cards Policy came into effect on 1 September 2017. To promote these policies and their supporting documentation, a detailed implementation and change management plan is being developed. This will guide communication about the policies, and encourage staff engagement and learning and development.

Updated travel and fleet policies will strengthen the three lines of defence. Improvements include:

- simplified, 'fit-for-purpose' policies and rules of use, which are easier to find on the intranet, improve awareness, understanding and compliance

- clearer roles and responsibilities, described in the policies and rules of use, to assist compliance with the policies. These include clarification of the support roles of regional travel and fleet managers and travel registrars

- improved alignment with Whole of Government policies for travel and fleet, to ensure consistency of advice and guidance

- smarter use of technology and data, to enable improved monitoring and oversight capability

- the inclusion of compliance with travel, fleet and fuel policies in the Internal Audit Plan.

3.4.3 Gifts, benefits and hospitality

The Gifts, Benefits and Hospitality (GBH) policy is an important part of the second line of defence. The GBH policy is also essential to managing conflict of interest.

Work on GBH will mean greater awareness and improved practices across the Department. Reforms are the result of collaboration with the Department's five Integrity Leadership Groups. The GBH models best practice and is aligned to Whole of Victorian Government practices and the Victorian Public Sector Commission's model policy.

Communications about GBH have been closely integrated with other initiatives such as the 'Thanks is Enough' campaign. This campaign encourages people to let suppliers and others know that thanks is enough and no gifts are needed.

The revised GBH policy has been implemented for corporate staff.

An enhanced GBH Registry system for schools will be implemented by June 2018.

3.4.4 Commercial opportunities

Operation Dunham found that Department officers did not seek advice or permission from the Department about the establishment of a private company to exploit an idea developed at school, by school staff, on school time.

IBAC's Operation Dunham recommended that the Secretary review current arrangements governing how schools and other work areas pursue and respond to commercial opportunities, to ensure appropriate controls apply around transparency accountability, central oversight and risk minimisation.

The Department has commissioned an independent review to assess the efficiency and effectiveness of controls to manage the risk identified by IBAC — that corporate or school staff use their positions or expertise, or the Department's intellectual property, for potential personal gain. The audit will identify opportunities for improvement.

3.5   Integrity framework

In its first report to IBAC in 2016, the Department detailed the establishment of its Integrity Framework, which develops and sustains its integrity systems. The Integrity Framework is based on values, ethical leadership compliance and assurance, and four 'KEEP' actions:

- Know what is expected
- Educate and guide
- Ensure we do the right thing
- Protect our education system.

In September 2017, the Integrity Committee approved an Integrity Performance Reporting Framework for Department-wide oversight of integrity, beyond the life of IRP projects.

The framework provides the Integrity Committee with an evidence base to assess the effectiveness of the IRP, and integrity reform generally. This will allow for well informed decision-making about the impact of reforms, and guide the Department's ongoing integrity strategy.

By monitoring integrity-related reforms, the Department aims to:

- demonstrate clearly how integrity reform initiatives align and contribute to the achievement of strategic objectives
- support transparency and insight
- understand and assess the impact of integrity policies
- provide direction for risk controls and treatments
- promote a learning organisation that harnesses information, systems and technology to support decision-making.

The indicators for measuring integrity performance include indicators of effectiveness, positive integrity (behaviours, decision-making) and the absence of integrity (non-compliance).

3.6   Compliance

The IBAC hearings identified actual and potential non-compliance with laws and regulations, and a lack of awareness, oversight and monitoring of the Department's compliance requirements. To address these issues, the Department is improving its systemic approach to compliance. This will also increase employees' awareness of compliance obligations.

Work has commenced on developing a departmental governance framework for identifying, managing, monitoring and assessing compliance and compliance-related risks. This framework includes arrangements for the creation, use and maintenance of a compliance register, which will be supported by a compliance function in the Legal Division.

The Department has also consulted with all other Victorian government departments regarding their approach to compliance, and consequently is engaging in further consultation with three departments that can offer further insight and learning on compliance.

The Department's compliance register will be an electronic, searchable register of all legal and quasi-legal departmental compliance obligations. It will be maintained and updated by the new compliance function in Legal Division to support employees with compliance queries.

The compliance register will clarify responsibility and accountability for meeting compliance obligations in corporate areas and schools, and will identify risks associated with all compliance obligations.

