8 August 2008

Mr Bob Stensholt MP  
Chair  
Public Accounts and Estimates Committee  
Parliament House  
Spring Street  
EAST MELBOURNE VIC 3002

Dear Mr Stensholt

Re: Report on the 2006-07 financial and performance outcomes, and performance audit specifications

In May 2008, your Committee published the Report on the 2006-07 financial and performance outcomes which detailed a number of recommendations for my Office and other agencies. I'm gratified that your Committee's report extensively utilised my Office's reports to frame consideration of performance in each departmental sector.

Outlined in Attachment 1 is my Office's response to these recommendations. As provided in further detail in my response, I agree with the majority of your Committee's recommendations and have established strategies for their implementation.

In addition, I attach a draft limited scope performance audit specification for your Committee's consideration.

- Community Support Fund - the draft specification is provided at Attachment 2, with presentation material to assist with the Committee's consideration of the specification provided at Attachment 3.

I also provide copies of final limited scope performance audit specifications for your information on the following audits (Attachment 4):

- Flora and Fauna Guarantee Act 1988  
  Consistent with our discussion with the Committee, there was no change made from the draft specification.

- Delivery of Home and Community Care Program  
  There was no change made from the draft specification. The issues raised by the Committee will be addressed in the audit report.
In addition to these specifications, I wish to advise that my Office is currently undertaking preliminary work in relation to the financial operations of a health service provider. The outcomes of this preliminary assessment will determine whether my Office proceeds to an audit on this topic. Should we proceed, we will provide your Committee with a draft specification as soon as possible.

Should you require further information, please contact me on 8601 7101 or Mr Peter Froutzis, Director Planning on 8601 7083.

Yours sincerely,

[Signature]

D D R Pearson
Auditor-General
VAGO's response to PAEC's report on the 2006-07 financial and performance outcomes
<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Agreement</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>Agreed</td>
<td>The Victoria Auditor-General's Office develop sufficient time and resources to perform adequate evaluation of the Public Sector's performance.</td>
</tr>
<tr>
<td>21</td>
<td>As above</td>
<td>The Auditor-General conduct a performance audit of the Public Sector.</td>
</tr>
<tr>
<td>22</td>
<td>As above</td>
<td>The Auditor-General make revenue raising suggestions.</td>
</tr>
<tr>
<td>23</td>
<td>Agreed</td>
<td>The suggested performance audit topic will be considered as part of the Public Sector's performance audit.</td>
</tr>
<tr>
<td>24</td>
<td>Agreed</td>
<td>Account a greater focus on efficiency and will continue to be included with the Public Sector's performance audits. Where applicable, the audit recommendations of performance audits will be included in future.</td>
</tr>
</tbody>
</table>

Summary of Recommendations Relating to VAGO

PAC Report on 2006-07 Financial and Performance Outcomes
### General comments/record nurture (p.11)

A review of the current performance of the corporation is included in the report. The report indicates that the performance of the corporation has been satisfactory, with a focus on key performance indicators (KPIs) and the progress achieved against the strategic objectives.

**Recommendation:**

The 2007-08 VAGG Annual Report will contain this information.

**Response:**

Agreed.
<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Report Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 36</strong></td>
<td>21</td>
</tr>
<tr>
<td><em>In the case of employees who have developed cumulative experience and skills in the Career Development Officer's role, it may be appropriate to place them in roles to deal with similar issues in their current role.</em></td>
<td>21</td>
</tr>
<tr>
<td><em>With an aim of improving staff retention rates, the Victorian Auditor-General's Circular 2012/06 adds a measure to the Adelaide's performance measures.</em></td>
<td>21</td>
</tr>
<tr>
<td><em>Auditor-General's Office to be discussed in the Office's annual report.</em></td>
<td>21</td>
</tr>
</tbody>
</table>

**Response**

- The measure is under review by the Office, and all responses will be provided after the meeting.
- Using this measure, the expressed measurement changes in implementation.
- In addition, it was noted that the National Audit Office of the United Kingdom has long been influential in measuring the wider performance measures, such as the National Audit Office's aspirations towards aggregate performance.

