**Operation Ord**

**Statement of Gill Callister**

**Secretary of the Department of Education and Training**

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1. OVERVIEW

A. Introduction

1. Over the past eight weeks, the *Operation Ord* public hearings have revealed that corrupt officials used Program Coordinator Schools (**PCS**) administered by the Department of Education and Training (**Department**) to ‘hide’ cash, enrich themselves and undermine a system that was designed to provide a better service to Victorian schools and their students.
2. We have learned that through the misuse of PCS funding arrangements, school funds were used in ways that were designed to:
   1. misrepresent and misreport Departmental expenditure;
   2. avoid the need to comply with normal Departmental procurement and governance processes; and
   3. avoid potential public scrutiny of certain expenditure (such as Christmas party costs).
3. Most seriously, the evidence from the IBAC hearings has demonstrated that PCS arrangements were used to facilitate the misappropriation of public funds for the personal gain of a small number of senior Departmental officials (and, whether through travel, promotion or otherwise, to benefit their supporters in certain schools).
4. During the course of these hearings, we have been told that:
   1. members of a core group approved funding for school principals on the basis that certain invoices would be paid. School principals stated that they ‘trusted’ that these invoices were bona fide simply because Nino Napoli, Jeff Rosewarne and others were senior Department executives;
   2. some Departmental staff used statutory declarations for the majority of their expense reimbursements, instead of producing tax receipts;
   3. senior Departmental staff within the core group destroyed evidence to avoid audit activity;
   4. some senior Departmental staff indicated that they processed transactions outside of the documented processes because the then-Secretary would not have approved the process or transaction (such as the purchasing of wine for what were said to be staff events); and
   5. some Department staff, in both schools and Central Office, adopted an approach which regarded Departmental policies – in particular, conflict of interest, travel and financial governance policies – as bureaucratic or discretionary, rather than necessary controls for the protection against corruption and protection of public accountability and integrity.
5. It is clear there were inadequate controls at Central Offices, regional offices and schools to monitor PCS funds and hold people accountable for the use of these funds. Further, beyond the identification of corrupt behaviour, the Department has taken steps to assess compliance with existing controls in areas of sensitive expenditure. In so doing, it has identified a broader culture of poor compliance and lack of accountability in many areas (including travel authorisation, use of fleet vehicles and fuel cards and conflict of interest management) that would not withstand the test of public scrutiny.
6. There can be no single, or simple, response, to the matters uncovered during Operation Ord. It is our task – and, more specifically, it is my task as Secretary – to ensure that:
   1. any Departmental official or school office holder who abused their position for personal gain is identified and removed from the system;
   2. the system failures (and cultural problems) that enabled corrupt officials to hide and misuse public moneys for so long are identified and stopped; and
   3. the monitoring, oversight and auditing of moneys that are to be spent on Victorian schools is stronger, more targeted and far more capable of detecting misuse, abuse or systemic weakness.
7. Perhaps most importantly, we must ensure we have an integrity culture, underpinned by clear accountabilities and performance standards, to ensure integrity becomes the norm – in head office, in regions, and in schools. To achieve this we need to:
   1. ensure that management at all levels promote and ‘live’ high standards of integrity and conduct;
   2. ensure that the right people, with the right skills and the right values, are appointed to senior positions;
   3. ensure that all staff are appropriately qualified, skilled and experienced to perform their role, with access to ongoing training as required;
   4. ensure and support staff to ‘do the right thing’ and in so doing, provide appropriate ways for staff to report inappropriate behaviours;
   5. enforce accountability at all levels throughout the Department and our Government school system, ensuring staff understand consequences of non-compliance; and
   6. establish mechanisms to report on the integrity culture of the Department and our Government school system.
8. Significant progress was made in these areas under my predecessor, Richard Bolt, including:
   1. a major departmental restructure which saw nine regions reduced to four and the separation of operational management from policy, based upon a detailed analysis prepared by KPMG;
   2. development of a stronger risk management framework, implementation of a new conflict of interest regime and development of an improved governance system;
   3. recruitment of senior leadership from outside the Department;
   4. substantial investment in forensic audit and investigations (particularly in relation to Ultranet);
   5. a substantial reduction in corporate travel and hospitality expenditure;
   6. deployment of information technology (the CASES21 mirror) to enable the Department to interrogate transactions at the school level.

That said, Richard and I are in firm agreement that much more needs to be done.

1. We must accept that the Department could – and should – have done more to uncover the systemic abuses of the PCS arrangements and to address other avenues by which the fraud revealed by Operation Ord could have been detected or deterred.
2. We were given warnings: the 2010 Audit identified many of the problems that compromised PCS. Even though the corrupt transactions were well hidden, we should have taken firm actions to:
   1. instil immediate control within the PCS system;
   2. identify the extent and nature of PCS funding arrangements;
   3. investigate the possibility of fraud (given that the PCS audit identified an opportunity for fraud to be committed).
3. But in the absence of obvious warning signs, we simply did not contemplate that corruption, in this form, of this type, could start at the top.
4. Ultimately, the State uncovered the systemic failures and the corruption that took hold during the Napoli and Rosewarne years. It did so, through IBAC, over a period of more than two years.
5. Without understating the challenges that it has brought, the Department has welcomed and fully supported Operation Ord. It has laid the foundations for organisational reform and cultural change; its legacy will be a better public education system.
6. As Secretary, it is my duty to take the learnings from Operation Ord to make further changes to the Department for the better.

B. Steps Being Taken

*Abolishing the Program Coordination or ‘banker schools’ model*

1. I have decided to abolish the program coordination or ‘banker school’ model. The Department’s Executive Board has agreed to immediately cease funding of central and regional PCS arrangements (but the Department will honour existing binding contracts).
2. I understand that some $12.4 million in funds transferred under central and regional PCS arrangements is still held by our schools. That amount comprises:
   1. $2.5 million in PCS funding grants from regions to schools;
   2. Early Childhood and School Education Group funds of some $2.4 million; and
   3. Information Technology (Technical Support for Schools) funds of some $7.5 million.
3. Deloitte Access Economics have identified a clear rationale for benefits realisation from shared service coordination and delivery at a school level.
4. Further work is now underway on a new approach for delivering shared services – outside the Student Resource Package – to schools. This includes the development of a robust governance and controls framework for school group purchasing arrangements, supported by a detailed implementation plan.
5. While this work is underway, interim transitional arrangements (incorporating strict compliance measures) are in place. On 4 June, 2015 a circular was sent by the Acting Secretary to all school principals and business managers and corporate staff. It advised them that:
   1. effective 9 June 2015, no funding can be transferred from central or regional offices to schools without the approval of the relevant Deputy Secretary.
   2. any schools currently holding funds outside of formal program coordination arrangements should contact the Director of the Schools Resource Allocation Branch;
6. I am now directing all school principals to identify and return funding transferred through central and regional PCS arrangements, unless those moneys are committed under existing binding contracts.
7. The new approach will restrict joint purchasing arrangements to fewer schools and enable monitoring through a centralised register. Only key trained and authorised staff will be able to process grants, and will do so through a segregated payment process to increase oversight and accountability. The new approach will bring the way grants are managed in the Department in line with public sector best practice.
8. Pooling of resources for appropriate education purposes – and voluntary school-initiated coordination – will not stop. As part of our new approach, we will take steps to improve the accountability and oversight of these practices.

*Strengthening financial controls and compliance*

1. The public expects strong financial controls and compliance measures for the use of public education funding.
2. Whether the funds come from Central Office or school budgets, the Department should be able to account for its funds properly and give the public confidence that those funds have been spent wisely.
3. Building on the learnings from Operation Ord, I have engaged experts (including Deloitte and Protiviti) to independently review – and recommend enhancements to - the Department’s financial control and audit frameworks. From within, the Department’s Internal Audit function has conducted a series of reviews of our processes and has provided the findings to IBAC.
4. The first step in meeting the standards of public accountability is to require schools and school councils to strictly comply with purchasing rules (which have, to date, been mere guidelines).
5. The next step is to apply financial controls to address the weaknesses identified during the hearings.
6. A lack of compliance with financial policies across a range of areas as well as a disregard for prudent and appropriate expenditure featured prominently in the hearings. Practices that were highlighted – such as excessive and unapproved international travel – displayed a wilful disregard for public expenditure and accountability standards.
7. Stronger financial controls and compliance measures should not be viewed as a challenge to local decision-making in schools. Schools continue to have the capacity and flexibility they need to do things differently and respond to their communities’ needs.
8. Quite simply, these measures are about supporting all staff across the government school system to fulfil their duty to the public and ensure public money is fully accounted for.

*Procurement*

1. IBAC identified many fraudulent payments from schools to both sham and legitimate companies for good and services not provided. Schools directed payments without any checks on the legitimacy or integrity of companies or invoices.
2. The Department is developing a new detailed reform framework for school procurement as part of a wide ranging review of Department procurement policy and governance. To be implemented, this will require a new Ministerial instrument. Improved data analytics will be employed throughout the system identify patterns and anomalies (such as repeated supply to the same suppliers in similar low amounts) which may be potential indicators of fraud.
3. Simply, all purchases in schools and across the Department should provide value for money and raise no probity or process concerns.

*Low value transactions*

1. Many of the fraudulent transactions shown at IBAC were intentionally low value to minimise scrutiny and avoid procurement rules. To ensure better oversight of low value school purchases, the Department will, wherever possible, require all school transactions under $5,000 to be made on Department purchasing cards. This will allow for easier auditing and prevent rorting through the reimbursement process.

*Fraud detection*

1. The Department’s ability to identify fraudulent transactions was clearly insufficient.
2. New resources will be allocated to bring increased forensic and analytical skills as well as systems support into the financial services and audit and risk divisions of the Department. Further, computer assisted audit techniques will also be strengthened.

*Travel freeze*

1. The IBAC hearings identified inappropriate and excessive travel by some former executives, school staff, and in some cases, their spouses.
2. Some employees sought Department approval for work-related travel after their return. Others failed to produce any reports about what they gained from their travel, let alone any business case for why they needed to go.
3. The Department is reviewing its travel guidelines for all corporate and school staff to make sure there is a strong business case for every dollar spent on travel (while recognising that conferences can be a very important part of professional development).
4. Temporary travel restrictions for staff travel have been in place since 4 June 2015 while the review is underway.
5. Interstate and overseas professional development may be permitted if it meets strict interim criteria and is approved by me. This brings school staff in line with existing guidelines for corporate staff, who must already seek my sign off.
6. The ability for students to travel interstate or overseas with school is an important feature of a contemporary education. This is why the restrictions do not apply to trips with students.
7. For financial year 2015/16 and beyond, the Department will ensure all international travel, including for school based staff, will be reported in the Department’s annual report.

*Gifts, hospitality and other expenditure*

1. IBAC heard that some senior Departmental staff used statutory declarations for the majority of their expense reimbursements, instead of producing tax receipts.
2. Staff also indicated that they processed transactions, such as wine for staff events, outside the official processes to escape scrutiny through Freedom of Information and to avoid proper approval processes.
3. Since these incidents occurred, the Department has significantly tightened its procurement processes to improve transparency on expenditure. The Department is none the less reviewing all integrity-related policies and ensuring expectations and requirements are clearly understood by staff.

*Conflicts of interest*

1. Directing funds to businesses owned by relatives and friends is a conflict – to benefit personally from those transactions is corruption. At IBAC, we heard evidence of both.
2. In 2013, my predecessor, Richard Bolt (who is now the Secretary of the Department of Economic Development, Jobs, Transport & Resources), introduced a strong framework for managing conflicts of interest. This included a requirement for all principals and staff with a delegation of over $50,000 to complete an annual declaration of a private interest.
3. The Department will improve auditing and analysis of conflicts and increase training and support to ensure all relevant staff better understand how to comply.

*Risk Management model*

1. IBAC demonstrated an over-reliance on internal audit to identify non-compliance.
2. The Department needs to adopt a preventative approach to managing risk, underpinned by clear accountabilities and a strong integrity culture, to effectively mitigate non-compliance. In consultation with our external consultants, a new ‘three lines of defence’ risk management model is currently in development to meet this goal.

*Other compliance issues*

1. During the course of the Operation Ord hearings the Department has identified other conduct that demonstrates broader compliance and integrity issues. For example, it has been identified that fleet vehicles, meant for general regional duties, have in some instances been effectively appropriated for the personal use of senior officers, who are not eligible for personal use vehicles. This has created operational issues for other staff requiring access to vehicles. In some cases it seems that additional vehicles have been supplied through funds banked in school accounts.
2. Similarly, the Department has identified instances of apparent misuse of government fuel purchasing cards, evidenced by individual transactions for the purchase of quantities of fuel that exceed the capacity of fleet vehicles. The Department is investigating clear breaches of purchasing rules and will be examining ways to address this behaviour.
3. The Department is conducting an audit of all vehicles in the fleet and associated fuel cards to strengthen accountability.

*Integrity Reform*

1. I will not tolerate corruption in my Department. I will do everything in my power to foster a culture in which integrity and accountability become the norm.
2. Corruption is ultimately about conduct and how people choose to behave. Our best defence against corruption and the sort of conduct that leads to corruption is to reinforce appropriate behaviour and the values of integrity, transparency, accountability and respect across the organisation.
3. Operation Ord has highlighted serious concerns about the past culture of the Department. Inappropriate and unprofessional conduct was permitted and even encouraged in some circles. Concerns about this conduct were not followed up and poor conduct was not held to account.
4. This conduct has damaged the reputation of the Department and the staff who consistently conduct themselves with integrity and professionalism. We owe it to them, and the public, to redefine the culture with integrity at its core.
5. The Department recognises that it has an obligation to maintain and uphold the highest standards of integrity and public trust.
6. Building on the framework developed by former Secretary Bolt, I approved the establishment of a Departmental Integrity Committee to oversee the development of an integrity reform program. This committee includes an external independent integrity advisor and the independent chair of the Portfolio Audit and Risk Committee.
7. The program to be delivered through this committee will include actions to address issues that have been identified through Operation Ord, and will feed into broader organisational reform.

*Defining Integrity and accountability*

1. The Victorian *Public Administration Act 2004* (**PA Act**) sets the expectation of integrity and accountability for all public servants within the Victorian Government public sector values.
2. Integrity includes:
   1. Being honest, open and transparent in their dealings; and
   2. Using powers responsibly; and
   3. Reporting improper conduct; and
   4. Avoiding any real or apparent conflicts of interest.
3. Accountability includes:
   1. Working to clear objectives in a transparent manner; and
   2. Accepting responsibility for their decisions and actions; and
   3. Seeking to achieve best use of resources; and
   4. Submitting themselves to appropriate scrutiny.

*Creating an integrity culture*

1. The Department is working with the Public Sector Commissioner to engage an independent expert to conduct an in-depth review of adherence to public sector values and the *Code of Conduct for Victorian Public Sector Employees (No 1) 2007* (**Code of Conduct**).
2. The expert will look at the values and conduct in Department offices and schools across the state to identify systemic cultural and conduct issues and opportunities to address these issues and build an integrity culture.
3. What we learn will be shared across government agencies to inform a stronger state-wide focus on public sector values.

*New Integrity Division within the Department*

1. I will establish a new Integrity Division within the Department, which will oversee the Department’s focus on integrity.
2. This new Division will report directly to me and will work alongside our legal, human resources and audit divisions to investigate misconduct, improve the Department’s capacity to detect fraud, and promote high standards of integrity across the organisation, starting from the top.
3. The Division will build a strong reporting culture by creating and socialising a new whistle-blower framework that will ensure staff can easily and confidently report inappropriate conduct and any concerns they may have about culture.
4. The complaints management process will be strengthened to support this work.

*Making staff more accountable*

1. High levels of accountability will be enforced at all levels of the Department and staff will be held to account for non-compliance. As of the 2015-16 cycle, we will embed integrity into Executive performance plans.
2. The Code of Conduct is binding for staff, and decisive employment action will be taken against staff who breach the code.
3. The Department will examine legislative and regulatory change to ensure it can act quickly to remove staff, including school staff, for misconduct.

*Rotating executive officers*

1. Leaving senior staff in the same role for too long is widely considered as a contributing factor to corrupt conduct. This is certainly reflected in the employment history of the senior executives involved in the IBAC investigation.
2. The Department is committed to rotating senior staff to different roles on a periodic basis. This will help prevent unhealthy networks from developing. It will also serve to extend the skills and networks of senior staff and encourage open, outward-looking work environments.
3. Similarly, the Department intends to create structural pathways for senior school staff and principals into public policy and administrative roles. This will build executive capability, provide career pathways and break down existing barriers between schools and Central Office.

*Principals*

1. Some principals consistently claimed at IBAC that they followed executives’ orders, and because of the executives’ seniority, had no reason to question their instructions. This is despite being asked to make payments which, on their face, were clearly irregular.
2. The established financial training programs for principals will be renewed with a stronger focus on integrity and school procurement training. It will reflect any changes made to the schools procurement framework and policy.

*Business managers*

1. Evidence provided at IBAC suggested that primary schools were targeted by senior executives due to the relative inexperience of their business managers.
2. The Department is working with business managers and external experts to develop a new targeted professional development program to help business managers achieve appropriate professional standards. An online assessment tool will assist in identifying where support and training is needed most.

*School council presidents*

1. School council members generously volunteer their time and expertise to Victorian schools. They need (and will be given) greater support to fulfil their roles and discharge their responsibilities, which may include signing off financial transactions

*Corporate staff*

1. Broadly, IBAC demonstrated an insufficient and inconsistent understanding of financial policies and responsibilities across the Department. To address this weakness, the Department will develop a comprehensive and mandatory training program for all employees with procurement responsibilities. This will include modules on probity and integrity.

*Whole of government response*

1. At a whole of government level, the Victorian Public Sector Commissioner is leading work on behalf of the Victorian Secretaries Board (**VSB**) to identify key whole of government corruption risks, opportunities to strengthen public sector corruption prevention, and articulate the role of the VSB at that whole of government level. All departmental secretaries and the Chief Commissioner of Police are strongly engaged with this work.
2. This includes external advice from, and an upcoming VSB workshop to be facilitated by, an independent and external party, Dr Ian Watt, formerly Secretary of the Department of the Prime Minister and Cabinet.

2. DEPARTMENT OVERVIEW

A. Organisational structure

1. As Secretary, I am directly responsible for the management of the Department. I manage a $12 billion budget and lead over 65,000 staff in government schools and 2,500 corporate staff.
2. The Department is organised into six central groups, each of which is based in the Department’s Central Office. Each reports to a Deputy Secretary. The groups are: Early Childhood and School Education Group, Higher Education and Skills Group, Regional Services Group, Strategy and Review Group, Infrastructure and Finance Services Group and People and Executive Services Group.

*Executive Board*

1. The Department is managed by an Executive Board comprising the Secretary, the head of each of the Department’s six groups, and the Chief Executive Officer of the Victorian Curriculum and Assessment Authority. The Executive Board is the ultimate governance and decision-making body for the Department. It is accountable for:
   1. strategic direction and leadership of the Department;
   2. management of the Department;
   3. decision-making;
   4. risk management;
   5. monitoring and evaluation of the Department’s activities;
   6. compliance;
   7. stakeholder management.

*Regional offices*

1. The Department's regional offices play a critical role in implementing departmental policies. The offices are:
   1. North Eastern Victoria Region;
   2. North Western Victoria Region;
   3. South Eastern Victoria Region; and
   4. South Western Victoria Region.

Regional Directors oversee the Department’s four regions. Regional Directors report to the Deputy Secretary, Regional Services Group.

1. Each Regional Executive comprises the Regional Director and three Deputy Regional Directors (DRD):
   1. DRD Service Planning (service provision, planning, facilities and emergency management);
   2. DRD Child, Learner and Family Services (delivers key services directly to clients, including specialist services, nursing and visiting teachers); and
   3. DRD Provider Performance, Accountability and Improvement (monitors performance of the learning and development system)

*Standing subcommittees*

1. Between 2013–15, the Executive Board has had the following standing subcommittees:
   1. *Budget and Infrastructure Committee*

The Budget and Infrastructure Committee (**BIC**) is responsible for ensuring effective strategic development and coordination of Departmental finances, physical assets and information technology, and providing advice to the Executive Board on these matters.

BIC’s focus includes the Department and the state-wide statutory authorities (the Adult, Community and Further Education Board, the Victorian Curriculum and Assessment Authority and the Victorian Registration and Qualifications Authority) that are primarily funded through the Department.

* 1. *Early Childhood and School Education Standing Committee*

During 2013–14, the Early Childhood and School Education Committee was responsible for leading and implementing learning, development and wellbeing improvement strategies for children and young people aged 0–18 years, and ensuring alignment across the Department. The committee identified projects resulting from key reform statements, coordinated the development of policy options and initiatives, and oversaw monitoring, reporting and communication with regions, schools and stakeholders. From 2015, this committee this been dissolved and the oversight responsibilities transferred to the Education State Board.

* 1. *Education State Board*

The Education State Board (**ESB**) will oversee the Education State reform program. It comprises the Executive Board members and the four Regional Directors. It has the full delegation of the Executive Board with respect to Departmental decisions pertaining to the Education State reforms.

The core focus of ESB is the strategic direction of the reforms, the related work program, submissions and/or business case development for Cabinet, its sub-committees or other decision-making bodies, and resource allocation to the reform projects and work program. ESB will own the end-state of the reforms and the plan to deliver this end-state. ESB is responsible for ensuring that all relevant activities of the Department align with the Education State vision and principles.

* 1. *Education State – Organisational Reform Steering Committee*

The Organisational Reform Steering Committee is responsible for the successful implementation of all organisational reform projects. The Organisational Reform Steering Committee will seek to deliver the projects in accordance with Departmental plans and objectives and will provide sound governance of all tasks associated with the delivery of projects. It will direct, monitor and support project team leads to carry out the project in line with the project scope and direction determined by the ESB.

* 1. *Integrity* *Committee*

The Integrity Committee is accountable for the effective implementation of a Departmental integrity framework. To discharge this responsibility, the Integrity Committee has decision making authority to monitor, evaluate, and guide improvements to the integrity framework. Deliverables associated with the implementation of the integrity framework require the approval of the Integrity Committee.

* 1. *Policy and Performance Standing Committee*

The Policy and Performance Standing Committee is responsible for ensuring effective development and coordination of Department-wide strategy and policy, research and evaluation. The Policy and Performance Standing Committee ensures there are links between the Department’s strategy and the resultant policy and evaluation. The Policy and Performance Standing Committee’s scope covers all Departmental portfolios, including statutory authorities.

* 1. *People and Culture Standing Committee*

The People and Culture Standing Committee is responsible for the effective delivery of the *People Strategy 2013–15* (**People Strategy**), ensuring the implementation of outcomes meets identified success measures outlined in the strategy. The People and Culture Standing Committee is responsible for the oversight of the annual review and refresh of the People Strategy as part of the review of the Department's overall strategy.