The compliance framework will be used by and inform existing Department business functions and processes, including business planning, risk assessment, and audit functions.

To date, the Department has progressed this work by:

- employing a dedicated Legal Compliance Officer in Legal Division
- consulting executive directors to assist with the identification and allocation of compliance responsibilities which has also raised awareness about compliance more generally
- recording the compliance obligations that apply at the divisional level, together with a risk rating.

At the completion of the project, the Department will have a systemic rather than ad-hoc approach to departmental compliance.

The first line of defence will be strengthened by responsible executive directors who are more aware of their compliance obligations. All employees will be able to access a comprehensive, up-to-date resource that identifies departmental compliance obligations and allocates accountability at the executive director level.

Success will be measured by ongoing monitoring of compliance issues through the Internal Audit Plan, and positive internal audit reports on areas at risk of non-compliance. Success will also be measured by the inclusion of compliance responsibilities in policies, programs and business plans.

3.7   Complaints management

Operation Ord and Dunham investigations found that employees feared reporting possible misconduct and corruption and had little confidence in the mechanisms available to raise concerns.

Effective complaints management systems, and staff who are willing to use them, are critical to strengthening the second line of defence.

To encourage employees to raise concerns about suspected fraud and corruption, the Department established the 'Speak Up' hotline, hosted by an independent third party. It is now an established part of the Department's complaints framework.

In 2016, in response to feedback from principals and stakeholders, refinements were made to the Speak Up processes. These included:

- establishing a 'triage' process and committee, with representatives from key areas across the Department, to facilitate the efficient allocation of reports received to the appropriate area
- awareness-raising initiatives to ensure all staff are aware of the avenues for raising different types of complaints, or to lodge grievances.

The new triage process means that reports to Speak Up that do not raise suspected cases of fraud or corruption are still dealt with appropriately. Other issues, such as bullying, are referred to the appropriate Department area.

Improvements have also been made to the management of complaints and investigations relating to suspected fraud and corruption. These include revised process maps and guidelines for handling complaints, templates for correspondence, an investigations manual and a strong focus on responsiveness.

3.8   Policies and processes to support people and performance

Operations Ord and Dunham revealed a culture of non-compliance and entitlement and a disregard by certain senior executives for Public Sector Values, particularly integrity, accountability, and leadership.

IBAC also identified a lack of accountability for misconduct and non-compliance with recruitment policies, including employment of family members and associates.

IBAC recommended the Department review its employment policies and practices for all employees, and improve disciplinary and dismissal processes for employees found to have engaged in serious misconduct or corruption.

IBAC also recommended that those found to have behaved corruptly or improperly be excluded from obtaining work with the Department, including in schools.

In response, there have been changes to legislation to allow summary dismissal of teachers, changes to the employment limitation and strengthening of conflict of interest policies.

IBAC also recommended that the Department strengthen integrity and prevent corruption by improving staff understanding of the Values, and of employment policies and practices.

In response, the Department has amended processes for recruitment, position descriptions and Performance Development Plans. This reinforces the IRP's focus on Values and behavioural change, including through the Investing in Our People Strategy, described in chapter 2.

3.8.1 Legislative change — summary dismissal

The Department supported the Government to amend legislation on summary dismissal. The amendment enables the Secretary, as the employer of school staff under the *Education and Training Reform Act 2006* (Act), to remove staff for serious misconduct more quickly, effectively and confidently. The *Education and Training Reform Amendment (Miscellaneous) Act 2016* (Amendment Act) amended the Act to empower the Secretary to summarily dismiss a member of the teaching service for serious misconduct.

Parliament passed the Amendment Act on 17 August 2016 and the amendments commenced on 29 September 2016.

These summary dismissal powers send a clear signal to the public sector and wider Victorian community that the Government will not tolerate serious misconduct, closing a gap to protect public money and safety. The reforms also align dismissal procedures for the teaching service with those for the public service.

The Department worked closely with unions and principal groups to establish a consensus for reform and ensure procedural fairness for staff. This has resulted in revisions to the Department's Guidelines for Managing Complaints, Misconduct and Unsatisfactory Performance in the Teaching Service. The guidelines were updated on 29 September 2016 to provide that the Secretary must act fairly and reasonably when exercising the summary dismissal power, including by complying with:

- the rules of natural justice
- the Charter of Human Rights and Responsibilities
- the *Equal Opportunity Act* 2010.