---

---
Performance audit specifications

Limited Scope

- Community Support Fund
Community Support Fund

Draft audit specification

July 2008
Background

The Community Support Fund (CSF) is a trust fund established by the Gaming Machine Control Act 1981. The CSF currently operates in accordance with the Gambling Regulation Act 2003. The CSF is administered by the Department of Planning and Community Development (DPCD). The CSF receives 8.3 per cent of hotel electronic gaming turnover, less $45 million which is hypothecated to the government's drug strategy. All funds within the CSF are applied to purposes that are described in the Act as follows:

- research and programs related to problem gambling (the first call on the fund)
- treatment of drug issues
- financial counselling and support for families in crisis
- educational and youth programs
- community advancement
- sport and recreation, arts, tourism
- advancement of the community as determined by the minister
- costs associated with administering the CSF.

CSF funds are allocated to departments who in turn distribute these funds through grant programs to a range of community-based agencies and councils to deliver services/initiatives to the community consistent with the purposes of the legislation.

The Act also provides for the:

- hypothecation of $45 million per financial year for the government's drug strategy
- payment of one day's revenue to the Victorian Veterans Fund on 1 September each year.

Figure 1 shows expenditure from the CSF for the period 2002–03 to 2006–07.

| Figure 1 |
| Community Support Fund ($ million) |

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CSF expenditure applied</td>
<td>127.3</td>
<td>128.8</td>
<td>105.7</td>
<td>113.5</td>
<td>110.8</td>
</tr>
</tbody>
</table>

Source: The Department of Planning and Community Development

Rationale for the audit

With annual revenues of the order of $100 million per year, the CSF continues to be a major community asset and it is in the public interest that its funds are managed and spent well. The last audit of the CSF by VAGO was completed over 12 years ago, and since that time the legislation governing the CSF and its management have changed. In accordance with the VAGO Annual Plan 2008–09, it is timely to undertake a review of the administration of the CSF to determine if it is being managed in accordance with current legislation governing its operation, and in terms of best practice applicable to the administration and distribution of grant fund.
Audit objectives and scope

The objective of the audit is to determine the effectiveness of the management framework operated by the DPCD, and whether CSF grants have been made in compliance with the Act, and whether the funds provided to beneficiaries are being spent for the purposes approved.

In pursuit of this objective, the audit will consider six sub-objectives:

1. Are the aims and objectives of CSF clearly specified?
2. Are governance arrangements regarding the management of CSF adequate?
3. Are CSF distributions made in accordance with legislative and agency guidelines and good practice?
4. Is CSF appropriately linked and coordinated with other funding arrangements?
5. Is there a sound framework to monitor, evaluate, report and improve the effectiveness and efficiency of CSF distributions?

Audit criteria and method

The audit will assess governance and administrative arrangements for the management of CSF by DPCD and the other government departments involved in making distributions from CSF. Broadly, the criteria to be used to assess performance will be derived from:

- relevant legislation, government policy statements and agency grant funding guidelines
- policies, guidelines, systems and procedures established by CSF funding agencies to monitor and assess programs and projects funded through CSF distributions and ensure that CSF distributions have been spent for their intended purpose and the outcomes of funded activities have been achieved
- a sample of CSF beneficiary files which will be assessed to determine the extent of compliance with CSF funding guidelines
- mechanisms to ensure accountability to the Parliament and the community for the application of CSF distributions and the extent to which CSF objectives are achieved.

A selection of beneficiaries will be consulted to determine their views on the operation of CSF.

Proposed tabling date

The audit is scheduled for tabling in the third quarter of 2008-09.

Consultations on the audit specification

The following Individuals were consulted as part of the background for this audit specification:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title and organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gillian Miles</td>
<td>Deputy Secretary, DPCD</td>
</tr>
<tr>
<td>Corinne Young</td>
<td>Executive Director, Community Investment, DPCD</td>
</tr>
<tr>
<td>Damian Ferrie</td>
<td>Executive Director, Community Projects, DPCD</td>
</tr>
</tbody>
</table>

Community Support Fund
Presentation

Specification

Performance Audit

Victorian Auditor-General's Office
Auditing in the Public Interest

Community Support Fund

Limited scope audit specification:

VAGO
Scheduled for tabling in the third quarter of 2008-09.

Timing

Operation of the CSF.

A selection of beneficiaries will be consulted to determine their views on the

involvement in making distributions from the CSF.

management of the CSF by DPCD and the other government departments

The audit will assess governance and administrative arrangements for the

Audit scope

Audit objectives are being spent for the purposes approved.