* 1. *Service Planning and Delivery Standing Committee*

The Service Planning and Delivery Standing Committee is responsible for providing advice to the Executive Board on the effective planning, coordination, integration and oversight of the delivery of early childhood development, school education, and higher education and skills services across the Department’s regions from the perspective of the Department’s customers and clients.

*Executive Officers*

1. For present purposes, the executive officer class includes the Secretary, the Deputy Secretaries, Executive Directors, Directors and Regional Directors. It also encompasses certain special positions, including the Chief Finance Officer and the Chief Audit Executive.
2. The policies that are relevant to executive employment in the public service are set out in the Victorian Public Service Executive Employment Handbook. This Handbook sits alongside the PA Act and the standard executive employment contract. Collectively, they set out the CORE Values for all executive officers through the public service.
3. The CORE Values that each executive officer must follow - and promote to the public officials that they employ - are set out in section 7 of the [PA](http://www.legislation.vic.gov.au/Domino/Web_Notes/LDMS/LTObject_Store/LTObjSt3.nsf/DDE300B846EED9C7CA257616000A3571/BA0B9D29A1515758CA257761002AAC4F/$FILE/04-108a022.pdf) Act. They are as follows:

Responsiveness

* providing frank, impartial and timely advice to the government;
* providing high quality services to the Victorian community; and
* identifying and promoting best practice.

Integrity

* being honest, open and transparent in their dealings;
* using powers responsibly;
* reporting improper conduct;
* avoiding real or apparent conflicts of interest; and
* striving to earn and sustain public trust at the highest level.

Impartiality

* making decisions and providing advice on merit without bias, caprice, favouritism or self-interest;
* acting fairly by objectively considering all relevant facts and applying fair criteria; and
* implementing Government policies and programs equitably.

Accountability

* working to clear objectives in a transparent manner;
* accepting responsibility for their decisions and actions;
* seeking to achieve best use of resources; and
* submitting themselves to appropriate scrutiny.

Respect

* treating others fairly and objectively;
* ensuring freedom from discrimination, harassment and bullying; and
* using their views to improve outcomes on an ongoing basis.

Leadership

* actively implementing, promoting and supporting these values;
* Human Rights; and
* making decisions and providing advice consistent with the human rights set out in the [*Charter of Human Rights and Responsibilities Act 2006*](http://www.legislation.vic.gov.au/Domino/Web_Notes/LDMS/LTObject_Store/LTObjSt6.nsf/DDE300B846EED9C7CA257616000A3571/4E62255F01A32041CA2578DB001AC32E/$FILE/06-43a010bookmarked.pdf).
* actively implementing, promoting and supporting human rights

Above all, the Department’s executives set the ethical tone of the organisation.

*Portfolio Audit and Risk Committee*

1. The Portfolio Audit Committee (**PAC**) was established to comply with the Standing Directions of the Minister for Finance under the *Financial Management Act 1994* (**FMA**). It is responsible to the Secretary and oversees governance, and provides advice on audit, risk management and business assurance activities across the education and early childhood development portfolios.
2. As one of the outcomes of an ongoing review of the committee’s role and responsibilities, the committee’s name has been changed from the PAC to the Portfolio Audit and Risk Committee (**PARC**). The new name will better represent the breadth of the committee’s remit and the increasing profile of risk management in governance and compliance frameworks.
3. The PARC comprises four independent members and two internal members.
4. The Department will be reviewing PARC’s terms of reference, capabilities and issue escalation options.

B. Teaching service employees & VPS employees

*Employment framework*

1. The Department is one of the biggest employers in Victoria, with more than 67,000 people employed in more than 1800 work locations. There are two key categories of Department employees:
   1. Teaching service employees, employed under Part 2.4 of the *Education and Training Reform Act 2006* (Vic) (**ETR Act**) (approximately 65,000); and
   2. Victorian public service (**VPS**) employees, employed under Part 3 of the PA Act (approximately 2,500).
2. Teaching service employees are public *sector* employees and so some elements of the PA Act apply to their employment. Those elements are: the obligation to adhere to codes of conduct established by the Victorian Public Sector Commission under the PA Act; and compliance with public sector values and public sector employment principles.
3. The vast majority of teaching service employees are employed in school-based work locations, although a small number are executive class (teaching service) employees employed by the Department, some of whom may be based in regional offices or Central Office.
4. The number and Full Time Equivalent (**FTE**) workforce data as at March 2015 for the teaching service is as follows:
   1. 74 Executive Class employees (72 FTE);
   2. 3,054 Principal Class employees (3,020 FTE) – principal, assistant principal, liaison principal;
   3. 43,420 Teacher class employees (39,126 FTE) – Leading Teacher and Classroom Teacher); and
   4. 18,729 Education Support Class employees (13,987 FTE) – which covers a wide range of support services that include school administration and operations (e.g. human resources, finance, facilities, grounds maintenance), school support services (e.g. library, laboratory, information technology, out of school care, canteen) and direct teaching and student support (e.g. classroom assistance to teachers, careers counselling, student health and wellbeing).

In all, there are 65,277 teaching service employees (56,205 FTE).

1. The number and FTE workforce data as at March 2015 for the VPS is as follows:

(a) 76 Executive Officers (75 FTE) – Executive Officers and the Secretary;

(b) 1,720 VPS classified employees (1,630 FTE) – VPSG1–6, Senior Technical Specialist and Graduate Recruits;

(c) 510 Allied Health employees (395 FTE);

(d) 266 Nurses (194 FTE); and

(e) 2 Senior Medical Advisors (0.9 FTE).

In all, there are 2,574 VPS employees (2,296 FTE).

1. Victorian Government schools are also supported by staff employed by school councils. School council employees are not employees of the Secretary of the Department. School councils are separate legal entities established under part 2.3 of the ETR Act. They meet the definition of ‘public entities’ in section 5 of the PA Act. They have power to employ staff under section 2.3.8 of the ETR Act and their employees are public sector employees. Staff employed by school councils are said to be employed ‘on the local payroll’. They are directly accountable to the principal of the school, in his or her role as executive officer of the school council.

*School Principals*

*Principals’ roles and responsibilities*

1. The role of the principal is to lead and manage the planning, delivery, evaluation and improvement of the education of all students in a community through the strategic deployment of resources provided by the Department and the school community. A key component of this role is to increase the knowledge base of teachers within their school about student learning and quality teacher practice. Principals are also responsible for managing the performance of teaching staff, although the Secretary rather than the principal is the true ‘employer’ of all teaching staff.
2. At the same time, the principal, as executive officer of the school council, must ensure that adequate and appropriate advice is provided to the school council on educational and other matters; that the decisions of the school council are implemented; and that adequate support and resources are provided for the conduct of school council meetings.
3. Principals have a clear set of accountabilities, which distinguish their work from other employees in the teaching service and the education community and are set out in detail in the contract of employment. The principal is accountable for the overall leadership, management and development of the school within state-wide guidelines and Government policies. The core accountabilities of all principals are to:
   1. Ensure the delivery of a comprehensive, high quality education program to all students;
   2. Be executive officer of the school council;
   3. Implement decisions of the school council;
   4. Establish and manage financial systems in accordance with the Department and school council requirements;
   5. Represent the Department in the school and the local community;
   6. Contribute to system-wide activities, including policy and strategic planning and development;
   7. Effectively manage and integrate the resources available to the school;
   8. Appropriately involve staff, students and the community in the development, implementation and review of school policies, programs and operations;
   9. Report to the Department, school community, parents and students on the achievements of the school and of individual students as appropriate;
   10. Comply with regulatory and legislative requirements and Department policies and procedures; and
   11. Perform all line management responsibility for school personnel, including recruitment, performance and development (including unsatisfactory performance) but not including dismissal powers.
4. Schedule B to the standard form Principal Contract of Employment describes the major educational and managerial functions for which the principal is directly accountable. It is understood that all the functions will not necessarily be carried out directly by the principal. The financial accountabilities are described as follows:
   1. Manage the school's financial resources in a manner which ensures the achievement of the school's goals and that expenditure is within the school's approved budget.
   2. Develop and prepare budget submissions for approval by the school council.
   3. Provide a report on the performance of the school expenditure against budget to each meeting of the school council.
   4. Ensure that an audited financial statement is prepared and submitted annually to the Department and presented at the school council's annual reporting meeting to parents.
   5. Ensure the school operates to a balanced budget on a cash operating basis and that all liabilities and financial commitments are brought to account in the relevant year.
5. The Department's *Finance Manual for Victorian Government Schools* sets out the roles and responsibilities of principals, school councils and business managers with respect to accounting and financial oversight, while the Department's publication, *Internal Control for Victorian Government Schools*, provides guidance on internal controls that should be implemented to ensure the integrity and security of schools' accounting and financial management processes.
6. The principal develops the budget for approval by the school council, and the budget has details which provide a principal with more or less freedom to allocate parts of the budget as he/she sees fit, in accordance with the Department’s policies and guidelines. In practice, the relationship between the principal and the school council president determines how much authority each has.
7. In an employment context, the line manager of a principal is the relevant Regional Director. Performance management of principals occurs through the Department, rather than school council, with annual performance reviews conducted at the regional level by, in the first instance, a senior adviser to the region and, ultimately, the relevant Regional Director.

*Principals’ capabilities and competencies*

1. Significant work has been undertaken in recent years to address perceived weaknesses in principal capabilities and competencies, in particular in relation to managerial leadership accountabilities (in contrast to educational leadership accountabilities).
2. In March 2013, a paper called the *Victorian School Leadership Strategy – A Plan for Improving the Quality of Leadership and Management in Victorian Schools* (**VSLS**) was approved by the Executive Board. The VSLS coincided with a number of Government reform initiatives to improve the capabilities of Victorian government schools.
3. The VSLS sets out an overarching strategy for developing the quality of leadership and management in schools. As part of this strategy, there was a focus on initiatives to improve the leadership capabilities of teachers and principals.
4. Concurrent with the VSLS, the Department implemented a leadership development program for principals; the ‘Strategic Management for Principals’ program (the Strategic Management Program). The Strategic Management Program is delivered by the Bastow Institute of Educational Leadership (Bastow), in conjunction with various business areas of the Department. Bastow was established in 2010, as a branch within the Department, to offer professional development and training courses to primary and secondary school teachers, principals and early childhood professionals. Each year there are approximately 50 courses run at Bastow and in rural and regional areas. In 2015, more than 5,000 school and early childhood leaders will attend Bastow courses and programs.
5. Currently, the Strategic Management Program consists of seven modules, including:
   1. *Law and Order:* Developed and delivered by the Legal Division, the aim of this module is to ensure that principals are able to manage legal risks in schools and to understand key legal concepts and obligations;
   2. *Bricks and Mortar*: Developed by the Infrastructure and Sustainability Division, this module provides technical leadership training in school asset management; and
   3. *Dollars and Sense:* Developed by theSchools Resource and Allocation Branch, this module is designed to build technical capabilities in financial management. It focuses on how to effectively manage school finances, based on Department policy and best practice.
6. Principals are encouraged by the Regions and principal associations to attend the Strategic Management Program, but it is not a compulsory program. The Program is delivered on an ‘as needs basis’.
7. In addition to the Strategic Management Program, there are a number of other training programs facilitated by Bastow, focused on developing principals’ (and potential principals’) leadership capabilities, including:
   1. *Leading Ethically:* This course has been running for 3 years, and is delivered by an external supplier, Nous Group. It provides a framework for understanding stakeholder perspectives, consultation and communication. It also explores strategies and decision making processes to support dealing with ethically sensitive issues and has a dedicated integrity component.
   2. *Unlocking Potential*: *Principal Preparation Program*: This course was delivered for the first time in 2014, in conjunction with Monash University. It is specifically designed for aspiring principals and is delivered over a 12 month period. It includes a number of components, such as individual coaching and team workshops. Participants are chosen based on a rigorous application process. The course covers leadership, management and secure accounting training.
   3. *Evolve: New Principals Program:* This course is an 18 month program for newly-appointed principals, to assist them to transition into their new roles and build their capacities as effective leaders. The course involves one-on-one coaching with an experienced principal coach, a three-day residential program, and ongoing support from principal consultants.
8. The Department is continuing to invest in professional development for principals. The Department is in the process of implementing an ‘Executive Management for Principals’ course. The aim of the course is to:

*‘equip Victorian principals with the skills and knowledge to effectively manage and provide good governance over the schools’ resources to improve overall performance*’.

1. The previous government committed over $2.5 million in funding to the Department roll out this course over 4 years. The course is scheduled to commence in June/July 2016 with up to 300 places available from 2016 through 2019.
2. At the end of the course, participants will be eligible for credit points towards a Master of Business Administration or similar award. The course will focus on specific areas of school management, including:
   1. Accounting and financial management;
   2. Data analysis and decision-making;
   3. Contract management and strategic procurement; and
   4. Risk and asset management.

*Business managers*

*Business managers’ roles and responsibilities*

1. Business managers may be employed directly by the Department under the ETR Act as education support class employees, and they may also be employed by school councils. Irrespective of their employment arrangements, business managers report to school principals, the direct line manager of all employees in a school. Business managers may also provide advice to school council and, where a finance sub-committee exists, assist in performance of that sub-committee's functions.
2. Business managers perform a role in a school under the direction and control of the principal. This role includes responsibility for ensuring that proper accounting records and systems are maintained by the school in accordance with the Department’s policies and guidelines.
3. Key accountabilities of business managers typically include:
   1. all school accounting and book-keeping functions;
   2. negotiation and management of contracts and service agreements;
   3. stakeholder management of service providers to schools;
   4. managing the school’s budget and ensuring that budget targets are met;
   5. managing the delivery of various functions (such as finance, human resources, payroll, library and facilities maintenance);
   6. records and data management (including management of student data, enrolments and information);
   7. management of administrative staff in the school office;
   8. managing school financial transactions, such as purchase orders, raising invoices, processing payments and managing sundry debtors;
   9. ensuring compliance with Financial Guidelines and Policy;
   10. stocktake of assets and correct treatment/reporting of assets;
   11. production of financial reports to go before school council, leadership and area leaders within the school community, for their approval and ratification;
   12. technical leadership (such as advising on financial capabilities and options);
   13. monthly reporting in regards to Australian Taxation Office requirements (Business Activity Statements), superannuation requirements, and bank reconciliations;
   14. human resource obligations with respect to processing staff entitlements, staff-related administrative functions and may also include management of the school's local payroll (for employees engaged by school council);
   15. managing the processing of student admissions, registrations, enrolments and transfers;
   16. providing the required level of administrative support for school events, functions and projects;
   17. implementing induction programs for new staff, volunteers and other workers to the school; and
   18. ensuring that appropriate internal controls are in place in the school.
4. Depending on the size of a school, the roles required to manage these accountabilities could vary. A large school may also have other education support staff to assist with these responsibilities, for example accounts payable/receivable, or human resource staff. Business managers in smaller schools are likely to be responsible for all of these duties.

*Business managers’ capabilities and competencies*

1. The evidence led before IBAC has highlighted risks and weaknesses associated with the variance of qualifications and capabilities of individual school business managers. The Department is giving consideration to how this can be improved and managed.
2. The Department currently provides training for business managers through the ‘Leadership for Business Managers’ course run by the Bastow Institute. This course is delivered by an external provider over a period of five days over an eight to nine month period. It includes a presentation from the Department’s FSD on leadership challenges, probity and ethics. Approximately 200 business managers have successfully completed this program.
3. The Department also delivers a ‘Talking Finance’ training program for both Business Managers and Principals. The six modules in ‘Talking Finances’ focus on the following areas:
   1. Overview of the Student Resource Package;
   2. Asset management;
   3. Budget preparation;
   4. Report analysis, focusing on CASES21 Finance and SRP reports, including report frequency, accuracy, interpretation and analysis;
   5. School level payroll; and
   6. Taxation.
4. In 2014:
   1. 137 principals and 253 Business Managers and 117 other staff completed the Dollars and Sense module;
   2. 46 Principals and 295 Business Managers and 130 other staff completed the Talking Finance training program; and
   3. 36 Business Managers completed the Leadership for Business Management Course.
5. The Department is re-examining these training programs in light of the evidence that has emerged during the Operation Ord hearings. In particular, the FSD is assessing its training programs by identifying areas of weakness in coverage of financial management elements and consulting with various areas of the Department, for example IT and Audit to ensure a best practice and consistent approach.

*School councils*

*School councils’ roles and responsibilities*

1. School councils are created by Ministerial Order made under s 2.3.2 of the ETR Act and constituted as bodies corporate to exercise and discharge any powers, duties or functions conferred or imposed on them by or under the ETR Act. Their key responsibilities include financial oversight and strategic planning, as well as devising, reviewing and monitoring the implementation of school policies.
2. School councils operate within the legal framework set out in the ETR Act, particularly Part 2.3, the *Education and Training Reform Regulations 2007,*  the Ministerial Order constituting the relevant school and Ministerial Order 200, which regulates school council employment. The school's constituting order will specify the membership and configuration of the particular school council. At present, school council members are not paid for their time and there is no specified skill mix required.
3. Typically, school councils are composed of between six and 15 members, with members from each of the following categories:
   1. a mandated elected parent member;
   2. a mandated elected Department employee member (the principal is automatically a member in this category); and
   3. an optional community member, appointed by the school council on the basis of skills or experience identified by that council.
4. Members of school councils are subject to such codes of conduct or policies governing performance of their roles as the Minister directs or as are prescribed by the council itself. As directors of public entities, members of school councils are bound by the Directors’ Code of Conduct issued by the Public Sector Standards Commissioner under section 7 and 79 of the PA Act. This includes the obligation to avoid conflicts of interest, be open and transparent in their dealings, and to act in a financially responsible manner.
5. Broadly, the functions of school councils include:
   1. establishing the broad direction and vision of a school;
   2. developing, reviewing and updating the policies of the school;
   3. arranging for the supply of goods services, facilities, materials and equipment;
   4. raising funds for school-related purposes;
   5. exercising general oversight of the buildings and grounds, including ensuring that they are maintained in good condition;
   6. ensuring all money coming into the hands of school council is properly expended for purposes related to the school; and
   7. ensuring that an annual report relating to financial activities and the school's strategic plan is produced and made available to the school community.

*Financial oversight by school councils*

1. With respect to financial management, school councils are responsible for ensuring (and maintaining records that demonstrate) that:
   1. all money payable to the council is properly collected;
   2. all money expended in the council's name is properly authorised and expended;
   3. adequate controls are maintained over the assets held in the name of the council or in the council's custody;
   4. all liabilities incurred in the council's name are properly authorised;
   5. efficiency and economy of school operations, including the avoidance of waste and extravagance; and
   6. adherence to relevant Department and school policies.
2. To ensure that school councils are able to effectively perform their key financial management functions, the *Finance Manual for Victorian Government Schools* requires that at each meeting school councils be provided with all bank balances, creditor invoices awaiting payment, payments to be ratified for the previous month, financial information that compares the budget against actual expenditure and any outstanding orders.
3. The *Finance Manual for Victorian Government Schools* also requires that, at the start of each year (and whenever subsequently necessary), school councils must:
   1. table, sign and approve end-of-year financial reports;
   2. approve any amendments to the school budget for the new year;
   3. approve any proposed fundraising events for the year;
   4. endorse proposed GST treatment of fundraising events;
   5. endorse the treatment of GST from canteen operations (e.g. input-taxed);
   6. endorse the list of officers approved to sign official order forms;
   7. minute whether the funding of camps or excursions is approved;
   8. minute the profit and loss statement for trading operations (e.g. canteen);
   9. endorse the school investment policy;
   10. endorse the school internet banking policy;
   11. endorse the financial delegation authority within the school for the approval of orders, invoices, signing of cheques and authorisation of internet banking payments;
   12. endorse the school purchasing card policy;
   13. endorse the school purchasing card register (of card holders and limits); and
   14. set dates for meetings (with a minimum of eight meetings for the year).
4. On an annual basis, school councils are responsible for ensuring that a master budget is approved prior to the commencement of each year and preparing an annual report, including a section on the school's financial activities. When a school council is audited (in accordance with the School Council Financial Audit (**SCFA**) process), school councils are responsible for approving audited financial statements.
5. The *Finance Manual for Victorian Government Schools* and the Department's publication, *Internal Control for Victorian Government Schools*, provide examples of common internal controls that schools should implement in order to ensure the integrity and security of their accounting and financial management processes. Some of these recommended controls are reproduced in the table below.

Table One: Recommended internal controls for management of school finances

| **Function** | **Common Internal Controls** |
| --- | --- |
| Purchasing goods and services | * Using purchase orders for all purchases other than those using petty cash, certain canteen supplies and utilities * The principal or their delegate (as approved by school council) approving all orders * Not allowing the person who receives goods to approve the purchase order * Getting quotes or tenders for purchases over specified amounts. |
| Paying for goods and services | * All payments, except petty cash, made by cheque, direct debit, direct deposit, BPay or purchasing card * Requiring two signatories (the principal and a delegated councillor) for payments: the business manager must not be a signatory – this includes internet banking * Blank cheques never signed * All payments have supporting documentation * Confirming that goods/services have been delivered/provided, for example, by way of a delivery note * Confirming that goods/services have been received/provided in an acceptable condition, or contact supplier to arrange credit. |
| Accounting for assets | * Recording all assets valued at $5,000 or greater on an asset register * Tagging / engraving assets with identification matching that on the asset register * Conducting a stocktake of assets at least once every two years * Having and following a process to dispose of assets |
| Receiving money | * All revenue has been receipted correctly into CASES21 * Storing cash in a safe and not leaving cash at school during term holidays * Ensuring that all bank accounts and investments:   + are in council’s name (except for the high yield investment account)   + have the principal and a delegated councillor as signatories; the business manager must not be a signatory   + are used for all monies received   + are never overdrawn * Money collected elsewhere in the school, handed to the office on day of collection with a control receipt, a general receipt is issued for total collection |
| Registers | * Accountable documents register maintained for receipts, cheques and order books * Investment register maintained for all investments other than HYIA * EFTPOS register maintained for user details, phone, void and refund transactions * Purchasing card Cardholder register * Victorian Institute of Teaching (**VIT**)/Working With Children Check Register that complies with VRQA requirements |
| Payroll | * Having procedures which comply with Australian Tax Office, superannuation and WorkCover requirements * Having a process to authorise hours worked * Reconciling payment summaries * Requiring all non-teaching school-based employees to have a current working with children check * Requiring all employees who handle cash to have a criminal records check * All teachers (including CRTs) have a current VIT registration |
| Recording and reporting | * Keeping up-to-date accounting records that are supported by documentation * Reconciling bank accounts with bank statements * Reconciling petty cash * Reporting to each council meeting about receipts, payments and financial commitments * Reporting to the finance sub-committee and council about financial performance, including comparing actual revenue and expenditure to budget |
| Budgeting | * Including in the budget:   + all revenue sources and funds carried forward from the previous year   + any committed funds   + any deficit (to be repaid) or credit surplus from SRP funding in the previous year if it is to be converted to cash * Approving a budget before the start of the new year * Budgets entered on CASES21 prior to first school council meeting * Regular (monthly) comparison of budget with actual revenue and expenditure * Adjustments to budget made to reflect changed circumstances and minuted at school council |

*Training and resources available to school councils*

1. The Department has been provided with Commonwealth funding ($600,000 per year over 4 years) to provide training opportunities to school councillors in governance, strategic planning and finance, as well as an induction for school council presidents. The Department has engaged two external suppliers to provide face-to-face training. The training program commenced in 2015 and Regional Directors have been asked to make schools in their regions aware of the training and provide contact details for the training providers.
2. The training is based on the Department’s *Improving School Governance* (**ISG**) package which has been designed to improve the knowledge, understanding and skills of school council members, school council presidents and school principals. The ISG is currently available online. Relevantly, the Department considers that any learnings from IBAC's investigation in Operation Ord as they apply to school councils (as well as any findings from Victorian Auditor-General’s Office (**VAGO**) soon to be commenced audit in relation to school governance), could be incorporated into this training program and the materials produced for the Department's contracted training providers.
3. School councillors are generally drawn from their local school community and there are no capability-based appointment criteria. This is a shortcoming that will be addressed, at least in part, through training.