The Department can now manage serious misconduct consistently across the corporate and teaching workforce, and has the clarity, certainty and confidence to deal quickly and fairly with serious misconduct.

3.8.2 Exclusion of people and entities found to be improper or corrupt

The Department has been working on a mechanism to exclude people (employees) and entities (for example, contractor) from performing services for the corporate Department and school councils if they have been found to be improper or corrupt by IBAC.

Department vetting processes already include checks to exclude those with relevant criminal convictions from employment with the Department.

The Department also excludes persons from employment where a departmental employment investigation has found they engaged in misconduct, or unsatisfactory performance. Under the Department's Employment Limitation policy, the Department also excludes persons if an employment investigation commenced but was not finalised because the person left the Department — for example, if a person resigned or was at the end of their contract.

The Department anticipates that this approach will build on existing policies, procedures and practices to exclude former employees who have been found by the Department to have engaged in misconduct.

The Department will apply revised policies to persons about whom adverse comment, opinion or findings were made in Operations Ord and Dunham, or any other IBAC inquiry. While the processes are under development, the Department will use interim arrangements to move towards the intended outcomes.

3.8.3 Conflict of interest

The Secretary committed to considering how to bring ongoing and continued focus to conflict of interest policies for all staff as part of business as usual.

The Department has focused on the management of conflict of interest as a central integrity issue for leaders. Identifying and managing conflict of interest is about good, ethical leadership and management, reducing reputational risk and maintaining community confidence in public education.

Since 2015, the Department has worked on improving awareness and management of conflict of interest through:

- development of a comprehensive Conflict of Interest Framework and Policy in 2016, with refreshed design and branding in July 2017
- development of a Conflict of Interest Toolkit, with information sheets, checklists and case studies
- development of a fact sheet that outlines the measures principals must take to manage conflict of interest if a family member applies for a job in their school
- moving the Declaration of Private Interest (DPI) process to an online form
- development of a dedicated conflict of interest intranet page to provide resources to staff

- development of an e-learning module on conflict of interest
- leaders talking about conflict of interest in presentations to principal forums and principal organisations
- engaging with principal organisations (Australian Principals Federation, Victorian Principals Association and Victorian Association of Secondary School Principals) in the development and promotion of conflict of interest resources
- a conflict of interest awareness campaign as part of the 7in7 Values for Schools program, with July's 'Integrity Month' focusing on conflict of interest
- development of a new resource in July 2017, the Conflict of Interest (COI) Quick Guide, focusing on building capability in identifying conflict of interest in key areas for schools (recruitment and procurement)
- regional directors mailing the COI Quick Guide directly to all school principals
- promotion of an electronic version of the COI Quick Guide in all schools, and regional and corporate communication channels, to support conflict of interest discussions.

As a result, the Department has an accessible, comprehensive conflict of interest policy and supporting guidance material. There is an ongoing focus on conflict of interest management for all staff as part of business as usual.

Principals and managers regularly seek advice from the Department's Employee Conduct Branch and the regional Integrity Liaison Officers on conflict of interest issues. The types of enquiries indicate conceptual understanding and capability in identifying conflict of interest, including in situations in which conflicts are not readily resolved, such as ongoing management of family employees in schools.

The Conflict of Interest Reform Project is now focused on the development of a Conflict of Interest register (the COI Register) with the potential for on-demand reporting, integrated approvals and early warning for compliance. A centralised and easy to navigate COI register will build on the Department's second line of defence through system improvement.

For staff, the COI Register will minimise integrity risk, simplify compliance and reduce administrative burden. The COI Register will enable assessment of conflict of interest awareness and compliance, through data analysis and monitoring. It will allow the Department to identify trends in conflict of interest and targeting training accordingly.

Using the COI Register, the Department will be able to evaluate success by analysing data for accurate identification of conflict of interest and appropriate management plans.

A baseline measure of success will be the uptake of use of the COI Register. The Department is working with the Department of Premier and Cabinet's Behavioural Insights Unit to optimise successful uptake of the COI register.

Capability in identifying conflict of interest is increasing and employees have relevant information. Supporting compliance with a well-developed system tool will support ongoing effective management of conflict of interest, and result in improved ability to perform data analytics and ongoing evaluation of the effectiveness of the reforms.

"

Principal and business manager stakeholders have worked with the Department to shape a common sense approach for identifying and managing conflict of interest (COI) in schools.