Gambling Regulation Act 2003, and whether the funds provided to

DPCD, and whether CSF grants have been made in compliance with the

To determine the effectiveness of the management framework operated by

Audit objective

Community Support Fund

VACO
ATTACHMENT FOUR

Approved performance audit specifications

Limited Scope

- *Flora and Fauna Guarantee Act 1988*
- Delivery of Home and Community Care Program
Flora and Fauna Guarantee
Act 1988

Final audit specification
July 2008
Background

Victoria's biodiversity is characterised by a complex of 3140 native species of vascular plant, 900 lichens, 750 mosses and liverworts, 111 mammals, 477 birds, 46 freshwater and 800 marine fish, 133 reptiles, 33 amphibians, and an untold number of invertebrates, fungi and algae occurring within hundreds of ecological communities.

In Victoria a wide variety of plants and animals are threatened, ranging from the massive Blue Whale to the Eltham Copper Butterfly. Communities of plants and animals are also threatened, including examples such as native grasslands, rainforests, some woodlands and alpine bogs.

A range of legislation covers the protection of native biodiversity in Victoria. At a national level the Commonwealth Government has legislated for the protection of biodiversity through the Environment Protection and Biodiversity Conservation Act 1999. Victoria has a range of legislation to protect native biodiversity, including:

- Flora and Fauna Guarantee Act 1988
- Catchment and Land Protection Act 1994

The Victorian Government has also established policies to manage the State's flora and fauna, such as Victoria's Biodiversity Strategy (1997) and Victoria's Native Vegetation Management: A Framework for Action (2002).

The Department of Sustainability and Environment (DSE) has primary responsibility for the conservation of Victoria's biodiversity and the sustainable use of its native flora and fauna. DSE works with a range of other authorities, such as Catchment Management Authorities and community groups, to deliver on these objectives.

The Flora and Fauna Guarantee Act 1988 (the Act) is Victoria's primary legislation that provides for the management of processes which are potentially threatening to Victoria's native flora and fauna. A Potentially Threatening Process is one which has the potential to pose a significant threat to the survival or evolutionary development of a range of flora or fauna. The legislation, which applies to both private and public land, established procedures for the:

- listing of threatened species and ecological communities
- listing of potentially threatening processes
- development and implementation of strategies to prevent the further decline in and re-establishment of the threatened species and/or ecological communities.
Nominations for the listing of threatened species and ecological communities or potentially threatening processes are made by members of the public to the Scientific Advisory Committee, an expert advisory committee comprising seven scientists. Following an assessment of each nomination against established criteria, discussions with the Victorian Catchment Management Council and a public consultation process, the Committee makes a recommendation to the Minister for Environment and Climate Change on the nomination for listing.

The Governor-In-Council, on the recommendation of the Minister, lists the threatened flora and fauna or threatening processes.

The Act also requires the Department to develop:

- a Flora and Fauna Guarantee Strategy setting out how the flora and fauna conservation and management objectives are to be achieved
- Action Statements for all threatened species and threatening process listed. Action Statements set out the management prescriptions to protect threatened species
- flora and fauna management plans in consultation with landholders or water managers
- public authority management agreements to provide for the management of listed items.

To date, some 650 plant and animal species, communities and threatening processes have been formally listed, and Action Statements published for about 200 of these.

A significant part of the Act deals with interim conservation orders. The intent of the legislation is to use these orders to change the practice and behaviour of the landholders and planning authorities to protect threatened plants and animals. No orders have been issued to date.

Audit objective and sub-objectives

To review the Department of Sustainability and Environment's administration of the Flora and Fauna Guarantee Act 1988 and to assess how effective its actions have been in preserving the State's flora and fauna.

Audit scope

The audit will review:

- the Department's administration of the Act
- development and implementation of the flora and fauna guarantee strategy
- processes established for the identifications and listing of threatened species and threatening processes
- operation of the Scientific Advisory Committee
- development and implementation of action statements for listed items
- use of management plans and critical habitat determinations
- monitoring and reporting processes
Audit criteria and method

The Department's administration of the Act will be assessed using the following criteria:

- An overarching strategy for the conservation of Victoria's flora and fauna has been developed
- Mechanisms have been established to identify the flora and fauna and 'threatening' processes that are to be managed
- Flora and fauna and threatening processes nominated for listing are assessed against established criteria, the nominations are subject to a public consultation process and the nominations are adequately approved, prior to the nominated item being listed
- Action Statements are developed for all listed items describing what will be done to preserve the threatened species and manage the threatening processes
- Mechanisms have been developed to engage landholders and other stakeholders in the conservation of native flora and fauna.
- Actions outlined in the strategic plan and action statements, to protect and re-establish threatened species and manage threatening processes, have been implemented
- Relevant stakeholders are involved in the ongoing administration of the Act

We will examine available data to analyse the effectiveness of the Act and identify relevant trends.