*Victorian Public Servants: roles, responsibilities, capabilities and competencies*

1. The Department employs VPS staff in a wide range of roles - the majority of whom are employed in non-school locations, either in Central Office or in a regional office. The type of work performed by these staff generally falls into one or more of the following categories:
   1. Jobs with an administrative or corporate focus (e.g. executive and office support, human resources management, financial and physical resources management, corporate relations, communications, information technology, legal services);
   2. Jobs with a general policy or advisory focus (e.g. strategic planning, resource allocation, performance review and audit, HR policy, legal services);
   3. Jobs with a portfolio specific focus (e.g. educational policy and curriculum development, monitoring and regulation of children's services, youth initiatives, special educational programs or initiatives);
   4. Executive positions (e.g. the Department's senior management).
2. The IBAC public examinations have called into question the conduct of a number of past and current VPS employees, including:
   1. at the senior leadership levels of the Department;
   2. within the Department’s Central Office, primarily within the business areas that are accountable for the Department’s financial operations; and
   3. in the regional offices.
3. The terms and conditions of employment of VPS staff are regulated by the PA Act and, in the case of non-executives, the *Victorian Public Service Workplace Determination 2012*. In the case of executive officers, terms and conditions of employment are set out in the Victorian Public Service Executive Employment Handbook and/or the Standard Executive Contract of Employment.
4. Roles and responsibilities of VPS staff are designated in individual position descriptions, schedules to the executive contract (if any), and obligations created under Departmental policies and procedures. Failure to meet these obligations may result in performance management action or, in the case of inappropriate conduct, disciplinary action.
5. Regular performance management and monitoring of VPS staff is undertaken in the context of the Department’s annual performance management cycle. The Department has established processes and guidance to facilitate opportunities to highlight, strengthen and address performance and behaviours of its VPS and teaching service staff. Ultimately, the effectiveness of these processes is influenced at an individual level by the management capability of the individual managers of VPS staff and executive officers.
6. It is clear from the evidence led before IBAC that oversight and accountability has, in some areas of the Department, been lacking in the management of key staff holding financial accountabilities. The Department has been working to strengthen and streamline its performance management processes, and will take further learnings from the IBAC investigation into account.
7. The Department has recently revised its performance and development process for executive officers, introducing a ‘balanced scorecard’ approach in 2014 to focus on the four key areas of:
   1. Alignment with the business plan;
   2. Leadership, including values;
   3. Financial management; and
   4. People management.
8. The Department has also introduced a more transparent process for the imposition of ratings and weightings in executive officer performance to imbue more rigour in EB decisions around performance bonuses.
9. Deputy Secretaries present their recommendations for the proposed payment of bonuses for executive officers to the EB, submitting the balanced scorecard to support their recommendations.

*Management of misconduct, complaints and unsatisfactory performance*

1. The Department manages complaints about employees and allegations of misconduct or unsatisfactory performance in accordance with the requirements of the legislative and industrial instruments under which the particular class of employees are employed. For non-executive VPS staff, the procedures are consistent with the obligations in the *Victorian Public Service Workplace Determination 2012*. For teaching service staff, the procedures are consistent with the obligations in the *Victorian Government Schools Agreement 2013* and the requirements in Part 2.4 of the ETR Act.
2. The Secretary has developed *Guidelines for Managing Complaints, Misconduct and Unsatisfactory Performance* for application to both the teaching service and VPS. It is the responsibility of an employee’s manager (be that VPS manager or executive officer in the VPS or principal or regional director in the teaching service) to follow the appropriate process. The Secretary has delegated decision-making power in relation to disciplinary actions and outcomes to office holders within senior levels of the Department. The Conduct and Ethics Branch of the Human Resources Division provides advice and support to managers and decision-makers who are conducting local complaints processes, misconduct inquiries or unsatisfactory performance procedures in accordance with the Guidelines and relevant industrial regime.
3. The statutory requirements for managing misconduct and unsatisfactory performance processes in relation to teaching service employees are highly regulated under the ETR Act and the industrial instrument, including prescribing statutory timelines for steps in the process. This regime ensures that employees are provided with natural justice when facing allegations about their conduct or performance, but can result in delays in finalising these processes.
4. Going forward, the Department will examine opportunities to enhance the legislative and regulatory frameworks for teaching service and school based employees to ensure more streamlined and effective procedures for investigation and decision-making.
5. As at 23 June 2015, the Secretary has taken employment action in respect of 12 employees arising out of the evidence presented in the IBAC hearings. The actions are as follows:
   1. 7 school based staff (comprising 4 principals, 2 business managers and 1 teacher) have been suspended from duty pending the outcome of misconduct inquiries;
   2. 2 executive corporate staff have been summarily dismissed for serious misconduct;
   3. 1 executive teaching service staff member had his contract terminated;
   4. 1 corporate staff member (formerly a principal) has been suspended from duty and his contract has now expired; and
   5. 1 VPS manager reassigned duties as a temporary step pending consideration of the IBAC evidence.

C. Relevant policies, procedures and guidelines

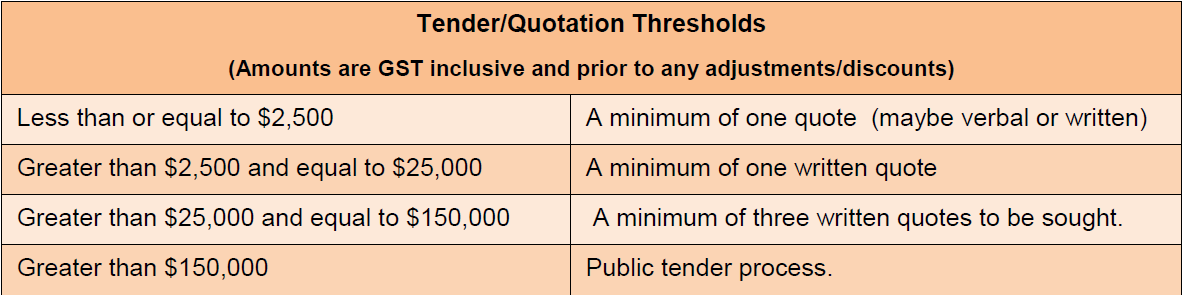
*Management of grants, school funding and related governance issues*

1. Most funding for schools is provided through the Student Resource Package (**SRP**). The SRP derives a funding amount for each student and school based on a range of evidence based factors. The three major components that make up SRP funding are:
   1. Student based funding:
      1. Core Student Learning Allocation, according to stages of learning plus enrolment linked base, small schools base and rurality funding;
      2. Equity funding, based on the socio-economic and student specific factors, such as student family occupation, disabilities and English as an additional language;
   2. School based funding:
      1. School infrastructure, based on cleaning, maintenance, and utility costs;
      2. School specific programs, such as, instrumental music programs and Mobile Arts and Craft Centre vans.; and
   3. Targeted initiatives:
      1. Defined purpose or program funding, such as Vocational Educational and Training in schools, Primary Student Welfare and Management Individual Pathways.

*School procurement guidelines (schools)*

1. School procurement guidelines are covered in the purchasing section of the *Finance Manual for Victorian Government Schools*.
2. The purchasing section covers the approvals required, the purchase order process, and the purchasing thresholds, as summarised in Table Two below.

*Table Two: Tender/Quotation Thresholds*



*Financial reporting requirements*

1. Schools are required to report to their school council on a monthly basis, which involves preparing annual financial statements to form part of the school’s annual report to the school community. The monthly reports may then be audited as part of the SCFA process. As part of the SCFA, schools are audited at least once every four years. Schools are selected for audit through the use of a risk based approach. Schools also report to the Department through an annual financial commitment summary, which is a reflection of the school’s annual financial statement. The Department will shortly implement a new process whereby schools will be required to acquit funding provided to them by the Department. This process will apply to funding provided in 2015.
2. The Department provides monthly Budget Management Reports (**BMR**) which compare monthly actual spends against the Department’s budget and a range performance measures. The BMR is reported to the Departmental Budget and Infrastructure Committee, a standing sub-committee of the Executive Board, the Executive Board itself and the PAC.
3. The Department prepares annual financial statements, which form part of the Department’s annual report. These are prepared in accordance with the Standing Directions of the Minister for Finance (**Standing Directions**), issued pursuant to the FMA, and are audited by the Victorian Auditor General’s Office.

*Management of Department procurement*

1. The procurement framework applicable to the Department is set out in:
   1. various policies issued by the Victorian Government Purchasing Board (**VGPB**) pursuant to the FMA; and
   2. authorisations made under the Standing Directions.

*VGPB Policy: current*

1. The VGPB introduced a new procurement policy framework that all government departments and mandated entities were required to transition to by 1 January 2015. This included a requirement for government departments to develop **and** apply their own procurement strategy incorporating the following:
   1. Procurement activity plan;
   2. Supplier engagement strategy;
   3. Capability development plan; and
   4. Contract management planning strategy.
2. Under this new VGPB policy framework, five policies are required to be developed: governance policy; complexity and capability policy; market analysis and review policy; market approach policy; and contract management and contract disclosure policy.
3. The Department (corporate – not schools) began operating under this VGPB policy framework from 1 July 2014.
4. The Department has introduced a new procurement governance and operating framework to reflect the VGPB’s policy framework that focuses on a complexity and risk based approach to procurement as opposed to the threshold based approach of the previous policy environment. The Department governs procurement activity through a Procurement Governance Committee, a Chief Procurement Officer, procurement specialists, and financial delegates.
5. School Councils are not bound by the procurement rules set by the VGPB. The Department produces policies and guidance material designed to help school councils understand and meet their objectives, and exercise their functions and powers.
6. Departmental policies and guidance material do not bind school council members unless they are mandated through Ministerial instrument. Going forward, it is the intention that reform will be undertaken to mandate adherence by school councils to the purchasing thresholds set out in the *Finance Manual for Victorian Government Schools*.
7. This reform will be accompanied by a suite of supports to ensure that schools are, in practice, following the controls that are in place such as:
   1. School Procurement Unit established in Central Office for procurement policy advice, support and guidance;
   2. Online procurement help for schools similar to NSW ProcurePoint (<https://www.procurepoint.nsw.gov.au/>);
   3. Business managers to undertake Certificate IV in Government (Procurement and Contracting);
   4. Schools will be mandated, except in exceptional circumstances, to buy Information Technology products and services through the current Department IT Panel arrangements;
   5. Probity and Conflict of Interest training to be delivered to school councils, principals, assistant principals and business managers (this would include refresher training as well)
   6. New procurement documentation developed to support school councils and schools undertaking procurement activities within the mandated purchasing thresholds;
   7. Procurement governance and approval framework developed for schools and school councils;
   8. Schools will publish on their school website each year the suppliers they have purchased goods and services, and the total value for all purchases valued at $5,000 or more.

*VGPB Policy: previous*

1. For the majority of the period of the IBAC investigation, and up to when the Department transitioned to the new policy framework on 1 July 2014, a summary of the applicable thresholds for obtaining quotes and going to tender for the supply of goods and services to be completed on behalf of the Department was as set out in Table Three below. The Department’s previous governance committee for approving procurement activity was the Accredited Purchasing Unit (**APU**), the Secretary, and the VGPB.

Table Three: Previous VGPB policies

| 1. Policy | 1. Application to the Department | 1. Low | 1. Midrange | 1. High |
| --- | --- | --- | --- | --- |
| 1. VGPB Purchasing policy | 1. Applied to the Department (corporate) | 1. Less than $2500: At least one written or verbal quote. 2. Less than $25,000: Minimum of one (1) written quote is obtained | 1. $25,000 to $150,000: Minimum of three (3) written quotes is sought (with one from a small business if appropriate). 2. Exemptions from this process could be granted as follows:   $25,000 - $50,000 – Financial Delegate  $50,000 - $100,000 – APU Chair  $100,000 - $150,000 APU Committee | 1. Over $150,000: Open and selective tender (unless exemption granted by the Secretary) |
| 1. School Finance Manual for Victorian Government Schools 2. Financial Reporting for Schools | 1. Procurement guidelines which apply to school councils (par 3.8) | 1. Less than $2500: At least one written or verbal quote. 2. Over $2500 and up to $25,000: At least one written quote | 1. $25,000 to $150,000: at least three written quotes | 1. Over $150,000: public tender |
| 1. Standing Direction 2.4 of the Minister for Finance under the FMA | 1. Applies to all financial obligations on behalf of the Department |  |  | 1. Up to $1 million 2. Director, Schools ResourceAllocation Branch |

*Standing Directions under the FMA*

1. Direction 2.4 of the Standing Directions requires the Department to establish and maintain authorisations covering its overall financial management, and to establish and maintain authorisations covering the creation of financial obligations on behalf of the Department.
2. Direction 2.4 also provides that authorisations are to ensure that financial management and the creation of financial obligations are undertaken by staff with appropriate levels of authority and understanding of business operations. Authorisations are required to be allocated to positions rather than individuals, and to employees of the Department.
3. Under Direction 2.4, the Director, Schools Resource Allocation Branch, is currently stated to be authorised to expend up to $1 million in respect of 'Grants to Schools'. This authorisation has been in effect since July 2010. Previously, the Director, Schools Resources and Allocation Branch (**SRAB**), was stated to be authorised up to $750,000 in respect of ‘Grants to Schools’ (from the period, February 2007 up until June 2010).
4. Direction 3.4.12 of the Standing Directions contains directions to government departments when administering discretionary financial benefits, directed at achieving outcomes sought by government policy. Examples of discretionary financial benefits are stated to include 'grants, sponsorships and donations'.
5. A discretionary financial benefit does not include a financial benefit received by a person in respect of goods or services provided under an agreement. Direction 3.4.12 of the Standing Directions states that:

*‘the policy and procedures for the financial management of discretionary financial benefit programs must be developed within the public sector agency's broader financial management frameworks.’*

1. The Standing Directions require agencies to:

*'implement and maintain effective financial management controls to ensure that a transparent process delivers measureable efficient and effective financial management and accountability outcomes sought by Government policy.'*

1. It is apparent from the IBAC hearings that the accountability measures for the management of discretionary financial benefits as set out in Direction 3.4.12 were not followed by the Director, SRAB, and in other cases were completely circumvented. These measures included:
   1. policies and procedures for the financial management of discretionary financial benefits such as separation of duties between the appraiser of applications, approval of offers and making financial benefit payments;
   2. requirement to establish financial reporting requirements of financial benefit recipients in the terms and conditions of a funding agreement;
   3. mechanisms and responsibilities for monitoring the use of, and acquitting, financial benefits;
   4. establishing performance measures;
   5. financial risk management; and
   6. evaluation and reporting.

*The Department's Financial Authorisations Policy and Guidelines*

1. The Department’s *Financial Authorisations Policy and Guidelines* (January 2015) provide some clarification about the standards expected of a financial delegate:

*Public sector employees should also observe the highest standards of integrity in financial matters and comply with the requirements of relevant financial management legislation, policies and procedures.*

*An employee exercising the duties within a position holding financial authority can authorise expenditure and related transactions. They can approve the incurring or meeting of financial obligations (including contingent liabilities) on behalf of the department per transaction type and $ limit. Some examples of documents that can incur expenditure are: Contracts, Service Agreements, Requisitions (purchase orders) and invoices.*

*A delegate cannot approve their own work or business matters concerning themselves, eg, a claim they personally prepare as the Preparer, ie, their own personal expense claim….*

1. A significant breach of the *Financial Authorisations Policy and Guidelines* can result in a termination of a financial delegation. A significant breach will be determined by considering the following:
   1. Splitting of invoices and/or purchase orders to come in under delegation monetary limits;
   2. Exceeding monetary limits and/or constraints on delegation;
   3. Whether the amount involved is greater than $1,000;
   4. Whether the nature or circumstance of the inappropriate use from the perspective of public interest has the potential to cause reputational risk; or
   5. Whether the nature or circumstances is revealed to be one of many highlighting a pattern of inappropriate use.
2. There have been various versions of *the Financial Authorisations Policy and Guidelines*, prior to the introduction of the current version in 2015.
3. The previous *Financial Delegations Policy and Guidelines (June 2003)* (as amended in March 2006 and November 2009 and 2012) provided some guidance about the role of a financial delegate. However, these earlier guidelines were silent in respect of breaches of the financial delegation powers and the potential consequences of such breaches. Instead, these earlier Guidelines prescribed the limits of financial authority and expectations of the financial delegate and other roles that had designated financial authority. When the Guidelines were amended in 2012, they included greater clarity around the expectations of a financial delegate and what would constitute a breach of the financial delegations.

*Travel Policy*

1. The Department's *Guidelines and Business Practices for International and Domestic Travel* (**Travel Guidelines**) were developed on the basis of the Victorian Public Sector Travel Principles.
2. The Travel Guidelines require delegates to take into account a number of considerations when recommending or approving overseas or interstate travel, including that:
   1. only travel that is considered strictly essential to the requirements of specific work programs for the proper administration of government objective be considered;
   2. all other avenues for meeting the objectives of an international visit should be considered before international travel is proposed (such as seek assistance from Victorian and Australian Government representatives already abroad);
   3. staff selected for international travel should be at a level appropriate to the task to be performed, be suitably qualified and possess the relevant skills;
   4. where official travel is requested by staff members who have been invited to attend or present papers at international seminars or conferences, it must be shown that there is a direct benefit to the Department and that it is high in the priority of government programs;
   5. the approving authority take into account the need to optimise the long-term benefits of international travel by staff and approval for international travel for a member of staff who is expected to leave the Department in the near future is only given in special circumstances;
   6. there must be no conflict of interest or apparent conflict of interest between the Department and other sources of funds supplementing the travel or the perception of improper influence; and
   7. approval for travel be obtained in advance of the travel being undertaken.
3. The Travel Guidelines also place a number of restrictions on travel by Departmental staff, including with respect to use of frequent flyer or other rewards schemes, travel approvals, class of travel, taking of leave during periods of official travel, reporting of expenses and maintenance of travel records.

*Purchasing Card Policy and Guidelines*

1. The IBAC hearings have highlighted the misuse of ‘purchasing cards’, both in schools and within the Department. Use of such cards is governed by two separate policies, the *Purchasing Card Policy and Guidelines (Corporate)* (**Corporate Guidelines**), applying to Departmental staff, and the *Schools Purchasing Card Department Guidelines and Procedures* (**Schools Purchasing Guidelines**), applying to the use of purchasing cards within schools.
2. Neither schools nor the Department are able to enter into a finance or debt arrangement which would arise from holding a ‘credit card’. Therefore, purchasing cards allow for the acquisition of goods but do not give rise to a finance or debt arrangement for the entity.

*Department*

1. The Department's ability to hold purchasing cards arises from Standing Direction 4.5.3.
2. The Corporate Guidelines have been developed in accordance with Standing Direction 4.5.3 (which requires the Department to follow a specific ‘purchasing card procedure’) and the Department of Treasury and Finance’s, Purchasing Card Rules.
3. The Corporate Guidelines cover a range of matters, including:
   1. the issuing of purchasing cards, which is done upon application in writing from the relevant Executive Direction or Deputy Secretary;
   2. card limits, transaction limits up to $15,000 and monthly account limits not exceeding $25,000, with limits being reflective of the appropriate need;
   3. what can and cannot be purchased, including;
      1. all purchases must be in accordance with departmental purchasing policies;
      2. all purchases must be for an official purpose;
   4. an extensive list of transactions that should not occur including; purchase of fuel, purchases for a private purpose, gifts/Christmas parties, tips and mobile phone bills;
   5. reporting requirement for purchasing of assets;
   6. monthly processing, such as acquittal of monthly spending for each card holder;
   7. duties of program administrators;
   8. duties of cardholders, and authorisers; and
   9. cancellation of cards.
4. Corporate purchasing cards are centrally administered by FSD. The Department currently uses Westpac as a provider of purchasing cards which is defined by the whole of Victorian government banking contract. At present, the Department has approximately 47 card holders.
5. The Corporate Guidelines set out the standard of conduct expected of cardholders, including that:
   1. Cardholders must always act in the interests of the State, as opposed to their own personal interests or convenience;
   2. Cardholders must perform their duties honestly, with skill and care;
   3. A cardholder cannot be directed by a senior officer to breach the guidelines; and
   4. Judgements about the nature and legitimacy of particular transactions must be made having regard to the Code of Conduct.
6. The Corporate Guidelines also outline significant penalties for unauthorised use (private use), of a Corporate Purchasing Card, including possible criminal proceedings and termination of employment.
7. Internal Audit reviews the Department’s Corporate Purchasing Card arrangements annually, to ensure that the Department is following the ‘purchasing card procedure’ as outlined in Standing Direction 4.5.3. This requirement to conduct internal audits is also a specific requirement of Standing Direction 4.5.3.