Judy Crowe, President of the Victorian Association of Victorian State Secondary Principals (VASSP), said that working together has helped shift perceptions and build trust.

'Initially there was a negative response to discussion around COI as the message seemed to be that certain actions, especially around staffing decisions, were prohibited,' Judy said.

'The message that COI is about protecting individuals rather than providing a blanket ban to certain actions is gaining traction.'

'We are pleased to support the Department to get this message across.'

By contributing to a refresh of the materials, VASSP and other stakeholders ensured schools had access to practical advice and support for managing real and often complex issues.

Judy said: 'As the policy and support materials have been rolled out, the Department's more balanced approach has been better received.'

"

3.8.4 Recruitment

Recruitment processes have been strengthened through review of documents and training for managers about how to recruit effectively, building confidence in the recruitment process. Recruitment guidelines for corporate and school staff have also been reviewed and enhanced.

The Values have now been incorporated into presentation slides for new staff induction programs and manager induction programs. All additional induction material has been reviewed and enhanced to highlight ethical behaviours and include Values, ethical decision-making and Speak Up. Approximately three quarters of the 361 corporate employees who attended induction sessions between June 2016 and June 2017 found the face-to-face induction helpful.

The Department has improved access to VPS jobs for school audiences via Recruitment Online — the Department's online job advertisement system for Victorian Government school jobs.

Merit Protection Board training was refreshed in 2016, to include a stronger focus on integrity in recruitment. In 2016, 1364 people were trained; 627 people have been trained to date in 2017. In the subsequent 2017 People Matter Survey of corporate staff, 63 per cent of respondents said they strongly believe recruitment is based on merit, compared to 53 per cent in 2016. Sixty-five per cent of respondents said they strongly believe that the people recruited to the organisation have the right skills for the job, up from 57 per cent in 2016.

The next reform steps in this area include:

- a corporate succession planning framework to assist managers in their workforce planning (currently in development)
- a succession management module in eduPay (to be developed in 2018 for corporate, and in 2019 for schools). The module will provide an end-to-end approach to employee data captured in eduPay, including data from payroll, PDP and the Learning Management System.

3.8.5 Performance Development Plans and position descriptions

Performance Development Plans (PDPs) and position descriptions have been reviewed to ensure the Values, qualifications, experience and skills are included.

Position descriptions for corporate staff are now clear and concise. They are current, reflect the roles being undertaken and accurately describe each employee's responsibilities. This gives prospective employees and hiring managers a better understanding of expectations and behaviours for a role, supporting the selection process.

The PDP process requires all corporate staff address the Values in their performance plans. Face-to-face PDP training for corporate staff was conducted across all regional and central areas to align with the rollout of the online PDP tool and the online video resources available to both school and corporate staff. The PDP system was automated in eduPay and launched in schools and corporate areas.

These changes are expected to improve managers' ability to manage performance, including misconduct. Clarifying roles and responsibilities means that staff and their managers have a shared understanding of what their jobs entail.

The Values will be incorporated into position descriptions by the end of 2017, followed by PDP guidance documentation for school employees.

INDEPENDENT AND ROBUST AUDITING: THE THIRD LINE

4

4. INDEPENDENT AND ROBUST AUDITING: THE THIRD LINE

The Department's audit function is its third and final line of defence against corruption. It is critical to ensuring that proper process is followed.

Operation Ord found that the Department's audit programs failed to detect problems. For example, an audit undertaken in 2010 of program coordinator schools did not identify any fraudulent conduct — despite finding inadequate governance and controls in program coordinator schools. The failure of such audits can be partly attributed to deliberate acts to conceal false transactions, and to poor financial management practices.

Operation Dunham found resistance by some Department executives to the third line of defence. Among many examples was the repeated refusal to put Ultranet on the Internal Audit Plan, and the failure of the Department's audit program to detect the misuse of funds through schools.

In response to these findings, the Department focused on strengthening its third line of defence. It overhauled its audit processes and instituted reforms including:

- strengthening the governance and capability of the Audit and Risk Committee
- instituting a robust, risk-based approach to audit planning, including root-cause analysis
- developing a data analytics strategy
- strengthening the audit actions follow-up processes
- a new, more rigorous school audit program, in place from 2015-16 onwards.

4.1 Audit and Risk Committee

Improvements to the audit function included changes to governance arrangements and processes for the Audit and Risk Committee, formerly the Portfolio Audit and Risk Committee. The Audit and Risk Committee (ARC) assists the Secretary to fulfil her oversight and governance responsibilities and obligations under the *Financial Management Act 1994* (FMA). In accordance with the FMA and the associated Standing Directions of the Minister for Finance, ARC monitors:

- financial reporting and financial statements
- risk and performance management systems
- internal audit function
- monitoring and reporting of audit actions
- compliance with the FMA, laws, regulation, internal policies and industry standards (including compliance breach reporting)
- external audit (including the Auditor-General and duly appointed representatives)
- remedial action of audit issues.

Changes to ARC have included updating its terms of reference and assessing its membership on a capability and skills matrix, and documenting an escalation process for disagreements between management and Internal Audit regarding audit findings and actions. These changes, and the improved escalation process, have improved governance and processes for ARC.

The effectiveness of the changes to ARC will be demonstrated by:

- supporting the Secretary to identify significant risks and serious non-compliance
- communicating the right information at the right time
- providing trends on the controls environment and risk management which assist management to address the causes of issues.

4.2   Internal Audit Plan

The Department's Internal Audit Plan was improved by implementing a clearly defined third line of defence and focusing assurance efforts on high-risk areas.

The process outlined in the Internal Audit Plan for October 2016 to September 2020 takes a risk-based approach. This ensures audit efforts are focussed on effectively addressing risks to the Department's objectives. The Internal Audit Program for 2016-17 included 32 internal audits.

The effectiveness of the changes will be demonstrated through the ability of Internal Audit to support ARC and senior management to prioritise issues and focus areas, identify issues as they emerge, build a stronger control environment, and improve governance processes for the Department. These will improve efficiency in processes, allowing the Department greater scope to deliver on educational outcomes.

In August 2017, the Victorian Auditor-General's Office (VAGO) released its report on the Internal Audit Performance of Victorian government departments. VAGO commented that the Department of Education and Training's internal audit function 'goes much further than complying with the minimum legislative requirements and adopt(s) many aspects of better practice'.

Of VAGO's 10 recommendations, only two pertained to the Department of Education and Training. These were that:

- all departments review existing internal audit performance indicators to ensure they reflect a balanced scorecard approach and agree on a set of indicators, measures and reporting frequency with the audit committee
- Department of Education and Training, and the Departments of Environment, Land, Water and Planning; Health and Human Services; and Treasury and Finance should improve assurance mapping to include all sources of assurance and an assessment of the adequacy of risk coverage to provide the audit committee with a comprehensive view of the level of assurance.

The Department has accepted these recommendations and will:

- adopt a scorecard approach and agree on a set of indicators, measures and reporting frequency with ARC by December 2017
- improve assurance mapping to include all sources of assurance and an assessment of the adequacy of risk coverage to provide the audit committee with a comprehensive view of the level of assurance by May 2018.

4.2.1   Internal audit reporting

IBAC found that the Department's internal audit reporting process failed to detect problems across the Department. It found management was slow to respond to poor audit results, allowing corrupt behaviour to continue.

In response, the audit reporting process was changed to give ARC and Executive Board better visibility of open audit actions with a focus on long-outstanding issues, high-risk rated issues, and internal audit reports with an overall rating of 'unsatisfactory' or 'needs improvement'.

Increased awareness and accountability for audit actions has been championed by the Department's senior leaders, including the Secretary. This encourages responsiveness and accountability for completing audit actions across the Department. Quarterly meetings at many levels across the Department — including meetings between the ARC Chair and the Secretary — create and reinforce cultural change, and encourage ongoing focus on the internal audit process.

These system and process changes will continue and have already increased awareness and accountability for audit actions. Audit actions closed in the past 12 months have increased, and overdue actions have decreased significantly from 111 at June 2016 to 65 at June 2017.

4.2.2 Assurance data analytics

IBAC found that the use of computer assisted auditing techniques (CAATS) in audits was limited. It found a lack of a strategy for analytics, and the development of scripts without strategy.

The development of an Internal Audit Data Analytics Strategy was detailed in the Secretary's first report to IBAC. The strategy governs processes and the use of data analytics in assurance activities and fraud investigations.