*Schools*

1. In 2006, a purchasing card facility was introduced to schools, following a pilot program in 2005. The framework for schools using purchasing cards is governed by section 5.2.1 of the ETR Act and the Ministerial Guidelines and Directions 1 to 6 of 2008. The Schools Purchasing Guidelines, detail how schools should maintain internal controls and responsibilities around the usage of corporate cards. Principals and business managers are required to attend a schools purchasing card briefing, prior to the facility initially being approved by school council.
2. Purchasing cards for schools are not mandatory and schools can apply for a purchasing card at their own discretion.
3. Under the Schools Purchasing Guidelines the financial delegation traditionally held by the principal of a school (to incur and pay for school related expenditure) is extended to the holder of a school purchasing card. This ensures that financial accountability and responsibility for school transactions remains with the principal. Where, however, a principal is the cardholder, the school council president must be the authorisation officer for that card.
4. A school council may authorise school-based staff to be issued with, and to purchase goods, services, equipment or materials using a school purchasing card. The Schools Purchasing Guidelines recommend that school councils ensure that certain internal controls are in place prior to the incorporation of proposed school purchasing card procedures, including that:
   1. a school purchase order document is used to initiated or ratify expenditure;
   2. quotes and tenders are obtained as required in accordance with the Victorian Government Purchasing Guidelines;
   3. pre-numbered purchase order forms are kept in a secure location and recorded in the schools’ accountable documents register;
   4. all orders are approved (and purchase orders are signed by the school principal or authorised nominee);
   5. duplicate copies of purchase orders are retained by the school
   6. the person receiving goods is different to the person authorising the order for those goods;
   7. goods are checked against delivery documents;
   8. delivery dockets are checked against supplier invoices and purchase orders;
   9. duplicate copies of purchase orders and original invoices are endorsed with "goods received and invoices are endorsed with "paid"; and
   10. the person checking invoices signs to accept responsibility.
5. The Guidelines also require that school councils implement certain additional controls prior to introduction and use of a school's purchasing card, including that:
   1. the school council and principal determine which personnel and activities will be eligible to use the purchasing card;
   2. the school council and principal determine the expenditure limit for each cardholder and provide financial delegation to that limit;
   3. school council, following advice from the principal, appoint an "Authorisation Officer";
   4. an undertaking by the cardholder is completed by each user after modifications by the principal;
   5. the principal ensures that:
      1. all approved purchasing cardholders receive a briefing on the use under specific guidelines; and
      2. the carholders' names, card details and other information are minted at school council, along with any subsequent changes;
   6. school council determine and document arrangements for safe and secure custody of the purchasing card;
   7. school council arrange for the monthly purchasing card statements to be attached to the relevant reports and tabled at school council meetings;
   8. school council ensure that all Westpac Visa Card purchasing card procedures and controls are met.
6. The Schools Purchasing Guidelines also impose responsibilities on individual cardholders, including that:
   1. each cardholder ensure compliance with the guidelines;
   2. each cardholder sign the purchasing card immediately;
   3. each cardholder ensure that prearranged limits are not exceeded when orders are submitted for approval ;
   4. Ministerial Guidelines and Directions 1 to 6 2008 are adhered to;
   5. school purchasing cards are used for school orders only;
   6. supporting documentation is completed;
   7. theft or loss of school purchasing cards is immediately reported to the principal and bank;
   8. any unauthorised transactions are immediately reported to the principal or relevant authorisation office;
   9. school purchasing cards are kept securely whilst within a cardholder's possession;
   10. purchasing cards are returned to a principal upon request.
7. The Department also requires that principals and business managers attend a schools purchasing card briefing prior to a school purchasing card facility being approved for implementation at a particular school.

D. Cultural context

1. As a government agency employing tens of thousands of public sector and public service employees, the Department should and does foster a working environment that adheres to the public sector values of responsiveness, integrity, impartiality, accountability, respect, leadership and human rights. It has been devastating for the vast majority of Department staff who are professional, hardworking and deeply committed to education to learn of the wilfully corrupt and/or reckless conduct of a number of individuals that have been the focus of the IBAC investigation.
2. The IBAC public examinations have provided an opportunity to reflect on the Department’s values and culture, historically and today.
3. The evidence suggests that an unhealthy network had developed within the Department in which ‘favours’ were done for ‘mates.’ There appears to have been a lack of consequence and accountability for non-compliance with policy and procedure in relation to spending of public funds. The evidence also reflects that Departmental employees’ experience was that it was more important to ‘play the game’ than call out improper practice.
4. That network was driven in large part by select Deputy Secretaries and Acting Secretary, Mr Rosewarne. The evidence from Mr Rosewarne reflected a sense of entitlement about the use public funds for personal purposes. The Department also heard about complaints by lower level employees in relation to the conduct of Nino Napoli that were not taken seriously by management and not progressed.
5. During the Napoli and Rosewarne years, the Department had policies and procedures in place to govern and regulate employee behaviour.
6. These included:
   1. *Conflict of Interest policies.*
      1. A core obligation of all public sector employees is to avoid conflicts of interest, actual or perceived. The Department has had conflict of interest policies and requirements in various forms and content since the *Conduct and Duties* Ministerial Order, which was first made in the 1980s. In 1988, the Victorian Commissioner for Public Employment issued a *Code of Conduct for the Victorian Public Sector* (**1998 Code**), which was applicable to all public sector employees, although it was unclear at the time if this applied to members of the teaching service. In approximately 1999/2000, the VIT developed a code of conduct applicable to registered teachers, which included obligations to avoid conflict of interest.
      2. On 1 July 2007, the State Services Authority released the Code of Conduct, based on the public sector values in section 8 of the PA Act. This revoked the 1998 Code. The Code of Conduct prescribed the behaviour expected of public sector employees (which includes the teaching service) as derived from the seven public sector values of responsiveness, integrity, impartiality, accountability, respect, leadership and commitment to human rights. In late June 2007, the Department distributed hardcopies of the Code of Conduct to all Deputy Secretaries, all Regional Directors, the Director of the Victorian Curriculum and Assessment Authority, Chief Executive Directory of the Victorian Registration and Qualifications Authority and the Senior Chairperson of the Merit Protection Boards with a requirement that all staff members (including the teaching service) be provided with a hardcopy of the Code of Conduct. This was consistent with the Public Sector Standards Commissioner’s request that the code be distributed to all public sector employees before it came into effect.
      3. Following the identification of weaknesses in the Department’s management of Declaration of Private Interests (**DPI**) (see below) and in light of the Victorian Ombudsman and Victorian Auditor-General’s publications on conflict of interest matters, the Secretary of the Department requested Internal Audit to undertake an extensive review in 2012 of conflict of interest processes within the Department. The review commenced in February 2012, with findings reported in a September 2012 audit report. The report identified various weaknesses in the existing policy, framework and communication/education to staff about conflicts of interest.
      4. As a result of the internal audit, a Conflict of Interest Framework including a revised Conflict of Interest policy was developed by the Department’s Human Resources Division. The Framework and Policy were communicated through a DECCD Bulletin to all Department staff and schools on 3 December 2013. Key features of the Framework included:

* clarity in the expected outcomes of the framework;
* clarity in the roles and responsibilities of staff, including commitment by top management;
* clarity around typical components in the conflict of interest management process (including annual DPI – see below); and
* clarity on available educational/information resources.
  + 1. Key features of the Conflict of Interest policy included:
* clear and realistic description of what circumstances and relationships are likely to lead to a conflict of interest, including the interests of family members and close friends and associates;
* clear assignment of roles and responsibilities for conflict of interest management;
* information to assist employees to understand what is required of them in relation to identifying and declaring/disclosing conflicts of interest;
* useful information to assist employees with the relevant strategies to manage conflicts of interest;
* practical examples about potential conflicts of interest, including perceived conflict of interest: *‘For example, when a principal removes herself from a selection panel which selects her spouse for a role in the school, a perception of a conflict might still exist if she does not also remove herself from accepting the panel’s preferred candidate, since all the panel members are her subordinates.*’
* good accessibility to the policy and accompanying guidance/tools for both corporate and school staff via the intranet site.
  + 1. In August 2014, Internal Audit assessed the status of the Department’s progress in implementing the recommendations of the 2012 conflict of interest audit. Internal Audit found that the current Conflict of Interest Framework and Policy and accompanying guide development are fit for purpose and that significant progress had been achieved to improve the management of the annual Declaration of Private Interest process. Audit made recommendations in relation to future training improvements and notes that further improvements of the processes were planned by Human Resources Division for future years.
  1. A *Declaration of Private Interests Policy* for executive officers.
     1. DPI requirements have been in place in the Department since the 1990s, requiring executive officers to declare their own pecuniary interests which may give rise to a conflict of interest. While the existence of this requirement has been longstanding, the Department’s view was that it was not well managed in the decade leading to 2013.
     2. In 2013, a new process was implemented with accountability for the process falling within the Department’s Human Resources functions. Under the Department Conflict of Interest Framework, all executive officers, any staff members with delegations over $50,00, and all principals are required to make DPIs on appointment and annually thereafter. The Deputy Secretary, People and Executive Services Group, sights each document individually on an annual basis. Any potential issues revealed in these declarations are followed up with the individuals concerned.
  2. *CORE Values* that were issued in 2010/2011 (**CORE Values**), comprising an organisational commitment to engage in behaviours consistent with the four ‘CORE’ values of Collaboration and Knowledge Sharing, Outcomes, Respect and Diversity, and Empowerment. (Prior to the CORE Values, the Department had in place the ‘People Principles’, which were developed in 2002).

1. In October 2010, cultural issues within the Department were the subject of review by external consultant, Paul Gretton-Watson of ResolutionsRTK (**RTK Review**). Jeff Rosewarne was an executive sponsor for commissioning this report. The RTK Review was conducted shortly after introduction of the *Core Values* and was intended to assess perceived cultural alignment across the senior executive leaders within the Department's different offices operating out of the Government precinct.
2. The report produced by ResolutionsRTK, *Cultural ‘Pulse Check’* (**RTK Report**)observed that respondents were highly supportive of the CORE Values and their rollout across the Department. It reflected that ‘*culture in broadest terms was supportive and upholds CORE values’*. The RTK Report also noted that the ‘*Executive in the main are highly engaged with the organisation and enjoy what they do’*. Further, that ‘*there is pride in what the organisation has achieved in recent years’*. This related to long term staff perceiving an ‘*exceptional period for achievement for the organisation especially around educational outcomes’*. Further, there was an overall sense that there is ‘*not a major problem here’*.

The RTK Report indicated that while for many respondents the culture did not present as ‘boozy’ or ‘blokey’, some issues existed.

1. The RTK Report concluded that there were pockets of problems but not a problematic culture within the Department itself. There were two Executive meetings in relation to the Report’s findings, where the recommendations of the RTK Report were accepted.
2. As the IBAC hearings have shown, the conclusions reached by RTK were not sound. It is now clear that the Department suffered from serious structural and cultural problems. Put sharply: too much power was vested in a coterie of senior executives – Messrs Rosewarne, Napoli, Allman and Fraser - whose span of control was too great. Accountabilities were poorly defined. Oversight mechanisms were inadequate. And perhaps most significantly, there was a clear perception that the actions of any individual - whether whistle-blowing, dissenting or otherwise – would not bring about change.
3. Prior to the commencement of the IBAC hearings, the Department instigated a comprehensive review into the ‘Excellence Awards for Business Managers’. Changes implemented following the review (effective 2015) were as follows:
   1. There are no corporate or other sponsors on the basis that the program has been confirmed to be a Departmental employee reward and recognition program;
   2. All applications must be accompanied by at least two endorsements – either a principal, school council member or a peer;
   3. A range of professional development opportunities for award winners have been identified and a transparent process for winners to propose alternative opportunities is in place;
   4. Judging panels will include external representatives from the education sector and industry, as well as Departmental executives;
   5. Shortlisted finalists are required to attend a face-to-face interview with the judging panel;
   6. The judging panel are required to submit judging notes to the Department;
   7. All applicants will receive brief written feedback on their nomination; and
   8. All winners are required to sign a memorandum of understanding and complete an acquittal of the grant.

3. PROGRAM CO-ORDINATOR SCHOOLS

A. A broad overview of the PCS arrangements

1. In 1995, the School Global Budget was implemented across all Government schools. For the first time, this saw schools having the ability to make resource decisions instead of having resources allocated to them. Prior to this, schools were provided with resources determined and allocated entirely by the central bureaucracy.
2. The concept of a PCS, or ‘banker school’, was to enable a single school to hold and disburse funds in relation to programs and activities run on behalf of a group of schools.
3. As at June 2015, I understand that some $12.4 million of funds transferred to schools from central and regional offices under PCS arrangements is still held by those schools. (This is distinct from funds – some $11.6 million - currently pooled in voluntary school-initiated networks).

*How the arrangements should have operated*

1. PCSs were schools that facilitated the management and organisation of specific programs on behalf of a cluster, network or group of government schools. Funding was provided to schools by other schools, regions or Central Offices.
2. Since December 2012, the management and administration should have been governed by the Program Coordinator School Governance Framework (**PCS Governance Framework**) (although the PCS Governance Framework was never implemented effectively by the Department, as explained below).Prior to this, activities of PCSs were governed by the *School Finance Manual for Victorian Government Schools* and the Computerised Administrative System Environment in Schools Guidelines for Schools (**CASES21 Guidelines**).
3. As per the PCS Governance Framework, funding could only be provided to PCSs for the following purposes:
   1. to aid the development, facilitation, implementation and evaluation of specific curriculum programs for improving student outcomes; or
   2. to aid in the development, facilitation, implementation and evaluation of specific professional development programs for school leaders, teachers and administrative staff.

Examples include cluster school sports activities, principal cluster seminars, Vocational Education and Training (**VET**) in Schools programs, teacher professional development programs and reading recovery coordinators.

1. Specifically excluded activities included capital and maintenance work at regional facilities and any regional operating expenditure.

*Early evolution of the arrangements*

1. The concept of schools forming groups to deliver programs grew over time, and the finite point at which this began is unknown. As these arrangements evolved, an opportunity emerged for central and regional offices to provide funding and expand the use of these groups of schools for legitimate and, as we have seen, illegitimate purposes.
2. An October 2005 draft document refers to banker/coordinating/cluster school arrangements and the GST implications of a dozen different situations, none of which include the depositing of regional or central funds into a school’s bank account which might then be claimed back by the region or centre.
3. By January 2006, the term ‘Program Coordinator School’ was introduced to better describe their purpose, which is to facilitate collaboration between schools, and a new policy developed. An email dated 15 March 2006 refers to the inclusion of the new PCS policy on the agenda of the next Regional Directors meeting.
4. The Department’s *School Finance Manual for Victorian Government Schools* included references to schools managing funds on behalf of clusters/groups as coordinator schools.The Department’s *CASES21 Guidelines for Schools* explains the administrative practices for schools in managing funds on behalf of clusters/groups, along with the *Draft GST Issues Arising from Banker/Coordinating/Cluster School Arrangements Policy October 2005*.
5. In December 2010, a Review of Program Coordinator Schools was undertaken by the Department’s former Portfolio Governance and Improvement Division (**PGID**). The findings of that audit, recommendations, and implementation (or otherwise) of those recommendation are crucially informative to the matters currently before IBAC and the Department’s consideration of a way forward.

B. The PCS Audit (2010)

*Background*

1. In 2010, the former PGID initiated an audit in relation to PCSs (**2010 Audit**). The 2010 Audit was based on a sample of PCSs selected by the PGID.
2. The 2010 Audit took place when Jeff Rosewarne was the Acting Secretary of the Department. Though the 2010 Audit was complete as at December 2010, it was not signed off by Management for almost 12 months. Ultimately, on 31 August 2011, John Allman, then Acting Deputy Secretary signed off on the report together with Claire Britchford, Chief Financial Officer.
3. The 2010 Audit included interviews with staff members from the Financial Services Division (**FSD**), nine Regional Offices and nine PCSs, including senior staff members of the FSD, Regional Finance Managers, principals and business managers. A total of 32 staff members were interviewed. As part of these interviews, staff members were asked about their understanding of, and adherence to, the CASES21 Guidelines in the application of PCS funds.
4. Ultimately the 2010 Audit made recommendations that included the cessation of PCS arrangements, as well as others falling short of that measure, but requiring major reforms to the control framework in relation to PCS arrangements.
5. Richard Bolt became Secretary of the Department in August 2011 and at that time, inherited responsibility for implementation of reform to address the findings of the 2010 Audit Report.

*Purpose and methodology*

1. The IBAC hearings have focused squarely upon the findings of the 2010 Audit Report. When considering how its findings and recommendations are relevant to corrupt conduct revealed during the IBAC hearings, the objectives of the ad hoc 2010 Audit ought to be borne in mind. They included to:
   1. assess the extent to which the PCSs were being used and their compliance with Department policies, procedures; and
   2. consider whether the practice was consistent with the Code of Conduct and the FMA and the *Financial Management Regulations 1994*.
2. As part of these objectives, the 2010 Audit focused on whether:
   1. funds were being properly administered by the PCS on behalf of the Region;
   2. the Department’s policies, procedures and delegations were being followed; and
   3. proper accountability mechanisms were in place to ensure that expenditure was accurately authorised, recorded and reported.
3. The 2010 Audit methodology consisted of:
   1. extract and review of ‘grants’ data for the year 2009/2010~~;~~
   2. identification of PCSs
   3. review of the financial position and performance of PCSs~~,~~;
   4. documentation of the existing system~~,~~;
   5. interviews with key stakeholders at Central Office, regional offices and schools (as described above at paragraph 238);
   6. review of data from CASES21 reports, the accounting system utilised at individual schools in relation to their general expenditure;~~,~~
   7. review of random invoices at PCSs;
   8. identification of breaches of the Department’s policies and procedures; and
   9. receipt of legal and accounting opinions on PCS activities.
4. The transactional testing identified breaches of:
   1. financial delegations;
   2. international travel policy and guidelines;
   3. serial contracting;
   4. Victorian Government Purchasing Board (**VGPB**) guidelines;
   5. Whole of Government State Contract guidelines (employment of IT and administrative staff); and
   6. Human Resource Management processes (serial contracting).
5. The IBAC hearings have demonstrated however, that breaches beyond this, amounting to corrupt practices, were occurring.
6. The nature of transactional testing performed as part of the ad hoc 2010 Audit was for the purpose of identifying adherence to processes and procedures. Its scope did not include investigation for fraud via testing whether, for example, invoices in relation to goods and services, were fictitious. Rather the transactional testing was to determine whether there had been compliance with policy and procedures in relation to, for example, obtaining relevant documentation in respect of contracts for good and services.
7. The 2010 Audit did not identify the corrupt practices that the IBAC hearings have revealed including:
   1. Falsification of invoices;
   2. Preferential contracting with companies affiliated with those in Senior Management positions;
   3. Payment of invoices by PCSs for goods and services that the schools did not receive;
   4. Payment of family members of senior departmental employees through PCS funds where no goods or services were received or rendered.
8. Though fraud was not specifically identified by the 2010 Audit, the Department acknowledges that it should have done more to supervise, monitor and ensure compliance with policies and procedures in relation to the financial systems in place at the relevant times.
9. As a consequence of the IBAC revelations in respect of corrupt practices the Department has now engaged external experts to review the control frameworks and make recommendations to be implemented, in order to minimise the opportunity for fraudulent activity to occur again in the way that it has.

*Interviews*

1. The 2010 Audit interviews commenced in October 2010 and continued until November 2010.
2. The interviews reflected that policy and procedure in relation to the proper use of PCS funds was poorly communicated at the school level. The IBAC hearings have confirmed that information in that regard was effectively not available in an informative way.
3. The interviews demonstrate the following misconceptions about intended use of PCS funds, the application of the CASES21 Guidelines to those funds and the operation of the PCS system generally:
   1. A genuine lack of understanding of financial delegations and accountabilities;
   2. Misunderstanding of the nature of a PCS as a ‘banker school’ where grant money was issued by Central or Regional Office and ‘parked’ at the school;
   3. PCS funds applied for purposes other than PCS activities including purchase of iPADs or mobile phones and payment of bills in that regard; the payment of casual employees; payment for the rental of cars for use by school staff members; payment of hospitality expenses and principals’ conferences.
   4. Mixing of PCS funds with other school funds in a general bank account; and
   5. Inaccurate recording of expenditure in the PCS accounting system, CASES21.
4. Extracts from the 32 interviews conducted as part of the 2010 Audit set out below reflect the above misconceptions. The interviews provide insight into how business managers came to make decisions about application of PCS funds in a manner that were outside of the Guidelines. They also reflect upon the qualifications of those business managers and why they were chosen for the job, which has been a focus of the IBAC hearings:
   1. The Loddon Mallee Region’s Regional Finance Manager indicated that Bendigo Senior Secondary College was chosen as a PCS to process regional administrative payments because of the ‘*size of admin support staff at Bendigo SCC gave them some capacity to do the job. Competency of finance manager at Bendigo*.’
   2. The Eastern Region’s Regional Director advanced these reasons for how funds were issued and held by a PCS and stated that ‘*Timing was an issue’* in that the funds were provided by Central Office in late May and that ‘*those funds had to be committed quickly’* so as not to be returnable by the end of the financial year. Further, ‘*the PCS was chosen because of its physical location and the competence of the Principal and Business Manager in managing their funds’.*  Regional Managers gave similar reasons in respect of the Western and Hume Regions.
   3. A business manager at Essendon Primary School indicated that the school was prepared to take over administration of PCS funds for the Region, in order to earn interest on that money.
   4. In the Hume Region, one principal at a PCS indicated that the PCS arrangement was chosen originally in relation to that school because, ‘*the principal and business manager at the school was very experienced*.’
   5. In the Loddon Mallee Region, a Finance Manager indicated that a particular PCS was chosen for the arrangement because the Regional Director expressed a need to consolidate existing arrangements and Bendigo had skills and resources to perform this function.
   6. In relation to the Northern and Eastern Region, one Finance Manager said in respect of Sunbury College that the rationale for it being chosen as a PCS was:

‘*because of competency of the business manager…* *The business manger spends about 70% of her time processing the Regional accounts and school has had to hire another person part time to assist.’*

* 1. The Gippsland Region’s Regional Finance Manager noted that the PCS was chosen on the basis of the Business Manager’s knowledge of CASES21, ‘*so if there is a change in Principal or Business Manager we would consider changing and asking for the funds to be transferred.’*
  2. In the Grampians Region, a business manager indicated that Ballarat High School was chosen because:

‘*it has funds’ and due to region having high regard for the School’s Business Manager. Ballarat High School is the Region’s biggest school. The Business Manager has built a solid administration team. Several years ago Grampians consolidated their funds to Ballarat High School. The shift was to reinforce perceived control over the funds. Several issues with quality of funds administration at other schools*.’

When asked to describe the school’s responsibilities as a PCS the Business Manager’s response was:

*holding investing funds, safely, secure funds. Manage cash flow. Do not have a coordination role [re programs]. Simply a banker, pay through based on direction*. *The Business Manager has no knowledge of activity underlying invoice, or appropriateness of payment approval from region. Don’t challenge payment request other than ensuring paperwork is in order.*

* 1. In relation to the Hume Region, a Business Manager stated that the PCS:

‘*doesn’t coordinate any programs. Its just a housing school for the money. The region gives money to school to hold to avoid giving money back to DEECD*.’