The first phase of the strategy has been finalised. It will:

- strengthen the Department's capability to provide effective third line assurance in a technology-reliant and data-driven operating environment

- improve the fundamental data analytics capability of all internal auditors through mandatory training in new, more robust data analytic tools and techniques

- improve efficiency in executing audits (compliance, risk-based or ad-hoc), analytics and reporting through robust, integrated and intuitive systems and processes

- drive control and management assurance practices using data analytics in the first and second lines of defence. Insights derived from Internal Audit's Data Analytics Program will be shared with second line functions to further develop and enhance their capabilities.

IAD's second line of defence data analytics are scheduled to be incorporated into the strategy by March 2018.

Internal Audit is in regular contact with business areas to understand their assurance activities using data analytics. For the business areas that have recently developed and implemented second line assurance activities, such as FSD, Internal Audit will identify audits from the 2017-18 Internal Audit Plan and/or in future plans, which may involve an independent assessment of the design and operating effectiveness of these controls. In some circumstances, Internal Audit may rely on the second line's assurance work, after verifying that the work has been appropriately designed, documented and reviewed.

Data analytics is being adopted across the Department in both the second and third lines of defence to improve the effectiveness and efficiency of auditing in the Department.

4.2.3 Financial services data analytics

Operation Ord found that financial transactions were not transparent and lacked oversight, particularly school finance and low value transactions.

To complement the Assurance Branch Data Analytics Strategy, and to strengthen the second line of defence, FSD also developed a Data Analytics Strategy. It monitors relevant corporate and school financial transactions, including low value transactions, and establishes clear links between business planning and budget processes. The strategy was developed by considering all business areas of the Department and their respective analytical needs.

All key reforms were delivered by 30 June 2017. Many have become business as usual activities for the FSD. Reforms include:

- a new FSD operating model, including a Business Monitoring and Financial Compliance unit

- development and documentation of a Corporate Data Analytics Strategy

- a data analytics tool for schools.

The school data analytics tool is improving oversight and targeting support. Schools have been supported and advised on isolated incidences, and problems forming a pattern have been addressed with broader measures such as updates, tools and templates in the new finance manual.

Longer term measures to support ongoing monitoring are:

- ensuring all FSD staff are trained and can use the corporate data analytics tool by September 2017

- an FSD data analytics strategy, implemented by 31 December 2017

- low value channel monitoring improvements (implementation will commence by December 2017).

4.3 School audit

The Department overhauled its audit processes and has used a new, more rigorous school audit program from 2015-16. Known as the School Council Financial Assurance program (SCFA), it includes risk-based School Internal Audits (SIAs) and Agreed Upon Procedures (AUPs), which are now part of business as usual activities. The SCFA program is reviewed and approved by the ARC annually.

In developing the new audit program, FSD and IAD first mapped the assurance activities of all schools. This included ranking the level of assurance each activity provided. The new audit program addressed identified gaps and low assurance items.

The Department conducted AUPs at 269 schools in 2016, and at 267 schools in 2017.

In 2015-16, 104 schools were visited and 105 were visited in 2016-17 to conduct the SIAs. SIAs focus on high-risk areas and on concerns highlighted in IBAC findings.

This new process lifts assurance levels and allows Internal Audit to better identify and support schools and business units. It also provides greater insight to school financial management and highlights opportunities for improvement.

AUP results give a high level of assurance on the completeness and accuracy of schools' finances. They also allow schools' financial controls to be properly assessed. Their long-term effect will be a stronger control environment at schools.

The 2016-17 SIAs had positive outcomes. The audits found:

- schools were receptive to audit findings and some were proactive in addressing them during fieldwork

- some schools have business managers with strong financial capabilities. These business managers have good control of school financial affairs and strengthen the first line of defence for the Department

- schools were more aware of the Department's requirements for circulating financial information to the school council and/or school council finance committee, compared to the previous year.

> The Department's 2017 local payroll audit highlighted strong practices and areas for improvement at the Victorian College of the Arts Secondary School.
>
> Business Manager Marti Ferraro said: 'More than assurance, the audit provided a sense of accomplishment for our team.'
>
> 'Our school has complex payroll needs; we have over 15 different pay rates for 130 casual specialist staff.'
>
> Marti said the findings reaffirmed existing processes and demonstrated successful implementation a key reform to move local payroll from CASES21 to eduPay in 2017.
>
> The audit also supported the school to strengthen its accountability.
>
> 'It's not uncommon to have an employee record three different roles on three different rates of pay on the one timesheet.'
>
> 'The audit helped us show more clarity on the timesheet of which hours reflected which rate.'
>
> School auditor Jay Kariyawasam said that analysing the findings with Marti identified ways to save time and costs.
>
> 'It's rewarding to support schools to identify potential cost savings, because we know that these savings will be passed onto students.'