*Audit findings*

1. That interview process and transactional testing resulted in the following findings, which in large part explain how the PCS system was vulnerable to fraud and are consistent with the evidence from IBAC hearings:
   1. None of the PCSs reviewed described coordinating any programs for their Region. Instead, schools that held those funds did so in a manner that was consistent with the description used by principals, business managers and Regional Staff as ‘banker schools’ or ‘holders of funds’.
   2. Governance and controls around PCSs were wholly inadequate. There was a comprehensive lack of accountability and oversight for the activities and expenditure of the PCSs and these practices have continued over a number of years with no reporting or compliance obligations for the PCSs.
   3. The only guidelines relating to treatment of PCS funds were contained in the Guidelines, which was focused on accounting methods in relation to PCS funds. There was also a GST Fact Sheet that discussed GST issues arising from PCS arrangements.
   4. Central Office divisions and the Regions disbursed significant amounts of monies in May and June of each financial year to PCSs as ‘grants.’ A grant provided as general expenditure was not within the Department’s *Grant Payment Policy & Guidelines.*
   5. There was a lack of documentary evidence to support purchases that should have attracted quotes, tenders or exemptions.
   6. The general ledger codes at PCSs, which were established for school operations and not Regional or Central Office program administration, were being used. Expenditure was therefore being classified in a manner that was misleading or vague according to instances of detailed analysis of what the actual purchase was.
   7. At each of the PCSs, receipt of funds from Regions and Central Office and expenditure were being transacted through the same school account ledger, thus mixing school, Regional and Central Office funds.
   8. Expenditure and receipt of funds was managed by Regional staff members manually on a spreadsheet. That process lacked integrity. None of the Regional Finance Officers had performed a reconciliation against the PCSs actual bank account holdings of Regional, Central Office and PCS funds.
   9. There was no identification of fraud by any Region, Central Office Division or PCS. However, the mixing of funds without any adequate process for authorization of expenditure and non adherence to DEECD purchasing policies as well as lack of accountability and acquittal procedures, presented a very high risk of fraud.
2. The 2010 Audit Report made a number of recommendations, including discontinuing the PCS model immediately, as well as other recommendations to improve the system, falling short of its cessation. Principally, this included reinforcement and development of the Governance Framework around use of PCS.

*New PCS Governance Framework*

1. The Framework was first published in December 2012. Under it, PCSs are differentiated according to the source and level of funding received by them:
   1. Level 1 – school initiated and wholly funded by cluster of schools (funding amount up to $50,000;
   2. Level 2 – funding from cluster schools, regional office, Central Office and/or the Commonwealth (funding amount up to $150,000); and
   3. Level 3 – funding from regional office, Central Office and/or the Commonwealth (funding amount exceeding $150,000).
2. The endorsement requirements for PCS programs, the formality of PCS agreements, and the nature and frequency of reporting obligations, depend on the PCS level. That is, higher-level arrangements have more rigorous requirements.
3. PCSs at Levels 2 and 3 are required to prepare an acquittal report to all the parties who have signed a PCS agreement for the specific programs at their completion. The report is to include a financial summary of the program and all revenue and expenditure relating to the program that has been administered by the particular PCS.
4. The Framework was developed by taking into account feedback from stakeholders (including regional directors and school principals) obtained during workshops.
5. Representatives from the Schools Resource Allocation Branch and Office of Government School Education delivered a presentation to the Portfolio Audit Committee on proposed key governance principles and components of the Framework in February 2012.
6. A status update on the Framework development and proposed key components of the Framework was presented at a Regional Finance Managers meeting in August 2012. A final version of the Framework was then released in late December 2012. A circular was issued to principals, business managers, school council presidents and regional staff.
7. The Department’s financial management website was updated to include the Framework and additional resources that could assist schools, including a program outline brief agreement and acquittal report templates. The Framework was also distributed directly to relevant stakeholders by FSD, who offered the stakeholders assistance with implementing the Framework. These stakeholders included regional finance managers and business managers at schools with PCS arrangements.
8. The Framework is referred to in the Department’s training modules titled ‘Talking Finance’. It is also included in the *Finance Manual for Victorian Government Schools,* and *Information for New Business Managers*.
9. The principal focus of ‘Talking Finance’ however, appears to have been in respect of the tax treatment of transactions related to PCSs and not sufficiently on enforcing key principles of governance and financial compliance for PCSs.

C. Department audit of governance framework for PCS (2015)

1. The Department’s Internal Audit has conducted a comprehensive review of the governance framework for PCS schools (looking closely at the implementation of the Governance Framework post the 2010 Audit Report). The review was initially incorporated in Internal Audit’s 2014-2015 audit plan; it was brought forward in response to Operation Ord. Initial findings were provided to IBAC in June 2015.

*Background*

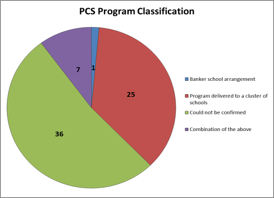
1. The 2015 internal Audit took place following on from the findings of the 2010 Audit report, the establishment of the new PCS Governance Framework in 2012 and other matters raised throughout this statement.
2. Twenty-one regionally funded PCSs as identified by FSD were included in the audit. The total value of PCS funds held by these PCSs as at 31 December 2014 was approximately $4million.
3. The twenty-one PCSs included: Noble Park English Language School; Yarragon Primary School; Buninyong Primary School; Ballarat High School; Tarneit College; Yuille Park Community College; Mandama Primary School; Bayside College; Essendon Primary School; Echuca College; Lalor Secondary College; Sunbury Secondary College; Mildura Primary School; Swan Hill Specialist School; Reservoir High School; William Ruthven Secondary College; Laburnum Primary School; The Patch Primary School; Shepparton High School; Templestowe College; Benalla College.

*Objectives and Scope*

1. The objectives of the audit were to:
   1. assess the level of compliance with the Framework, including sample testing at selected government schools; regional and Central Offices;
   2. determine whether the Framework provides comprehensive guidance on management of funds by PCSs, regional and Central Offices;
   3. assess whether funds are being used consistently with the purposes outlined in the Framework; and
   4. review implementation of actions in relation to the 2010 Audit.
2. The audit focused on funding associated with programs that were managed and administered through a PCS arrangement (limited to the 21 PCSs visited). Other methods of funding to government schools e.g through SRP credit-to-cash transfers, grants (and the like) and risks associated with these methods of funding were excluded.
3. The focus of the internal audit was on the PCS Governance Framework that was developed in response to the 2010 Audit. TSSP has its own governance arrangement, policy and operating procedures that are different from the PCS Governance Framework. As such, this audit did not consider the TSSP governance arrangements in detail and only limited sample testing was undertaken. It focused on controls to mitigate the risk of funds being misappropriated.
4. It is acknowledged that a separate more comprehensive review of the governance of TSSP PCS arrangements will be undertaken.
5. During 2015 the audit, the following PCS arrangements were brought to Internal Audit’s attention:
   1. PCSs funded through SRP (total number of such PCSs cannot be determined by audit);
   2. Casual Relief Teachers (CRT) Professional Support Learning Initiative. Audit identified funding received for the initiative being coded to ‘coordinator schools other revenue’ as well as to ‘other departmental grants’ in CASES21 Finance;
   3. Either additional regional PCSs highlighted by regional finance managers during the audit;
   4. sixty four PCSs funded by Schools Sports Victoria; and
   5. Two hundred and eighty PCSs that collect funds from a cluster of primary and secondary schools to fund local inter school competitions.
6. None of the above PCS arrangements were included in this audit because of the time frame for delivery of recommendations and findings.
7. Separately, in a report delivered to the Department in June 2015, Deloitte Access Economics identified a clear rationale for benefits realisation from shared service coordination and delivery at a school level.

*Weaknesses in the Design and Implementation of the Framework*

1. The internal audit found that there were weaknesses in the design of the Framework. Use of the words like ‘anticipated to oversee’ and ‘where resources permit’ effectively made compliance with key elements of the Framework optional rather than mandatory. Further there were no clear accountabilities and responsibilities for overseeing the Framework.
2. The Framework was also poorly communicated and implemented, which contributed to low levels of compliance at schools and regions. The Framework was released in December 2012 which coincided with the end of the school year as well as major regional organisational changes and consolidation. Those challenges diluted the capacity for the Framework to be implemented in a streamlined way. Most officers in schools visited by Audit stated that they were not aware of the Framework at all. Some regional Finance officers recollected being involved in initial workshops but had not attended any training prior to or post the release of the Framework.
3. The 2015 Audit, consistently with the Deloitte Report, identified that many of the risks and issues identified by the 2010 PCS internal audit had not been adequately addressed. These included PCS funds still being used to pay regional expenses e.g staff contributions were still being collected through a regional PCS program (named ‘Regional Projects’) to pay for farewells of Regional Directors/Deputy Regional Directors. The PCS program was also used to pay for leadership programs for regional executives. In addition, the audit identified PCSs that were paying invoices at the direction of the Regions, without adequate scrutiny over the purpose of the expenditure or appropriate authorisation by a financial delegate at a regional office.
4. Due to the absence of documentation for the majority of the 69 programs included in the audit, Internal Audit faced challenges in determining if the programs were put in place to benefit a cluster or network of schools. Only 10 of the 69 programs had a formal agreement. Sixteen of the 21 non TSSP PCSs visited could not identify a cluster of schools for which they were operating the PCS arrangement.
5. Internal Audit categorised the 69 programs into four, based on available documentation:
   1. Programs where documentation showed that the expenditure was related to regional expenditure only (i.e. PCS was used as a ‘banker school’ during the audited period);
   2. Programs where documentation showed that expenditure was related to program delivery across a cluster of schools;
   3. Purpose of programs could not be confirmed; and
   4. Programs with a combination of two or all of the above categories.
6. The diagram below shows the break-down of the programs into the above four categories. The classification was based on the details in PCS agreements (where those agreements existed) and/or review of records of funds received and invoices paid (for any evidence of other schools being involved in the program). Audit confirmed that cluster schools exist for programs related to online professional development, support for Koorie students and autism support.
7. Of the 25 programs delivered through 13 individual PCSs, identified as being for a cluster of schools, there were only 6 programs where the PCSs were involved in organising activities on behalf of other schools. The remainder were processing program invoices on instruction from a Regional Office.
8. Internal Audit was able to identify only one banker school arrangement conclusively. Limited documentation resulted in the specific nature of 36 out of the 69 programs being unable to be confirmed. The value of funds held for the 36 programs as at end of December 2014 was $2.8 million.



1. Where PCSs do not administer funds in accordance with the Framework, the PCSs are operating beyond the powers in the Education and *Training Reform Act 2006*.
2. Internal Audit reflect that there has been some improvement since the 2010 Audit, particularly in the development of chart of account codes in CASES 21 to support tracking and reporting of PCS programs separately from other school activities. However, these codes are being used inconsistently.
3. Internal Audit also noted that if schools were consistently using the correct codes in CASES21 Finance, there would still be difficulties in identifying sources of program funding, due to the various Oracle account codes used by central and regional offices when disbursing PCS funds.
4. Monthly reports are provided to the regions on funding and expenditure against each PCS program. At two regions, the reports are reconciled against a separate spreadsheet or compared with copies of invoices maintained by regional finance areas. Overall, only five of 21 non-TSSP PCSs visited, were compliant with the reporting requirements in the Framework. That outcome reflects the continuing work that the Department has ahead of it in order to implement reform required at a school level in relation to the proper operation of PCS Framework.
5. During the course of the audit, other PCSs and PCS arrangements were brought to Audit’s attention by central and regional staff. Audit was not in a position to confirm whether all PCS arrangements have been identified. Without the ability to obtain a complete and accurate view of all PCSs, especially those at levels 2 and 3, Internal Audit reflect that it would be difficult for their use and compliance with any governance framework to be adequately monitored.

*Implementation of recommendations from 2010 Audit report:*

The table below represents a summary of the current status of findings identified in the 2010 Audit report and progress of remedial action:

|  |  |  |
| --- | --- | --- |
| **Findings from 2010** | | **Current Status** |
| 1 | Principal/Agent agreements between regions and PCSs did not reflect actual operations | A PCS Governance Framework was released in December 2012 to provide guidance on purpose of PCS programs, endorsements, and establishment of agreements.  Eighteen out of 21 non-TSSP PCSs visited either did not have agreements in place for their programs, or agreements were in place but not as prescribed by the Framework (refer to **Appendix 1**).  One PCS was identified to be administering a ‘program’ which related solely to processing transactions on behalf of regions for operational and administrative functions. |
| 2 | Regional offices and some Central Office divisions were using an undefined and poorly controlled shadow financial system | The PCS Governance Framework includes a compliance and monitoring regime; however, several of the proposed compliance and monitoring elements have never been implemented (refer to Finding 2.1). |
| 3 | PCS arrangements were in breach the *Education and Training Reform Act 2006* (the Act). | Legal advice obtained by the Department after the finalisation of the 2010 PCS internal audit report found that a school council is authorised to use their funds or staff resources other than for the school in respect of which the council is constituted, if the school benefits from the arrangement.  PCSs that operate in accordance with the Framework are not acting beyond their powers in the Act.  However, PCSs that are being used as ‘banker schools’ to process regional expenditure are acting beyond their powers in the Act(refer to Finding 2.3).  Only 1 out of 10 PCS agreements sighted was signed by a School Council. |
| 4 | The transfer of funds from regional offices and Central Office divisions directly to PCSs as grants lacked transparency and accountability. | Issue still exists (refer to Finding 2.3). |
| 5 | Procurement and reporting obligations were being avoided by purchasing goods and services through PCSs. | Issue still exists (refer to Finding 2.3). |
| 6 | Lack of a governance framework for PCS arrangements. | PCS Governance Framework was released in December 2012. Weaknesses in the design of the Framework, and its poor communication and implementation, are discussed in this report (refer to Findings 2.1 and 2.2). |
| 7 | Existing systems did not accurately capture program expenditure through a PCS. | PCSs were still being used to process regional expenses (refer to Finding 2.3). PCSs are not consistently using CASES21 codes to record program expenditure (refer to Finding 2.2). |
| 8 | Central office budgeting and planning seen by some regional offices as untimely (i.e. funds disbursed to regions in May and June each financial year with no time for regions to develop programs and effectively commit funds), resulting in late and non-transparent financial year transfers/discharges of funds. | No concerns were raised by regional offices in relation to budgeting and planning (based on discussions only). |
| 9 | School, region and Central Office funds are combined under a single PCS chart of accounts. | Designated Chart of Account codes exist in CASES21 to support tracking and reporting of PCS programs separate from other school activities.  Issues still exist due to the lack of awareness of the Framework (refer to Finding 2.2). |

*Continuing lack of adherence to PCS Governance Framework at school level:*

1. Internal Audit conducted testing for awareness of requirements of the Governance Framework at each school it visited. Examples of the problems Internal Audit recorded include:
   1. PCS agreements that existed but did not comply with the PCS Framework;
   2. PCS agreements did not exist;
   3. Documentation that was not available on endorsement of the school as a PCS;
   4. payment and receipts partly complied with the PCS Framework.

*Capability Maturity Model*

1. Internal Audit have employed the Capability Maturity Model to assist in assessing the current state, and forecasting the future state, of processes in order to continuously improve and close identified gaps. The maturity assessment approach can assist management to foster a culture of continuous improvement as they aim to reach increasing levels of maturity.
2. The Capability Maturity Model has been used by Internal Audit to rate the maturity of key elements of management and administration of the Framework. This is a subjective assessment by Internal Audit based on generic expected processes, using the six elements of infrastructure.
3. Internal Audit have assessed processes to be operating at ‘Initial’ stage given inadequate design, awareness and compliance of the Framework. Given the adverse impact of poor design and non-compliance with the Framework, Internal Audit expect that the processes should be operating more consistently at the ‘Defined’ state and developing toward the ‘Managed’ state.

*Findings and Agreement: Management Actions*

1. Internal Audit have on the basis of the audit in 2015, made these findings to which a critical rating applies:
   1. Design of the PCS Governance Framework is inadequate;
   2. Poor implementation and communication of the PCS Governance Framework;
   3. Issues and risks identified in the 2010 Audit of PCSs still exist;
2. Internal Audit accorded medium ratings to the following aspects:
   1. Oversight of unused TSSP PCS funds needs improvement; and
   2. Control weaknesses in TSSP invoice and payment processes.

*Design of the PCS Governance Framework is inadequate*

1. The PCS Governance Framework was released in 2012 in response to the 2010 Audit findings. While the Framework went some way to defining governance processes over PCSs, Audit has identified continuing issues with the design of the Framework:
   1. There is a lack of clarity on accountabilities and responsibilities in relation to the compliance and monitoring regime prescribed by the Framework;
   2. the use of words such as ‘anticipated to oversee’ and ‘where resources permit’ effectively make compliance with the key elements of the Framework optional rather than mandatory;
   3. the program financial acquittal template does not require the evaluation or acquittal of program outcomes;
   4. feedback was provided during the audit by PCSs and regional offices on the complexity of the Framework in relation to obtaining appropriate endorsements, and confusion as to how to apply the Framework for PCS programs which were already in place when the Framework was launched in December 2012. The perceived complexity seemed from lack of training on the Framework and the need for additional resources to be able to fully comply with the compliance and reporting requirements of the Framework.
   5. The Framework did not describe how to manage a change in PCS level due to changes in funding (eg from a Level 1 to a Level 2 PCS);
   6. the way PCS levels are currently defined in the Framework can create confusion, in that they are based on both sources of funding and the amount of funding. For example, it is unclear what level a PCS would be classified as if its source of funding is a cluster of schools but the total amount of funds exceeds $50,000.
2. Internal Audit observe that the compliance and monitoring regime is a key element of the Framework, however, several of the proposed compliance and monitoring elements are not yet implemented. They include:
   1. Annual attestations on compliance with the Framework. Internal Audit found that PCSs prepare annual Financial Commitment Summaries reporting the value of funds held. However, this summary does not include an attention of compliance.
   2. Desk-top audit process for high risk or significant value programs. Internal Audit found that the Framework does not articulate who is responsible to undertake the audit, or the criteria for identifying high risk PCSs. Audit found no evidence that any desk-top audits had been conducted.
   3. Relevant audit program steps for PCSs to be incorporated in the annual SCFA program. Internal Audit observed that other than a topic audit as part of the SCFA for the year ending December 2012, the SCFA program is not tailored to assess compliance with the Framework.
   4. Regional or Central Office oversight. Internal Audit noted that neither regional nor Central Offices have taken responsibility for maintaining a list of key details of PCSs (Level 1 and 2) and monitoring compliance with the Framework. FSD only recently commenced a process to capture details of PCS programs to assist with monitoring PCSs.
3. The implications of those weaknesses, according to Internal Audit are that the Framework has not effectively addressed the risks and issued identified in the 2010 internal audit. Due to the weaknesses around the compliance and monitoring regime in the Framework, inappropriate practices were not identified prior to this internal audit, including use of PCS funds in a manner that is not consistent with the Framework. The findings in this regard received an audit rating of critical.

*Poor implementation and communication of the PCS Governance Framework*

1. Internal Audit observed that Principals and Business Managers at 17 of the 21 schools visited advised that they were not aware of the Framework and that their PCS processes had not changed since 2010. Awareness of the Framework was mixed in the regions with some Finance Managers recalling having been involved in the initial workshop to develop the Framework. Review of the implementation and communication of the Framework noted that:
   1. The Framework was released in December 2012, coinciding with the end of the school year and major organisational changes at regional and Central Offices. The Department’s school financial management website was updated to include the Framework and additional resources that could assist schools, including program outline brief, agreement and acquittal report templates. However, discussions with staff at PCSs indicated that they had not received any training on the Framework when it was released. This may be explained by the restructure which occurred concurrently with the introduction of the Framework and in part relate to turnover of staff at that time.
   2. A detailed document Committee (PAC) minutes and the FSD Status Report (February 2012) from the 7 February 2012 PAC meeting indicated that the Framework would be fully incorporated in the Dollars and Sense and Talking Finance professional development programs in 2013. Discussions with Business Managers and review of the training modules identified that only the tax treatment of the transactions was discussed in the modules.
   3. The PAC meeting minutes from 7 February 2012 indicated that FSD had intended to undertake a review of the Framework during the first 12 months of implementation. However, this never occurred supposedly due to staff changes and resource limitations.
2. Internal Audit did not have available to them a consolidated view of the number of PCSs and value of funds held across schools. Instead, the list of 21 PCSs provided to the Audit Unit by FSD at the commencement of the audit in 2015 was based on information collected by regional finance areas. Regional offices seemingly prepared the list using information gathered from relevant schools. The list excluded PCS funds provided by Central Office (including those funded via the SRP). There is in those circumstances, no reliable method available for Internal Audit to determine if the list provided was complete and accurate. This is due to disbursement of PCS funds being allocated against various program codes in Oracle by central and regional offices.
3. Further, during the audit fieldwork Internal Audit were made aware by central and regional office of many other PCS arrangements/programs.
4. In accordance with the Framework, PCSs should have separate identifiable accounts for recording funding received and expended relating to specific programs. The audit found that receipt and spend of PCS funds were not being consistently recorded against PCS account codes in CASES21.
5. It was noted that even if schools were consistently using the correct codes in CASES21 to record revenue and expenditure related to specific programs under a PCS arrangement (as required), there would still be difficulties in identifying sources of program funding due to the various Oracle account codes used by central and regional offices when disbursing PCS funds.
6. The lack of awareness of the Framework explains the little change in administration and management of PCS since the 2010 Audit. Key risks identified in it have therefore not been addressed.
7. Internal Audit state that ‘*without a complete and consolidated view of the number of PCSs and funds that they hold to administer relevant programs, it is unlikely that the Department would be able to adequately oversee the operations of PCSs or obtain assurances that the PCSs are operating as intended by the Framework*.’
8. The findings in this regard received an audit rating of critical.

*Issues and risks identified in the 2010 Audit of PCSs still exist*

1. The findings of Internal Audit reflect that the new PCS Governance Framework design was inadequate, not sufficiently communicated and that recommendations were not implemented. Those problems are characterised in the following terms:
   1. There was no documentary evidence available on how PCSs were selected. The 2010 Audit reflects that business managers in PCSs and regional offices stated that historically schools were selected based on capacity, capability of staff and consent of the Principal. The 2015 Audit consolidated those matters. PCSs were able to recover administrative costs based on a percentage of the total PCS funds. The level of administrative costs recovered is to be determined and confirmed in a PCS agreement, once the PCS program outline brief is developed. PCSs may also retain interest earned on PCS funds to cover administrative costs.
   2. PCS agreements were only in place at eight of 21 schools. Internal Audit cited 10 agreements out of a total of 69 programs. One school had four programs with one agreement in place.
   3. Receipt and spend of PCS funds were not consistently recorded against PCS account codes in CASES21 Finance. One school visited was coding carried-over PCS funds to ‘printing’ and all expenses to ‘conferences/courses/seminars.’
   4. Non-compliance with tax legislation was identified at two schools that were paying invoices addressed to the Department and claiming back Goods and Services Tax without an agency agreement in place.
   5. PCS Business Managers did not query the appropriateness of regional office expenditure or confirm if the regional officer approving invoices had the appropriate financial delegation. Examples of regional expenditure paid through PCSs are leadership training for regional executive, former Regional Directors farewells and repairs to an air conditioner in a regional conference room. At four of the PCSs visited, Internal Audit identified payments that were made either without regional office authorisation or authorised by a staff member without financial delegation. Vendor selection and procurement in most cases were performed by the region.
   6. Transfers of funds were made between schools at the direction of regional officers. This occurred in 5 instances without reasons being specified. In one instance, the recipient school was not expecting or aware of why the money was being transferred (documentation from the region stated that it was for a web-casting initiative)
2. Internal Audit observe, consistently with the evidence produced during IBAC hearings, PCSs that are not complying with the Framework and paying invoices on behalf of regions are acting beyond their powers in the Act. School councils are not authorised by the Act to use funds or staffing resources other than for the school for which the council was constituted. In addition, in the absence of PCS agreements, project deliverables were not explicitly stated at the inception of the program and therefore outcomes were not measurable.
3. The result of poor implementation of the Framework according to Internal Audit are the risks and issues identified in 2010 were not resolved and not managed. Those include:
   1. Poor accounting of public funds; and
   2. Non-compliance with Department and schools’ financial management policies and procedures.
4. The findings in this regard received an audit rating of critical.

*Oversight of unused TSSP PCS funds requires improvement*

1. Information Technology Division monitors funds balances and expenditure by each PCS in a database developed for this purpose. This includes review of unused funds in both active and inactive PCSs.
2. Information Technology Division consolidated the number of TSSP PCSs from 43 to 21 in 2013. Funds totaling approximately $1.7 million associated with the 22 inactive PCSs were recorded as still being held at the schools at the time of the 2015 audit.
3. Internal Audit observed that one inactive PCS visited stated that the funds had been transferred to another school at the direction of a Service Delivery Manager. ITD records however did not reconcile with that statement. The PCS visited was able to provide evidence of acquittal and transfer of funds.
4. Audit attempted to contact 8 other inactive TSSP PCSs to assess the accuracy of ITDs database. At four of 6 inactive PCSs (two of the 8 PCSs did not respond to Internal Audit’s query), there appeared to be significant variances in the amount of unused funds as advised by the PCSs (not verified by Internal Audit to source documents) relative to amounts recorded in the database. The largest amount of variance was approximately $120,000.
5. The above indicates that there is a need to undertake a more comprehensive review of the TSSP PCSs following on from the IBAC hearings.
6. The consequence of these conclusions is that oversight of unused PCS funds is inadequate and could result in misappropriation of funds being undetected. This is consistent with the evidence in respect of the IBAC hearings.
7. Findings in this regard received an audit rating of medium.

4. Organisational Renewal 2011 – 2013

A. Overview

1. During the period from 2011 onwards, under the leadership of Richard Bolt as Secretary, the Department underwent a major period of restructure and renewal.
2. Richard Bolt commenced as Secretary in August 2011.
3. In September 2011, the Department began an organisational renewal project. Its stated objective was to ‘*facilitate the Department’s ability to deliver the Government’s vision for lifelong learning and development in Victoria*’.

*An appropriate governance framework: DEECD report / SSA review*

1. In October 2011, the then Secretary requested that the State Services Authority (**SSA**) provide advice on an appropriate governance framework for the Department, in the context of the wider organisational renewal project. The advice was confined to high-level governance arrangements pertaining to the Department.
2. More specifically, SSA were requested to:
   1. review the effectiveness of the current governance and accountability arrangements for the Department;
   2. identify the Department’s governance needs in light of the current project;
   3. identify key governance elements and possible governance models for the Department; and
   4. construct a tailored governance framework for the Department.
3. The SSA review found that there were significant gaps in key governance processes within the Department that were contributing to its challenges in delivering a responsive, efficient and integrated service that was transparent and accountable in its operations.
4. Consultations identified that leaders had not always role modelled the behaviours that the Department required. Historically, there had been gaps in the way in which senior executives role modelled the key governance principles of accountability and transparency and their presentation of a united leadership voice regarding the strategic direction of the Department.
5. Consultations conducted by SSA also raised some concerns regarding the way in which lower level leaders and managers across the Department role modelled governance behaviours (e.g leaders not always role modelling probity or risk management processes). In these instances, managers were perceived as viewing risk management and probity as unnecessary forms of compliance (‘bureaucratic process’), rather than valued activities that helped the Department deliver on its Government priorities. Although these behaviours were not considered to reflect breaches of integrity, they contributed to creating a culture of seeing and doing that could become ingrained within the Department. The report concludes that if leaders and managers do not do things in the agreed way, then the Department cannot expect other staff to follow appropriate guidelines.
6. Consultations by SSA indicated that in the future, the degree to which leaders role modelled appropriate behaviours should be facilitated by the Department’s executive officer performance assessment process.
7. As well as demonstrating appropriate behaviour themselves, the report noted that leaders also needed to establish mechanisms that ensure staff comply with the appropriate standards of behaviour. Consultations highlighted that within the current culture at the time of the report, there was '*often a lack of real consequences for inappropriate behaviour, as well as limited reward for when people did demonstrate the appropriate behaviours'.* This was sometimes referred to as lacking both the *‘carrot and the stick’* to ‘*help drive good governance behaviour’.*
8. Consultations conducted by SSA indicated that there were variations in the culture across the Department. Although culture in some parts of the organisation appeared to operate well, there were also aspects that did not support some of the behaviours that the Department required to achieve its outcomes, such as:
   1. avoidance of conflict;
   2. people not feeling safe to speak up and voice their opinion; and
   3. a weak appetite for collaboration, combined with territorial behaviour.
9. Consultations conduct by SSA identified that there was often diffusion of responsibility stemming from confusion over who was responsible for what across different teams, functions and across different groups within the Department.
10. Consultations also identified that staff received insufficient support to enable them to understand their governance responsibilities, and have the required capabilities to deliver on them. Examples included:
    1. inadequate induction programs for managers to ensure that they were equipped to meet their governance accountabilities;
    2. a lack of ongoing training on governance responsibilities such as financial delegation, contract management and performance management; and
    3. inadequate training in public sector values and Code of Conduct.

People believed that there wa~~s~~n’t a strong learning and development culture within the Department and that Human Resources was largely process oriented.

*DEECD Report regarding SSAs review and recommendations*

1. In 2012, based on recommendations made by the SSA, DEECD issued an internal report that presented findings regarding the effectiveness of the governance and accountability arrangement within the Department at that time (**DEECD Report**). It made recommendations for a tailored governance framework that was intended to meet the governance needs of the Department, in the context at that time, and which was based on best practice and governance principles.
2. The Department took the view that in order for it to deliver on its vision for lifelong learning and address the challenges impacting the Department's ability to deliver a responsive, efficient and integrated service, the following recommendations of the SSA report, required implementation:
   1. Establishing mechanisms to drive commitment at all levels of the Department for more structured collaboration, including clear accountabilities, protocols, documentation and forums that:
      1. foster information sharing across the Department and enhance the collective understanding of how everyone (particularly different service lines) contribute to the Department’s objectives;
      2. breakdown structural 'silos'; and
      3. help foster a culture of collaboration and provide clear methodologies for collaborative efforts.
   2. Improving the effectiveness of planning, performance monitoring and evaluation to remove work duplication and enable more efficient use of resources in alignment with strategic objectives.
   3. Clarifying the relationships and expectations between the Department's Central Office, the Regions and education providers (ie early childhood, schools, TAFE and private education providers), as well as ensuring that all areas are supported in meeting their governance accountabilities through access to Departmental governance and project management tools.
3. The DEECD Report concluded that the Department should develop mechanisms to foster greater transparency and accountability in its operations, ensuring people (particularly key decision makers) are:
   1. clear on what they are accountable for (and how accountability is shared between different roles and across different parts of the Department);
   2. equipped to deliver on their accountabilities; and
   3. held to account for their actions.

*Governance processes*

1. To address those gaps, the DEECD Report adopted the recommendation that the Department:
   1. integrate evaluation and performance data into decision making and prioritisation and processes; and
   2. articulate clear accountabilities for making the difficult decisions for prioritising policies and programs.
2. The DEECD Report reflected that the manner in which the Department was being governed was, ‘*not well understood, and further that the current governance committee structure is perceived to be ineffective’.* In order to address those matters, the DEECD Report recommended that these gaps be addressed:
   1. the Department establish clear protocols for communicating a record of committee meetings to the rest of the Department; and
   2. the Department develop clear terms of reference that clarify the role of governance committees, member accountabilities, functions, processes and governance arrangements.
3. To further facilitate the effectiveness of governance committees in supporting the decision making of the Department, the following structure was recommended by the DEECD Report:
   1. a formal decision making group (the Executive Board) is established with clear accountability for integrated decision making across the Department, facilitating coherence in the communication and execution of the Department’s strategy;
   2. research and evaluation expertise is integrated into policy, people, budget and service delivery decisions, thereby facilitating evidence based decision making and prioritisation; and
   3. decision making be consolidated into a small number of strategic functions (policy, people, budget, service delivery); removing inefficiencies and fostering collaboration and integration.
4. To that end, a structure was devised so that the Secretary had capacity to delegate functions to the Executive Board, which was then capable of delegating to four committees. Those committees included: Policy, Planning and Evaluation; People and Culture; Budget and Infrastructure; and Service Delivery.

*Enablers of good governance*

1. The DEECD Report observed that enablers of good governance needed to be engaged in the following ways:
   1. *A culture that supports good governance and risk management*. To that end, it was recommended that:
      1. performance management processes needed to ensure that leaders drove cultural improvement from the top, through role modelling good governance and collaborative behaviours;
      2. Departmental values and the Code of Conduct had to be incorporated into induction programs; and
      3. rewards and disincentives (including ‘*drawing the line in the sand where necessary*’) had to be established to encourage appropriate governance behaviours.
   2. *Role clarity regarding people’s governance responsibilities and accountabilities.* The DEECD Report reflected that it was necessary for the Department to develop role descriptions and communication strategies to clarify who was responsible for which part of the strategic plan, in order to foster greater accountability (individual and shared) and reduce duplication of work efforts.
   3. *Capability to equip staff to meet their responsibilities.* It was recommended that the Department support staff to enable them to understand their governance responsibilities and to develop the required capabilities to deliver them, through:
      1. initiating a capability framework and skills analysis, to align then current staff capability with the future needs of the Department; and
      2. designing a learning and development program for the Department leaders, managers and staff to enhance their governance capability; which is also extended to education providers.
2. Today, changes of the type set out above are being implemented and the principles behind them are being embraced throughout the organisation. Had this happened years earlier, the circumvention of proper process would certainly have received greater scrutiny and decision-making throughout the Department would have been more transparent and carried out with more rigour. It is also possible that indicia of corruption may have been detected.

*A culture that supports good governance and risk management*

1. The DEECD Report stated that changes in governance processes would assist the Department to achieve a responsive, efficient and integrated service that is transparent and accountable in its operations. However, for the processes to be effective, they needed to be supported by the right culture. In this regard, the Department noted that ‘Organisational Culture’ is what an organisation values, what it rewards and the behaviours, custom and practice its employees collectively display.
2. The DEECD Report notes that public sector leaders play a critical role in demonstrating the appropriate behaviours expected of others and in setting the tone of an organisation’s culture, ‘*they must act with utmost integrity, promoting the values and principles of public sector employment as defined in the Public Sector Standards Commissioner Code of Conduct*.’
3. In the context of governance, this behaviour, according to the DEECD Report, needed to include personal adherence and commitment to governance principles.
4. The DEECD Report made several recommendations including:

*Culture*

* + 1. that the Secretary ensures existing performance management processes are effectively used to improve the way in which leaders role model good governance and collaborative behaviours, in order to ensure that leaders drive cultural improvements from the top;
    2. that the Secretary ensures that the Department's CORE Values and the Code of Conduct are incorporated into the induction programs for all managers and staff; and
    3. that the Secretary establish rewards for when staff demonstrate appropriate governance behaviour and ensures that there are consequences (or disincentives) for inappropriate behaviour, in order to foster the culture the Department requires to achieve its objectives.

*Checks and balances*

1. Internal and external reporting is one of the compliance and assurance mechanisms that the Department can use to monitor the achievement of its governance objectives. The DEECD Report noted other compliance and assurance mechanisms available to the Department to facilitate its goals. These include clearly defined, communicated and utilised policies and procedures for compliance and assurance. Quality assurance mechanisms, such as the Audit and Risk Management Committee and the Internal Procurement Unit, also help to ensure that the Department’s governance framework and its components are operating as intended.
2. The DEECD Report notes that it is important to observe that those compliance and assurance mechanisms needed to be supported by appropriate behaviours as determined by various standards such as the Code of Conduct, the Department’s CORE Values and various legislative governance requirements around probity and risk.

*Role clarity regarding people’s governance responsibilities and accountabilities*

1. The DEECD Report noted that *'accountability can only be achieved when there is clear and transparent understanding of roles and responsibilities, facilitated through a robust structure. However a major theme underlying the findings of the DEECD report was that individuals at all levels of the Department were unclear of both their individual and shared governance accountabilities'.*

*An organisational redesign*

1. In 2012, an organisational redesign was implemented at the now Department of Education and Training.
2. The design was rolled out from January to late March 2012. A new Central Office macrostructure comprised four corporate support groups:
   1. the Strategy and Review Group;
   2. the Regional Support Group;
   3. the Infrastructure and Finance Services Group; and
   4. the People and Executive Services Group.
3. These groups sat across three operational groups: the Early childhood Development Group, the School Education Group and the Higher Education and Skills Group.
4. As a first stage, recruitment for new Deputy Secretaries for the new Central Office macrostructure commenced. The recruitment process conducted by Richard Bolt for Executive Board positions resulted primarily in recruitment of senior leadership staff from outside the Department. This contrasted with a previous culture of the Department's leadership, whose roots lay in schools rather than in the public service, and injected a more impartial and robust layer of management in the Corporate Office.
5. Key considerations implemented through this new structure included:
   1. keeping audit and risk functions segregated from finance functions;
   2. greater focus on organisational capability and human resource management;
6. The new corporate structure commenced on 26 March 2012.
7. Concurrent with the changes to the Department’s corporate structure in late 2011/2012, work was undertaken to redesign the Department’s regional model.
8. The initial organisational redesign timeline projected that the proposed regional designs would be formalised and announced for formal consultation in March 2012. However, the process was incorporated into a broader organisational-wide restructure, the formal process for which began in August 2012 and ultimately took effect from 1 January 2013.
9. The rationale for the Department’s restructure was two-fold. The first reason related to the Victorian Government’s Sustainable Government Initiative (**SGI**) workforce reduction, whereby the Department was required to reduce the size of its workforce by approximately 400 Full-Time Equivalent (**FTE**) employees through the implementation of a voluntary early retirement scheme.
10. The second reason related to a decision of the Department to, at the same time, renew, restructure and realign many of its existing functions, to achieve large and comprehensive improvements in outcomes for Victoria’s children, learners, families, businesses and services, through the better use of existing and available resources under the new macro structure.
11. The impact on the Department’s workforce during this period was not insignificant. In addition to the 400 FTE reduction, the Department had to reduce its regional staffing from around 1,829 FTE to 842 FTE overall as a result of the cumulative effect of changes in funding for regional support since 2010/2011. Accordingly, the total impact on the Department’s VPS workforce was approximately 560 FTE during these years.
12. Detailed planning for the restructure was undertaken during the first half of 2012 supported by KPMG.
13. Commencing in August 2012, the Department engaged in a formal consultation process with Departmental employees and relevant unions. To assist in this consultation process, a high level document entitled ‘*Proposed changes to DEECD functions and regional model: Document prepared for staff discussion, 5 July 2012*’, was developed and distributed or made available to all staff and relevant unions.
14. This document outlined the rationale for the regional organisational redesign, including the following strategic goals:
    1. ensuring services are more cost effective;
    2. improving the level of service in some areas;
    3. ceasing duplicated or inefficient functions; and
    4. consolidation of functions where this will produce savings and align with strategy.
15. From a regional perspective, the new regional design consolidated nine regions supported by two central Divisions, Regional Support and Emergency Management, into four regions which reported to a dedicated Deputy Secretary, Regional Support Group to increase accountability to, and strategic alignment with, the centre.
16. The Regional Support Group was to be responsible for monitoring, supporting and managing the performance of local early childhood services, schools, registered training organisations and other providers.
17. Under the new model, the regions’ role was to support the operation and development of the system, particularly in the school sector. This included regional planning, provision planning, facilities, finance, emergency management and issues management.
18. The new role for the regions changed from managing schools to supporting the self-management of schools. The Government policy focused on allowing those closest to children and young people to drive improvement, resulting in a focus on provider-led system reform.
19. Regions also had a more focused role in the accountability framework that accompanied the Government system of increasingly autonomous providers (including schools), by monitoring performance and ensuring early identification and intervention to address underperformance or failure.
20. In the school sector, the model provided for regions to play a role in individual provider performance monitoring, including in the performance management of school principals.

5. RESPONSES TO *“OPERATION ORD”*

A. Protiviti’s findings

1. The IBAC hearings have highlighted how a number of senior departmental employees have circumvented controls within the Department in order to engage in conduct that was outside the designated policy and procedures in place.
2. The evidence indicates that corrupt conduct has been engaged in by certain individuals and facilitated by others.
3. The Department’s co-sourced internal audit provider, Protiviti, has been engaged to provide advice based on the information provided at Operation Ord relating to the adequacy of the existing controls, governance frameworks and culture at the Department and make recommendations for improvement in order to address the risk of future corrupt conduct of this kind.

*Observations*

1. In its interim findings (June 2015), Protiviti describes the conduct investigated by IBAC as being *very disturbing*. As the Secretary, I share this view. In summary, the reasons identified by Protiviti for this are as follows:
   1. The substantial sum of money involved;
   2. The duration over a period of years in which the conduct continued;
   3. The high level of seniority of those centrally concerned
2. According to Protiviti, the evidence from IBAC indicates that the events are linked to a small core group of senior individuals in the Financial Services Division and Regional Services areas who had influence due to their seniority.
3. The conduct has also involved some school principals, business managers and senior management who, the evidence suggests, have acted in collusion to draw others into a scheme directed to apparent fraudulent activity over a long period of time. The reach of involvement by Departmental employees is not fully known.

*Key findings*

1. According to Protiviti, the IBAC investigation demonstrates that ‘*there has been significant collusion within a core group of Senior Departmental staff. They have involved principals in working outside of the defined processes at the instruction of those senior employees in order to benefit themselves, family or provide associated benefits’.* In this way, the core group has made contact with individuals through mediums that are not easily detected e.g. personal emails, face to face discussion and unmarked envelopes not designated in order to avoid Departmental scrutiny and phone calls.
2. Protiviti has observed that the core group appears to have in effect ‘groomed’ individuals to be complicit in the corrupt conduct. The IBAC hearings have revealed the ways in which this has been achieved:
   1. Using young, naïve individuals who lacked business acumen, to manipulate vendor and payment details;
   2. Some school business managers appeared not to have the knowledge or skill set to appropriately perform a review of the transactions they were being asked to process;
   3. Receiving ‘awards’ and being granted approval for business travel;
   4. Some approvals for travel were never formally or informally obtained.
3. In relation to the 2010 Audit, Protiviti state that members of the core group of senior Departmental employees appear to have delayed, whether deliberately or less so, the finalisation of the 2010 Audit. The 2010 Audit Report contained significant control issues. It was only finalised after the new Secretary was appointed in 2011.
4. According to Protiviti, the evidence demonstrates that the ‘*fraudulent transactions were vast, though relatively small in dollar amount’*. Further, ‘*that practice has been devised to avoid scrutiny such as thresholds for tendering’.*
5. The evidence also reflects that members of the core group requested specific wording on vendor invoices to hide the true nature of the transaction. Those requested to do so indicated that they did so because they were asked by an employee who had significant influence within the Department and did not consider questioning the instruction given the seniority of the person who made the request.
6. Protiviti makes these observations as to how Departmental employees have come to facilitate corrupt conduct of senior departmental staff, which are matters the Department is committed to addressing via implementation of a control and cultural reforms:
   1. Members of the core group approved funding requests for school principals on the proviso that certain invoices would be paid. School principals stated that they ‘trusted’ Mr Napoli that these invoices were bona fide as he was a senior Financial Services Division employee from the Department.
   2. Two Departmental staff used statutory declarations for the majority of their expense reimbursements, instead of producing tax receipts.
   3. The evidence demonstrates that senior Departmental staff within the core group destroyed evidence to avoid audit activity. This included both physical and computer records.
   4. Two senior Departmental staff also indicated that they processed transactions outside of the documented process because the Secretary would not have approved the process/transaction (e.g purchasing of wine for staff events).
   5. PCSs were used to ‘hide’ cash and provide an easy vehicle for corrupt payments.
7. According to Protiviti, the IBAC hearings have demonstrated that there is a lack of controls at Central Office, regional offices and schools to monitor PCS funds and grants and hold people accountable for the use of these funds.
8. PCSs were created with the intention of providing an efficient and effective system for provision of funds for schools in relation to curriculum development and professional development for teachers. However, their financial operation is inherently high risk because they lose the fundamental control of direct accountability for funds and outcomes and create a complex allocation process across multiple entities (schools/Region/Department). The 3-way matching of an authorised order to receipt of goods/services to an invoice approval for payment, becomes a process to be allocated, rather than a control directed by an individual who is accountable for funds and outcomes.
9. Protiviti makes these observations about the culture within the Department and the impact it has hadupon allowing for corrupt conduct to evolve and continue:

*The culture of the Department has also allowed some senior management staff not to demonstrate high integrity, not establish clear accountability and responsibility and not allow subordinates to raise issues with managers. Some of the examples given in IBAC include ‘fear of bullying or public shaming’, ‘fear of redundancy after raising concerns’ and ‘pressure to grant tender exemptions’. The impact of these aspects was amplified by the extent of collusion over a significant period of time at a senior level.*

*Weaknesses identified in the systems in place*

1. Though it is apparent that there was significant collusion over an extended period of time, Protiviti takes the view that there should have been mechanisms that were capable of detecting that fraud within the Department over an extended period of time. To that end, these weaknesses have been identified and include:
   1. Lack of accountability and appropriate monitoring of grants and other funding programs. There has been an insufficient clarity of roles in this regard and controls and accountability measures for PCSs. A PCS Governance Framework exists, but lacks clear accountability measures and the implementation and monitoring against the Framework is weak at a Departmental, regional and school levels. Key weaknesses including the lack of:
      1. Documented funding criteria;
      2. Clearly defined and measurable outcomes;
      3. Appropriate approval processes and accounting for program expenditure; and
      4. Central monitoring of all programs.
   2. In this regard, the processes established in some other state and federal government bodies to continuously monitor grants and other funding programs may provide learnings for the Department. For example, where management responsibility resides with finance or a separate grants/projects office, this structure might provide more robust oversight and clarity of roles and functions in grants management.
   3. Role of Finance/Procurement in respect of monitoring over financial transactions appears to be inadequate, both at Departmental and school level. A key weakness revealed by the internal audits and the IBAC hearings exist around the approval and segregation of duties for discretionary funding and expenditure and management of monitoring of expenditure. It appears that the focus has been on transactional and processing functions and not enough focus on the finance function as a control point.
   4. Other state and federal government bodies have established functions in this area that include:
      1. Policy makers for financial related transactions and activities;
      2. Transactional processing, controlling, monitoring and reporting;
      3. Assessing compliance with departmental policies and procedures with clear escalation processes for issues;
      4. Challenging financial decisions of other divisions.
   5. Such measures ought to be put in place at the Department.