FUTURE WORK
AND NEXT STEPS

5

5. FUTURE WORK AND NEXT STEPS

The Department is focused on delivering the IRP until the end of 2018.

In the next 12 months the Department will:

- evaluate the 7in7 in schools to inform future Values initiatives

- develop new resources to support ethical decision-making in schools

- introduce new, intuitive corporate procurement processes to address non-compliance and 'work arounds'

- continue to strengthen risk management to better identify and mitigate risks to integrity, in every office and school

- implement a revised travel policy, consistent with the Whole of Victorian Government policy

- develop a Gifts, Benefits and Hospitality Register for schools

- develop a Conflict of Interest Register.

5.1   Final Dunham report in March 2018

The Department will report to IBAC on the effectiveness of its response to IBAC's recommendations in relation to Operation Dunham by the end of March 2018.

APPENDIX

A

APPENDIX A: IBAC RECOMMENDATIONS AND DEPARTMENT RESPONSE

Operation Ord recommendations		Report reference	
1	The Secretary of the Department to provide IBAC with a detailed progress report by 30 December 2016 on the implementation of its reform program to address the issues identified during Operation Ord and a final report demonstrating the effectiveness of these reforms by 30 September 2017. These reports will be published on IBAC's website.		
2	The Secretary's reports are to advise on actions to strengthen integrity and corruption prevention across the Department (including schools) in relation to the following issues, inter alia:		
2.A	All employees' understanding of and compliance with public sector values and the code of conduct, and departmental policies and procedures related to conflicts of interest, declarable associations and, gifts and benefits	2.1 2.3.3 2.3.4	3.4.2 3.4.3 3.8.3 3.8.4 3.8.5
2.B	Employment policies and practices, including pre-employment vetting of prospective employees and regular revalidation for employees in identified positions, the potential for rotation of employees in identified positions and executive roles, and any steps taken to improve disciplinary and dismissal processes for employees found to have engaged in serious misconduct or corruption	2.2.2	3.8.1 3.8.2
2.C	Financial management, procurement and contracting systems and controls, and associated employee training and compliance measures	3.3 3.4 3.5 3.6	
2.D	School governance and financial management arrangements, including the proposed new model to deliver 'shared services' to schools (i.e. any new approach to program coordinator schools) and relevant policies, procedures and other controls	2.3.4	3.3 3.4 4.3
2.E	Audit and risk management programs to provide assurance in areas of identified risk	3.2	4
2.F	Mechanisms to encourage and support employees to speak up and report suspected misconduct or corruption, and to ensure appropriate assessment, escalation and investigation of such matters	2.3.1 2.3.2 2.3.4	3.7
2.G	Leadership and management programs to ensure executives are accountable for modelling integrity and public sector values, and to set the right tone at the top	2.2	
3	The Department to undertake a review to identify and audit any schools in addition to those identified by Operation Ord that may have been used inappropriately as banker schools to expend funds on behalf of either regional or central office.	3.3.4	
4	The Department to take appropriate steps to exclude people and entities whose behaviour has been found to be improper or corrupt from obtaining work with the Department (including schools) in future.	3.8.2	

Operation Dunham recommendations			Report reference	
1		The Secretary of the Department of Education and Training to provide IBAC with a detailed progress report by 30 September 2017 on the implementation of its reform program to address the issues identified in Operation Dunham, with a final report demonstrating the effectiveness of these reforms provided by 30 March 2018. These reports will be published on IBAC's website.		
2		The Secretary's reports are to:		
	2.A	Conduct a review of current arrangements governing how schools and other work areas pursue and respond to commercial opportunities, to ensure appropriate controls apply around transparency, accountability, central oversight and risk minimisation	3.4.4	4.1
	2.B	Advise on action taken to strengthen internal procurement and governance arrangements for major projects to ensure accountability and transparency, including proper record keeping, maintenance of conflict of interest registers, and proper documentation of complaints regarding probity	3.1.1 3.1.3 3.4.1 3.8.3	4.1