*Assurance*

1. The internal audit conducted in 2015 identified a number of significant issues that have not been adequately dealt with by management. Protiviti observed that only a few improvements had been made to PCSs.
2. The report of 2015, noted that in respect of the 2010 Audit, a number of major issues were identified, outlined earlier in this statement.
3. After the 2010 Audit Report was finalised management did not completely implement the agreed actions. Internal Audit had then incorrectly closed out the management actions as completed, based on the design of the PCS Governance Framework (which was not properly designed in the first instance), but not on its successful implementation.
4. Protiviti recommends in this regard that all internal audit reports with an overall audit rating of ‘unsatisfactory’ or ‘needs improvement’ should be specifically followed up after 12 months of report finalisation, to ensure that agreed management actions have been implemented. The Department is committed to ensuring this recommendation is implemented.
5. The Department recognises that most frauds are not uncovered by external audits (3%). Most are uncovered by whistleblowers or by tipoffs (some 40%). For this reason, the Department’s integrity program is focusing on culture and reporting mechanisms.
   1. A global fraud study was conducted and its findings compiled in, ‘Report to the Nations on Occupational Fraud’ by the Association of Certified Fraud Examiners (Global Fraud Study), has found that external audit programs, such as the SCFA program, generally do not lead to the identification of occupational fraud.
   2. In the years, 2010, 2012 and 2014, the Global Fraud Study identified that external audits detected less than 5% of occupational fraud.  Instead, the Global Fraud Study has found that other methods of fraud detection, such as ‘tip offs’ were more effective in detecting occupational fraud.
6. The IBAC hearings have observed that a core group of senior departmental employees in FSD and Regional services as well as an Acting Secretary and school principals have failed to demonstrate high integrity throughout the relevant period. Protiviti has additionally found that the Department has failed to establish clear role accountability and responsibility. Some staff including business managers and finance managers did not feel empowered to raise issues in relation to proper process.

B. Deloitte’s findings

*Background*

1. On 15 June 2015, Deloitte provided the Department with a report entitled “PCS Governance & Control Environment Observations” (**Deloitte Report**). At the outset, the report states that:

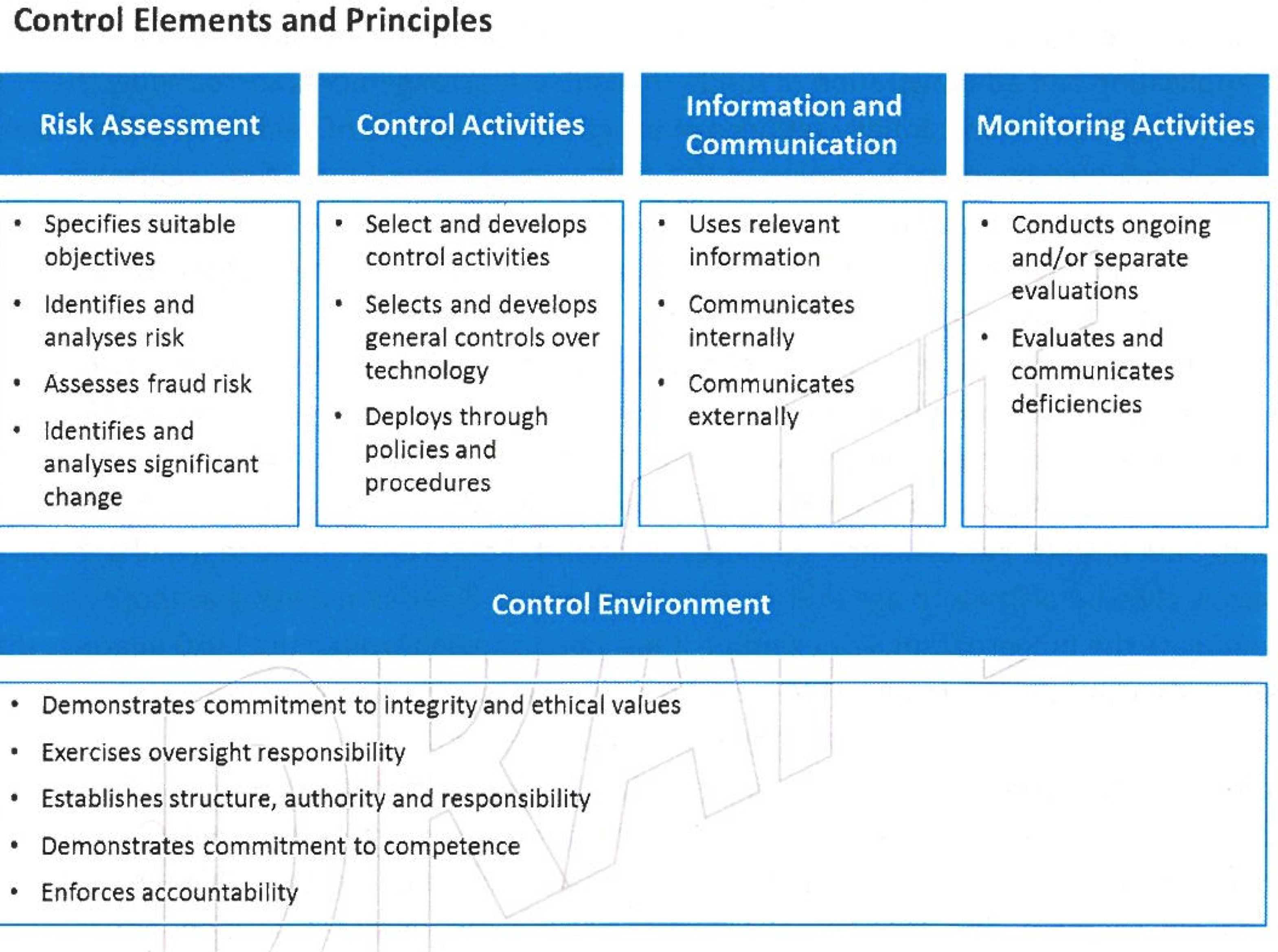
*Public Examinations conducted by [IBAC] as part of “Operation Ord” have raised serious allegations of misuse of positional power, manipulation of school funding processes and ultimately misappropriation of public monies by senior officials of the Department over a long period of time.*

*It is alleged that a small number of senior officials exploited governance and control weaknesses surrounding Program Coordinator School (PCS) funding arrangements to misappropriate significant public funds for more than a decade.*

1. The Deloitte Report notes that with the evidence presented by IBAC as a catalyst, the report explores the circumstances which may have enabled the alleged manipulation of PCS funding arrangements at numerous schools to have taken place over a long period of time without detection or intervention by the Department.
2. The Deloitte Report notes that banker school or PCS arrangements have been employed by the Department in various forms for many decades. Arrangements were originally designed as a mechanism to provide funding for legitimate purposes (often specialist programs) to a selected school who would administer funds to deliver programs for the shared benefit of surrounding schools. Grant funding would be provided to selected schools by central divisions, regional offices and program areas to facilitate coordination and financing of programs.
3. Consistent with the Protiviti report and evidence heard during the IBAC hearings, Deloitte observed that over time it appears that these arrangements were distorted by a group of Department officials and used for entirely inappropriate purposes.
4. Deloitte in its report seized upon the findings of the 2010 Audit Report, also highlighted during the IBAC hearings, namely that ‘…*governance and controls around PCSs are wholly inadequate. There is a complete lack of accountability and oversight for the activities an expenditure of PCSs and these practices have continued with no reporting or compliance obligations for PCSs.’*
5. The Deloitte Report also highlighted the recommendation from the 2010 Audit Report that: *based on the findings, it is recommended that the current operations of PCSs be discontinued immediately and other mechanisms to disburse funds to schools for relevant activities be developed as a matter of priority…* *No PCSs reviewed claimed they coordinated any programs for their region.*
6. With such strong evidence of governance and control failure surrounding the PCS program and potential for misappropriation known to the Department through the 2010 Audit, the Deloitte Report explores these questions:
   1. How the process and control deficiencies surrounding PCS program management remained unresolved for such a long period;
   2. How the Department’s governance processes and functions responded to the findings of the 2010 Audit findings;
   3. Why and how PCS arrangements continued despite the seriousness of the control flaws and consequent risks identified;
   4. The effectiveness of the remedial actions taken to improve the management and control of PCS arrangements subsequent to the 2010 Audit Report;
   5. Actions the Department could consider to strengthen the control environment generally and address the risks presented by the CPS program specifically.

*The Department’s control environment 2010*

1. To answer the question of how the process and control deficiencies surrounding the PCS program remained unresolved and the corruption of the program was undetected for such an extensive period time, Deloitte points to the need to consider the constituent parts of the Department’s control environment. The COSO Internal Control Integrated Framework (**COSO Framework**) provides a useful reference and framework of better practice principles to inform this analysis.
2. Deloitte states that a strong organisational control environment seeks to reduce the likeliness of inappropriate behaviour being conducted rather than guarantee that such behaviour will never occur. The COSO Framework describes a number of components that, when implemented successfully, increase the strength of the control environment at an organisation. In summary, these are:



1. Consideration of the Department’s control environment in place surrounding PCSs at and prior to 2010 against the COSO Framework demonstrates, according to the Deloitte Report, that a number of inadequacies have contributed to the PCS control failures remaining undetected and/or unresolved.

*Control Environment*

1. The Deloitte Report makes recommendations in relation to establishing and reinforcing a commitment to integrity and ethical behaviour. In this regard, the Deloitte Report relevantly observes that the issues being investigated by IBAC involve senior officials within the Department exploiting control weaknesses to circumvent policies and misappropriate funds. The behaviour of these senior individuals is likely, according to the Deloitte report, to have ‘set the organisational tone’ on integrity and ethical values for lower ranking officials enabling collusion across multiple layers of the Department.
2. The Deloitte Report reflects that rather than the senior officials identified by IBAC reinforcing the expected high standards of integrity and ethical conduct, their ongoing manipulation of PCS arrangements appears to have become the accepted norm (for example, management override of controls to avoid scrutiny under freedom of information). In fact the 2010 Audit Report quotes a Regional Director describing the system as ‘*the shadow financial system that everyone knows about but no one talks about*.’ That statement, Deloitte observes, perhaps best illustrates the degree to which organisational acceptance of the manipulation of the PCS arrangements became an endorsement of the actions.
3. The Deloitte Report notes that establishing adequate independent oversight and ensuring appropriate segregation of duties is a foundation of a strong organisational and control environment. This is particularly important in those instances where officials are provided with significant discretionary powers with respect to the application and administration of funds. In contrast, arrangements surrounding the PCS program resulted in substantially reduced oversight of the actions of senior individuals and the activity conducted by them in relation to PCS funding and expenditure. A concentration of accountability in single positions resulted in a closed loop for PCS transactional delivery and oversight. The broader FSD and Internal Audit did not appear to play an active role in PCS oversight or control design.
4. Establishing appropriate structure, authority and responsibility is another cornerstone to a strong control environment. From the findings of the 2010 Audit and the IBAC hearings, it is apparent that accountability was not clearly defined in relation to the management of PCS funding. Senior Department officials maintained control of significant discretionary funds without strong links to outcome targets, performance measures or acquittal reporting. The absence of appropriate controls allowed officials to abuse their positional power and decision making authority. For example, it has been shown through the IBAC hearings that in some instances school principals and business managers acted as directed by the ‘chain of command’ and did not question the appropriateness of this direction or the expenditure concerned.
5. The Deloitte Report notes that it is necessary to establish an understanding of risk and control at a school level. In this regard, it is reasonable, according to the Deloitte Report, to expect that the decision to utilise school level accounts to manage central funds would require those schools to hold a level of financial management competence higher than the usual school environment. However, no school competency assessment/gateway process was established to ensure a minimum level of capability existed prior to selection and promulgated PCS-specific financial management guidance and/or training was extremely limited.

*Control activities*

1. The Deloitte Report notes that policy, procedure or guidance materials for PCS fund management were inadequate:
   1. Reliance was therefore placed on a range of materials that support procurement activity more broadly and this lack of specificity likely added to ambiguity around control requirements.
   2. The school financial system lacks the robustness of the Regional and central system. Schools, unlike Regions and central functions, do not use Oracle (the central finance system), rather a stand-alone system, CASES21. The result is that many of the controls that a more sophisticated system environment can afford are not present (typical system controls include automatic workflow against delegations of authority for approvals of purchase requisitions, orders and invoices, checks for duplicate invoices and validity of supplier ABN). In addition, central oversight in terms of the ability to run reports to monitor activity is weakened when funds are transferred outside of Oracle.
   3. The school procurement policy is limited in scope. Schools are exempt from the Department’s procurement policy; rather they are directed to follow the purchasing guidelines in the School Policy and Advisory Guide. Under the purchasing guidelines in the School Policy and Advisory Guide, school councils are provided the authority to “purchase or maintain the goods, equipment and material necessary to carry out its functions.’ This includes management of the end-to-end procurement and payment cycle for activity at their school. PCS financial management requirements are not mentioned specifically within this guidance material.
2. It is clear from the IBAC hearings, the lack of controls surrounding the movement and expenditure of funds through the PCS program was exploited.

*Information and Communication*

1. No formal direction existed in regard to continuous monitoring or analysis of PCS programs and funds. The number of PCS arrangements in place and the quantum of funds held was unknown prior to the 2010 Audit and reported indeterminable through the 2015 audit process. Information capture and reporting regimes were not in place to support the tracking of the movement of funds and the application of expenditure occurring at PCSs.

*Monitoring*

1. No formal, independent oversight or assurance activity was routinely conducted over PCS arrangements. The 2010 Audit was an ad hoc, off plan review rather than being part of the rotational audit plan of high-risk systems. Whistle blower processes, which may have facilitated earlier identification of the matters now being examined by IBAC were not widely promoted at the time and did not provide the protections and support typically afforded under better practice regimes.
2. It is reasonable according to Deloitte, to conclude that given the systemic nature of deficiencies identified in the Department’s control environment that any corrective action devised will need to address these foundation elements; a response restricted to PCS will not solve the root cause issues. As outlined earlier in this statement, the Department’s response to the issues raised will be broad and holistic.
3. A number of areas of control could have been strengthened to prevent or reduce the likelihood of inappropriate activity occurring undetected. The Deloitte Report notes the following Departmental shortcomings:

*Accountabilities were not clearly designed and implemented to support adequate segregation of duties and provide a foundation for adequate control*

1. Senior positions with delegated authority were not subject to a robust monitoring or oversight process and furthermore, a concentration of accountability in single positions resulted in a closed loop for PCS transactional delivery and oversight. The Deloitte Report notes that this was further compounded by a misalignment of capability and understanding of financial risk management at the school level meaning that in many cases school representatives did not know ‘what to ask or look for’. Specific examples include:
   1. The Director of SRAB acted as process owner, initiator and governor. Oversight from the Deputy Secretary level aimed to provide some level of assurance; however this is ineffective where collusion occurs between levels.
   2. Identification of PCSs appeared to be at the discretion of the management team described, with no formal conditions or assessment in place to ensure the right level of financial and commercial management capability and understanding existed at the school.
   3. The lack of accountability assigned to the oversight of the PCSs is evident in the apparent deviation of PCS use from PCS intent, for example, through the allocation of PCS funds to singular schools.

*The policies and procedures in place to support PCS fund management were and remain inadequate*

1. There are multiple frameworks in place across the Department that are relevant to the PCS transactional environment. Deloitte observes that many of these documents operate in isolation and are either poorly developed, poorly communicated, or out of date. These are likely to increase confusion and ambiguity to the governance landscape for PCS funding. The documents include:
   1. Procurement Framework & School Finance Manual;
   2. Grant Payment Policy and Guidelines (last updated 2009, transition planned to WOVG Common Funding Agreement Framework, released 2013);
   3. Enhanced Risk Management Framework; and
   4. Absence of robust Whistle blower / protected disclosure framework.
2. The IBAC hearings have revealed a number of instances of Departmental employees attempting to raise concerns in regard to PCS fund management. However, as Deloitte reflect, given the lack of formal clarity around what is right and wrong and the lack of a formal avenue for staff to ‘safely’ report concerns, they went un-actioned.

*The school procurement environment is not designed to cater for the management of PCS funding arrangements*

1. Ultimately there is a misalignment between the systems and capabilities at schools and the expectations placed upon them to manage level 2 and 3 PCS:
   1. *The school financial system lacks the robustness of the regional and central system.* In contrast to Regions and central functions, schools do not use Oracle (the central finance system), rather a stand-alone tool “Cases21”. As such, Deloitte conclude that many of the controls that Oracle can afford are not present (typical system controls include automatic workflow against delegations of authority for approvals of purchase requisitions, orders and invoices, checks for duplicate invoices and validity of supplier ABN). In addition, central oversight in terms of the ability to run reports to monitor activity is weakened when funds are transferred outside of Oracle, as no system based capabilities to monitor invoices without purchase orders (or orders raised after the invoice is received) or to identify duplicate invoices.
   2. *The school procurement policy is limited in scope.* Schools are exempt from the Department’s newly revised procurement policy; rather they are required to follow the purchasing guidelines in the School Policy and Advisory Guide. Under the purchasing guidelines in the School Policy and Advisory Guide, school councils are provided the authority to ‘purchase or maintain the goods, equipment and material necessary to carry out its functions.’ This includes management of the end-to-end procurement and payment cycle for activity at their school. Focus in the School Finance Manual surround timely and accurate completion of manual documentation to facilitate accurate payment of invoices. However the following weaknesses in s16 ‘Purchasing’ of the School Finance Manual were identified by Deloitte:
      1. Absence of any guidance surrounding vendor validity assessment, and
      2. A lack of guidance to schools surrounding PCS processes, including that it is the school principal and council who are responsible for confirming the acceptance of the role as a PCS.

*Although flags were raised prior to the 2010 internal audit, the response to these concerns was slow*

1. The genesis of the 2010 Audit Report and its findings have been illustrated earlier in this statement.
2. Three Audit findings in respect of the 2010 Audit Report, were rated ‘critical’ and the remaining 6, ‘high’. In summary Deloitte note that these issues identified:
   1. A lack of robust governance surrounding the management of PCS funds, resulting in the creation of local practices and therefore inconsistencies across Regions and a lack of management oversight;
   2. Use of systems that did not facilitate transparent management of funds, impacting the Department’s ability to have adequate oversight as to its financial position;
   3. Non-compliance with policies, procedures and regulatory requirements increasing the potential for inappropriate payments to be made.
3. The Deloitte Report in effect endorsed the findings made in the 2010 Audit Report, namely that governance and controls were ‘wholly inadequate’ and that the PCS arrangements in that form, should cease.

*The severity of issues identified through the 2010 Audit process call for a swift, structured response with oversight by the PARC*

1. The Deloitte Report observed that given the level of risk conveyed by the 2010 Audit Report it was reasonable to expect that the Department would have considered and have undertaken a number of actions including:
   1. Ceased transacting and investigated all funds held in PCS accounts;
   2. Undertaken a fraud investigation to understand whether or not risks raised have materialised and to what extent;
   3. Implemented interim governance arrangements: including an overriding control structure to ensure independent oversight of transactions;
   4. Completed a detailed risk assessment of current and proposed PCS arrangements involving FSD and Internal Audit;
   5. Developed a PCS management policy and framework: to strengthen the control environment.
2. Furthermore, the implementation of these actions warranted close oversight by the PARC to ensure completion to a satisfactory standard. The 2010 Audit Report was presented to PARC at the September 2011 meeting.

The Department management’s response appears to have been largely driven by the development and implementation of the PCS Governance Framework, with no immediate action being undertaken

1. With the benefit of hindsight, Deloitte observe that it could be viewed that those now implicated in the IBAC hearings sought to undertake pre-emptive action to the findings of the 2010 Audit in an attempt to distract governance channels away from the seriousness of the findings presented.
2. During the period between the completion of the 2010 Audit Report and confirmation of management actions to address the issues identified, a number of other pieces of work were independently commissioned by SRAB in regard to PCS. However, it is unclear if or how these work packages supported the resolution of issues highlighted through the 2010 Audit. For example:
   1. Development of new coordinator school model:
      1. Prior to the finalisation of the 2010 Audit, in February 2011, external consultant Drew Arthurson was engaged by the OGSE to *undertake a review of the current Coordinator School Funding Model and to deliver a set of recommendations on how the model could be improved*. It stressed the importance of the Coordinator School function across the Regions.
      2. It is documented that the review was provided support by the following: Scott Ware Education Partnership Division (OGSE), SRAB, ORI and the Assistant Regional Directors, Operations and Finance Managers from each Region.
      3. Many observations noted were in contrast to the 2010 Audit, including:
         1. The review claims to have undertaken a detailed analysis of historical spend and funds received for the 2009-2010 years, in contrast to difficulties experienced by the Internal Audit team;
         2. All Regions having ‘some level’ of formal agreements in place for PCSs;
         3. All Regions having in place a reporting and monitoring framework.
      4. This report was provided in a briefing to the Acting Secretary in April 2011, whereby it was requested that he approve the recommendation to implement a new model for the management of coordinator school funds. This was approved on 6 May 2011.
         1. The brief however made no reference to the 2010 Audit that was yet to be finalised and how this may impact that report.
         2. There is no evidence that the review was presented to PARC at any stage.
         3. Overall this report appeared to present misinformation that could have added to the ambiguity of the management’s understanding of the PCS environment.
   2. Legality of coordinator schools
      1. Minter Ellison provided advice to the Director of SRAB on 21 August 2011 regarding the legality of operation of PCSs.
      2. This advice was provided on the assumption that legislation was to be amended ‘*for a longer term solution*.’ In short, it concluded that ‘(*3c) the Minister’s approval is required under regulation 30 of the ETR Regulation 2007 before a council can delegate a power or duty to another school council*.’
      3. This advice was referenced in the management comment of the 2010 internal audit report as follows ‘*Legal advice from Minter Ellison, after they have considered the ETRA more broadly, has indicated that there is scope for school councils to delegate powers to other school councils*.’
      4. Rigby Cooke provided pro bono, preliminary advice to Nino Napoli on 5 September 2011 regarding the legality of operations of Coordinator schools and specifically, to provide advice on ‘*what grounds a ministerial order could be made, in respect of a school council, to permit the funding and allocation of responsibilities, by coordinator schools, within the existing legislation*.’
      5. It should also be noted that, on 26 February 2013, the Department received legal advice from the Victorian Government Solicitor’s Office that PCS Framework arrangements for the provision of services to a cluster of schools are within the powers of School Councils as set out in the *Education and Training Reform Act 2006*.  The VGSO advised that there are limits on the scope of such power.  That is, school councils must always enter into such arrangements in the best interests of the students of the school in relation to which the council is constituted, and for the benefit of that school.
3. In hindsight, Deloitte suggests that the Department could have undertaken a number of immediate actions (as at 2010) in order to:
   1. Instil immediate control within the PCS system;
   2. Identify the extent and nature of the PCS fund landscape;
   3. Investigate for the possibility of fraud given the opportunity for it to be undertaken as identified within the 2010 Audit.
4. After considerable delay following completion of the 2010 Audit, the Department management generally accepted the findings presented in the 2010 Audit Report. FSD was committed to developing the PCS Governance Framework thereafter. Given the severity of the findings presented, Deloitte observes that it would be expected that management response to the issues would be subject to extensive independent oversight by FSD, Internal Audit and PARC. The following occurred:
   1. The SRAB (a branch of FSD) was charged with responsibility for the design of the new governance framework.
   2. Nino Napoli, the subject of allegations in the IBAC hearings, led the SRAB and therefore the design of the new governance framework;
   3. The degree of independent assurance over design and implementation of management responses to the 2010 Audit from the CFO and Audit and Risk Branch (**ARB**) did not appear to be of a level commensurate with the seriousness of issues identified;
   4. The PCS Governance Framework was not subject to CFO sign off as part of the approval process, although the CFO was a signatory to a schools circular announcing the launch of the PCS Governance Framework.
5. Deloitte conclude that a lack of decisive action and appropriate escalation by PARC or ARB to hold management to account regarding the timeliness of response and adequacy of proposed actions was apparent, as summarised below:
   1. *Lack of immediate management response to instil immediate control:* There is limited evidence of immediate management intervention in light of the significance of the findings. Action could have been completed to immediately cease Regional and central payments through schools. It should be noted that a number of attempts to finalise the 2010 Audit Report were made by ARB management, however to no avail.
   2. *Slow management response*: an immediate response to improve control over PCS funding was not evident in PAC minutes. This was likely due to the original commitment of management to design and implement a response within four months of the PAC meeting. However, management delayed implementation of a revised PCS control framework for 12 months. PAC minutes of 7 February 2012 note that a pilot program was to be implemented in Term 1, 2012 across the Eastern Metropolitan & Gippsland Regions with a review of the pilot to be undertaken and any amendments made to the PCS Governance Framework prior to going live. Whilst the pilot was undertaken, there is no evidence of any review or updates made to the PCS Governance Framework.
6. Deloitte note that the ability of PARC to exercise effective oversight was curtailed by the inadequacy of information reported to the committee regarding issues, tracking of remediation progress and the adequacy of actions undertaken to resolve issues. PARC had requested information to follow up on receipt of the 2010 Audit findings in September 2011. Information was not provided sufficient to close the action items in the PARC action register in relation to the new PCS Governance Framework. Deloitte notes that the PARC meeting materials reflect a number of outstanding items existed however no additional follow up was formally requested. Over time, inconsistent reporting in relation to these matters to PARC, meant that it lost visibility of any progress of the management response to the 2010 Audit recommendations. This inhibited PARC’s ability, according to Deloitte, to discharge its oversight obligations.
7. As a result of the weaknesses in the PARC and Internal Audit follow-up processes at that time, an internal audit that had three critical and six high rated findings was not given the level of scrutiny that would be expected of the Department’s governance structures.
8. The 2015 Internal Audit has demonstrated that the PCS landscape has not changed substantially since the 2010 Audit, according to Deloitte. This is evident in the fact that the Department cannot, with any degree of certainty confirm the number of PCSs in operation or the value of funds that they are managing, let alone provide evidence as to how PCSs were selected or that appropriate agreements are in place.
9. According to the Deloitte Report, the Department’s response to the 2010 Audit Report was compromised by the following shortcomings in the design and implementation of the PCS Governance Framework:
   * 1. There is a lack of ownership over the PCS process and consequentially, poor overall governance. Specifically:
        1. Accountabilities are poorly defined across the process;
        2. Communication channels, including relevant parties for users to go to when more information or assistance is required are not defined.
     2. The PCS Governance Framework includes only vague and incomplete references to other relevant Department policies and procedures that are required to be adhered to. A review of the PCS Governance Framework confirms that section 8 ‘*Management and Administration of a PCS*’ the PCS Governance Framework states ‘*PCS programs should be managed and administered consistent with all departmental policies and procedures*’. However there is no mention of conflict of interest requirements (the 2015 internal audit observed a general lack of awareness of Department conflict of interest processes), nor are there links or references to specific policies and procedures, simply a link to the Financial Management website.
     3. Lack of consultation with relevant parties implicated in monitoring and reporting activities. Section 11 of the PCS Governance Framework details compliance monitoring and review activities both at a school and regional and central level. The Internal Audit identified that, for example, one of the key elements of the compliance regime included the annual SCFA, however, this program was noted as not being tailored to assess compliance with the PCS Governance Framework.
     4. Weaknesses in the proposed compliance and monitoring regime. For example,“FSD will oversee the compliance regime for the PCSs and will require the regional or Central Offices to provide information on PCSs on a periodic basis as required where resources permit*.”*
     5. There were multiple factors contributing to a poor implementation of the PCS Governance Framework. Internal Audit found that in addition to the deficiencies in the design of the PCS Governance Framework, its implementation was also unsuccessful. Contributing factors include:
        1. Deloitte note that the internal audit found that in addition to the deficiencies in the design of the PCS Governance Framework, its implementation was also unsuccessful. Contributing factors include lack of:
           1. Awareness of the PCS Governance Framework and the need for compliance;
           2. Understanding of the requirements of the PCS Governance Framework;
           3. Schools’ capability to comply with the financial control components of the PCS Governance Framework; and
           4. Transition approach to ensure successful adoption of its requirements.
10. The Deloitte Report observes that there was no testing of the effectiveness of the framework completed to assess its effectiveness in meeting its intended purpose. Independent testing did not occur until the 2015 Audit.
11. The issues raised in regard to PCS hold implications that are broad and indicate a high degree of inadequacy within the Department’s control environment, according to the Deloitte Report. The following activities should guide the development of the end to end response:
    1. Mitigate further risk through an immediate response to cease central and regional PCS funding arrangements in the current form. The Department has commenced action in this regard.
    2. Examine the policy rationale for provision of funding to schools to administer shared programs prior to considering the value of actions to address the specific PCS control deficiencies.
    3. Examine other school funding lines which might also be exposed to similar control weaknesses highlighted for PCS. This would involve:
       1. Identifying all funding types with similar characteristics to PCS such as those relating to centrally or regionally managed discretionary funds/grants transferred to schools (and other parties); and
       2. Conducting an assessment of the risks and controls associated with the funding in light of the findings regarding PCS programs.
    4. Develop and implement a coordinated program of initiatives to address the broader control environment deficiencies highlighted including:
       1. Governance;
       2. Integrity and ethical conduct;
       3. Whistle-blowers and protected disclosure;
       4. PARC and internal audit issue escalation, remedial action monitoring and review procedures.
12. Deloitte notes that a number of existing initiatives are under way which will address some of these areas of concern. The scope of these initiatives should be reviewed and amended if required in light of the findings of IBAC.

*Poor management processes surrounding the PAC action items register reducing the effectiveness of PAC oversight*

1. PAC maintains an action items register to facilitate the monitoring of any queries which arise throughout committee meetings. It was observed through reading PAC minutes and corresponding action item registers that weaknesses were present across the examined period 2011 – 2012 which contributed to a lack of rigorous review of the 2010 Audit as detailed below:
   1. The 2010 Audit was presented to the PAC 14 September 2011;
   2. The PAC requested the following points be investigated further and reported on, which were included in the PAC action items register;
      1. the 2010 Audit regarding the lack of supporting documentation relating to overseas travel.
      2. the 2010 Audit regarding engagement of the contractors. The committee recommended the contracts should be reviewed and if appropriate, cease immediately. These items were listed as being presented in the 7 February 2012 PAC at item 4.2 however a review of the presentation observed that there was no mention of the specific action items, rather the presentation diverted attention focusing purely on the initiatives underway by means of the new framework development. It is also noted that this PAC agenda item also combined the follow-up of a prior query regarding a separate Purchasing Cards audit. A review of the PAC action items in the following meeting (26 March 2012) notes that all three items were removed from the action items register and therefore considered closed. Deloitte notes that while the presentation was noted in the PAC minutes, there was no formal process at the time to note closure of the items;
   3. It was also noted in the 7 February 2012 PAC minutes that the OGSE had received detailed explanations from each Regional Director in order to account for PCS monies and responses were being reviewed by the Deputy Secretary, OGSE. A review of the PAC Action items register 26 March 2012, confirms that this item was not included in that register;
   4. *Improvement initiative implemented:* Deloitte notes that the minute template has been refined and from 2013 included a specific agenda item ‘Action items’ where action items are specifically listed as being considered closed or were discussed at the meeting remain open.
   5. In addition, Deloitte observed that PAC failed to consider the severity of the internal audit by not requiring ongoing updates on the development and implementation of the PCS Governance Framework. This is in contrast to other frameworks that were developed during this time (e.g. the Enhanced Risk Management Framework and Conflict of Interest) and as such, there was no oversight as to the final product and its appropriateness in addressing the weaknesses identified in the 2010 Audit.

*Inadequacies in the Department’s Risk Management Processes*

1. Materiality is an important component of management decision making in balancing the trade-off between investment and protection. PCS funding relates to largely immaterial amounts in the context of the Department’s budget. The level of attention paid to PCS through risk management processes is therefore likely to be low, particularly where management are satisfied that an adequate control setting is in place (e.g procurement policy and procedure).
2. At the time of the 2010 Audit, there were known deficiencies with the Department’s risk management processes as highlighted by the following:
   1. A review of item 6.1 of the PAC meeting 26 October relating to the Office and Regional Business Plan Risk Register Review noted the following issue at item 3 *Critical analysis demonstrates the business planning risk registers lack comprehensive operational risk assessment and cannot give appropriate visibility, oversight or assurance regarding the breadth of risks facing the Department, Divisions or Regions. Consequently risks to business as usual activities, service delivery, election commitments and other activities are not assessed, monitored or communicated.*
   2. Deloitte note that these deficiencies were also evident in the lack of discussion regarding risk management (and updating of risk registers) when the following general observations were made by the 2010 Audit and presented to PAC on 14 September 2010:
      1. … *it is interesting to note the deficiencies in management monitoring/oversight and weaknesses in process/control design continue to dominate. Also of concern is the lack of accountability for non-compliance and of ownership for enforcing compliance.*
      2. …*there is a culture of inadequate behaviour in adhering to the Department’s financial management framework and there are systemic issues with the present framework for monitoring and enforcing compliance by Schools and Regions of the Department’s policies and procedures.*
3. As such, the Department sought to implement improvements with a revised Enhanced Risk Management Framework and Strategy, which went live in May 2012.

*PAC memorandum of July 2013*

1. In a memorandum sent to the then Secretary on 7 July 2013, the Chair of PAC, Stewart Leslie, drew the Department’s attention to his concerns about the apparent transfer of additional budget from central office into regions. He stated that:

*PAC is concerned that the current situation might indicate a reversion to (or continuation of) past practices that led Internal Audit to conclude in their December 2010 report, Review of Program Coordinator Schools:*

* *Regional offices and some central office divisions are using an undefined and poorly controlled shadow financial system;*
* *Central Office budgeting and planning is seen by some Regional Offices as untimely, resulting in late and non-transparent financial year [transfers/discharge] of funds.*

*Ongoing reforms*

1. To guard against a recurrence of the issues that compromised the PCS arrangements, further changes to governance, policy, procedures and controls must be seriously considered.
2. In the short term, the Department will:
   1. define very specifically the scope, boundaries and governance arrangements supporting any “shared service” model;
   2. immediately execute a ‘Whole of Department’ risk based review of existing funding channels at all levels of the organisation in order to identify susceptibility for malicious behaviour; and
   3. establish and communicate a revised whistle blower / protected disclosure process across the organisation.
3. In the medium term, the Department must:
   1. enhance the adequacy and effectiveness of the risk management strategy and framework in place at the department. In doing so, the Department must consider contemporary risk management approaches including shifting the focus of central to ‘strategic advisor’ rather than ‘administrator’ of risk information;
   2. challenge and redefine the accountabilities within the Department and in particular Financial Services Division, to create a stronger foundation for effective risk management through strong control environment supported by monitoring techniques;
   3. undertake a broader review of the procurement environment in place across the Department with particular focus on alignment of process and monitoring requirements vertically; and
   4. review the terms of reference for the PARC and assess the adequacy of management reporting supporting the committee.
4. In the long term, the Department must continue to reinforce a shift in organisational culture to support questioning and transparency through cultural definition and development training to enhance capability across the Department.

6. GOING FORWARD

**Overview**

1. There is no single solution to the issues identified during IBAC hearings. It requires a multi-faceted approach that focuses, first and foremost, on reinforcing appropriate behaviours.
2. **First**, we need to establish (and reinforce) a culture of accountability and of professionalism. In so doing, we need to:
   1. ensure that management promote and ‘live’ high standards of integrity and conduct;
   2. ensure that staff are appropriately qualified, skilled and experienced to perform their role, and offer ongoing training as required;
   3. ensure that each member of staff understands their role; each role needs to be accurately described in the relevant position description;
   4. establish key performance indicators for individual staff, linked to their professional development;
   5. empower and encourage staff to ‘do the right thing’ and, in so doing, provide appropriate ways for staff to report inappropriate behaviours;
   6. enforcing accountability at all levels throughout the Department, ensuring staff understand consequences of non-compliance; and
   7. establish mechanisms to report on the culture of the Department.

The Integrity Committee will play a key role in achieving these objectives.

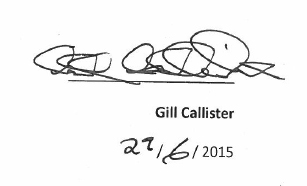
1. **Second**, we need to implement a ‘three lines of defence’ management model:
   1. At the first line: operational managers own and manage risks. They are also responsible for implementing corrective actions to address process and control deficiencies. Operational management is responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis. Operational management identifies, assesses, controls and mitigates risk, guiding the development and implementation of internal policies and procedures and ensuring that activities are consistent with goals and objectives.
   2. At the second line: management establishes various risk management and compliance functions to help build and/or monitor the first line of defence controls. Management establishes these functions to ensure the first line of defence is properly designed, in place and operating as intended. As management functions, they may intervene directly in modifying and developing internal control and risk systems. The specific functions for the Department moving forward should include:
      1. A risk management function (and committee) that facilitates and monitors the implementation of effective risk management practices by operational management and assists risk owners with defining the target risk exposure;
      2. A compliance function to monitor various specific risks such as non-compliance with applicable laws and regulations. In this capacity, the separate function reports directly to senior management and in some business sectors, directly to the governing body; and
      3. A controllership function that monitors financial risks and financial reporting issues.
   3. At the third line: internal auditors (and committee) are to provide the Department with comprehensive assurance based on the highest level of independence and objectivity within the Department.
2. **Third**, finance functions must be modified. There must be a greater emphasis on control within Finance/Procurement in a three lines of defence model. This will include assessments of capabilities of current staff, to determine whether they are capable of performing this role. It will involve review by Internal Audit of:
   1. Grants management across the Department and schools; and
   2. Business planning/budget process/discretionary expenditure.

Ultimately, all purchase should provide value for money and raise no probity or process concerns.

1. **Fourth**, we need to implement a robust grants management framework. Grants/funding owners must be aware of their obligations and provide sufficient monitoring of funding.
   1. Assessment of capabilities of current staff is to be performed to determine whether they are capable of performing the role.
   2. The Australian National Audit Office released a Better Practice Guide for Grants Administration in 2013. This is to be adopted by the Department. Key elements of an appropriately designed grants program are to include:
      1. Documented criteria for funding;
      2. Clearly defined and measurable outcomes;
      3. Approval processes;
      4. Monitoring of programs through their life cycle;
      5. Clear and documented process for accounting for funding;
      6. Process to close out funding including measurement of outcome achievement and return of any surplus funds;
      7. Portfolio management of grants/funding with the ability to monitor all grants. Funding provided under a program and all grants/funding provided to an organisation; and
      8. Clearly defined management responsibility.
2. **Fifth**, we must improve governance structures. Steps to be undertaken include:
   1. redesigning the Audit and Risk Branch around the traditional three lines of defence model (as above) and building a dedicated integrity function. This will include separating risk from the Audit and Risk Branch;
   2. undertaking further testing to close out ‘significant audit issues’;
   3. developing a better process/report for escalating audit issues to the Executive Board;
   4. insisting on better accountability from the Executive Board for completing actions, linking satisfactory closure of audit issues within agreed time lines to executive performance;
   5. ensuring that Chief Audit Executive meetings with individual Deputy Secretaries take place quarterly to discuss current reports, key issues and themes and outstanding actions;
   6. ensuring that the Chair of the PARC meets with the Secretary at least every two months to discuss key audit issues and themes. Agendas, minutes and actions will be formally recorded and outcomes monitored;
   7. reviewing the objectives and resourcing of the School audit program. This will involve consideration of:
      1. peer review of the work performed by the external auditors. (This may be performed by VAGO);
      2. decreasing the number of schools audited and increasing the rigor of the audits; and
      3. ‘Topic audits’ being performed by Internal Audit.
   8. clearly defining the functions, objectives, responsibilities and accountabilities of school councils, principals, the Secretary and senior regional and head office executives (with consideration given to legislative amendment, if needed);
   9. continuing to reinforce the need for management and staff to:
      1. take ownership and responsibility for educational leadership and management of school operations and finance; and
      2. demonstrate the highest level of personal integrity in the use of public moneys, supported by a new regional services and support model and a refreshed professional learning and development model (for business managers).
3. **Finally**, issues identified by IBAC are to be addressed by the Department by completing a formal and independent assessment on the robustness of the processes identified as being weak during the IBAC investigation. Among other things:
   1. The Department will undertake a formal review of the governance of the schools that have been investigated as part of Operation Ord;
   2. The PARC will conduct a review of the following processes through Internal Audit:
      1. a holistic review of grants/funding across the Department and schools (as a high priority);
      2. performance management (as a high priority);
      3. business planning/budget process/discretionary expenditure (as a high priority);
      4. the approval of personal expenses;
      5. the use of school credit cards;
      6. the use of schools’ electronic fund transfers processes;
      7. financial management within schools, focusing on key financial controls applicable to procurement, accounts payable, bank reconciliations and payroll;
      8. the appointment and performance review of principals; and
      9. management / detection of conflicts of interest.

The issues identified will be the subject of clear management action.

1. The steps that are taken by the Department to implement the change management process and the reform program will be audited (both internally and externally) and will be overseen by the Victorian Public Sector Commissioner.



Appendix A: Glossary of terms

**1998 Code of Conduct** means Code of Conduct for the Victorian Public Sector 1998

**2010 Audit** means Audit and Review Scope, Portfolio Governance and Improvement Division, Review of Program Coordinator Schools (December 2010)

**2010 Audit Report** means the report of the 2010 Audit

**2015 Audit** means the Department’s internal audit which took place in 2015

**APU** means Accredited Purchasing Unit

**ARB** means Audit and Risk Branch

**BIC** means Budget and Infrastructure Committee

**BSW** means Barwon South West Regional Office

**Bastow** means Bastow Institute of Educational Leadership

**BMR** means Budget Management Report

**CASES21** means Computerised Administrative System Environment in Schools

**CASES21 Guidelines** means CASES21 Guidelines for Schools Program Coordinator Schools Parents and Friends Clubs Library / Building Funds (DGR, Department of Education and Early Childhood Development (May 2009)

**Central Office** means the central office of the Department

**Code of Conduct** means Code of Conduct for Victorian Public Sector Employees (No 1) 2007

**Corporate Guidelines** means Purchasing Card Policy and Guidelines (Corporate) (January 2015)

**COSO** meansCommittee of Sponsoring Organizations of the Treadway Commission

**COSO Framework** means COSO Internal Control Integrated Framework

**CORE Values** means the Department’s statement of values issued in 2010/2011, comprising an organisational commitment to engage in behaviours consistent with the four ‘CORE’ values of Collaboration and Knowledge Sharing, Outcomes, Respect and Diversity, and Empowerment

**Deloitte Report** means Report prepared by Deloitte for the Department (15 June 2015)

**DEECD Report** means the Department’s internal report regarding the effectiveness of the governance and accountability arrangement within the Department in 2012

**Department** means Department of Education and Training and its predecessors

**DPI** means Declaration of Private Interests

**EB** means Executive Board

**ESB** means Education State Board

**ETR Act** means *Education and Training Reform Act 2006*

**FSD** means Financial Services Division

**FMA** means *Financial Management Act 1994*

**FTE** means Full Time Equivalent

**Global Fraud Study** means the *Report to the Nations on Occupational Fraud* by the Association of Certified Fraud Examiners

**ITD** means Information and Technology Division of the Department

**OGSE** means Office of Government Schools Education

**ORI** means Office of Resources and Infrastructure in the Department

**PA Act** means the *Public Administration Act 2004*

**PAC** means Portfolio Audit Committee

**PARC** means Portfolio Audit and Risk Committee

**People Strategy** means People Strategy 2013-15

**PCS** means Program Coordinator School

**PCS Governance Framework** means Program Coordinator School Governance Framework (December 2012)

**PESG** means People and Executive Services Group

**PGID** means Portfolio Governance and Improvement Division

**RTK Report** means ResolutionsRTK, Cultural ‘Pulse Check’

**SCFA** means School Council Financial Audit

**Schools Purchasing Guidelines** means Schools Purchasing Card Department Guidelines and Procedures (January 2015)

**SGI** means Sustainable Government Initiative

**SRAB** means Schools Resource Allocation Branch

**SRP** means Student Resource Package

**SSA** means State Services Authority

**Standing Directions** means Standing Directions of the Minister for Finance made under the *Financial Management Act 1994*

**Strategic Management Program** means the Strategic Management for Principals Program

**Travel Guidelines** means Guidelines and Business Practices for International and Domestic Travel

**TSSP** means Technical Support to Schools Program

**VAGO** meansthe Victorian Auditor-General’s Office

**VET** means Vocational Education and Training

**VGPB** means Victorian Government Purchasing Board

**VIT** means Victorian Institute of Teaching

**VPS** means Victorian Public Service

**VRQA** means Victorian Registration and Qualifications Authority

**VSB** means Victorian Secretaries Board

**VSLS** means ‘Victorian Leadership Strategy – A Plan for Improving the Quality and Management in Victorian Schools’ (March 2013)