Evidence will be gathered from a review of Departmental documentation and through discussions with Departmental staff, the Scientific Advisory Committee, Victorian Catchment Management Council, Municipal Association of Victoria, Parks Victoria and other managers of significant areas of public land.

Proposed tabling date

The audit is scheduled for tabling in the second quarter of 2008/9

Consultations on the audit specification

The following organisations and individuals were consulted as part of researching the background for this audit specification:
<table>
<thead>
<tr>
<th>Name</th>
<th>Title and organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paul Smith</td>
<td>Director Biodiversity Policy and Programs, Biodiversity and Ecosystem Services Division, DSE</td>
</tr>
<tr>
<td>Adrian Moorrees</td>
<td>Project Manager, Actions for Biodiversity Conservation (ABC) Biodiversity and Ecosystem Services Division, DSE</td>
</tr>
<tr>
<td>Natasha McLean</td>
<td>Acting Manager, Threatened Species and Communities Group Biodiversity and Ecosystem Services Division, DSE</td>
</tr>
<tr>
<td>Martin O'Brien</td>
<td>Executive Officer Scientific Advisory Committee, Biodiversity and Ecosystem Services Division, DSE</td>
</tr>
<tr>
<td>Lelia Brock</td>
<td>Threatened Species Project Officer Threatened Species and Communities Group Biodiversity and Ecosystem Services Division, DSE</td>
</tr>
<tr>
<td>Des Hill</td>
<td>Chief Finance Officer, DSE</td>
</tr>
</tbody>
</table>
Delivery of Home and Community Care Program

Final audit specification

July 2008
Background

The Home and Community Care Program (HACC) was established in 1985 as a Joint Commonwealth-State initiative. The program funds a range of basic maintenance and support services to support frail older people and people with a disability to live independently in the community and avoid premature or inappropriate admission to long term residential care. Carers of older people and people with a disability are recognised as part of the HACC target group. Services provided include home care, home maintenance, personal care, nursing services, allied health, planned activity groups, respite care, food services, volunteer coordination, social support, assessment and care management.

The Commonwealth and State governments jointly fund HACC. In 2005-06, total government expenditure on HACC was $1.4 billion ($857.8 million from the Australian Government and $591.1 million from the State and Territory governments). Local government and clients also contribute funds to the program. Program priorities, funding and service targets are governed by the Commonwealth State Agreement.

The Department of Human Services (DHS) administers the HACC program in Victoria. In Victoria, HACC expenditure has grown 5 percent annually in real terms for several years. Total government funding for HACC in Victoria has risen from $211.9 million in 1996-97 to $440 million in 2008-09. In 2007-08 the Commonwealth provided approximately $247 million to the program, Victorian Government allocated approximately $165 million.

Demand for HACC is increasing as the population ages, and this is expected to accelerate from 2011 when baby-boomers reach the age of 65. This age group is projected to rise from 13.3% of the population in 2006 to 24.5% by 2044-45. Demographic changes such as increasing numbers of single households and childless couples will also reduce the number of informal carers who currently account for 74 per cent of support to the frail elderly and people with a disability.

In 2003-04, formal community care services, (including HACC and related services), supported approximately 737 000 clients Australia wide. More than 90% of all HACC clients are dependent upon some form of pension or benefit for income support and a large proportion of clients have high needs. It is estimated however that more than 400 000 older Australians living at home had unmet needs for community care services in this period. In 2003, over one third of Victorians aged 70 years or over, living independently, reported that their needs for assistance were not fully met.

Previous audit of HACC services in Local Government

In 2004 VAGO tabled a performance audit, Delivery of home and community care services by local government. The 2004 audit made a series of recommendations to improve the planning and delivery of the HACC program including:

- strengthening planning for HACC, including a state wide planning framework, improving local government’s planning capacity and better planning data
- building consumer input into planning and evaluation of HACC
- better performance measures, data collection, monitoring, reporting and evaluation
- improving client information, assessment, coordination and review
- improving client complaint management,
- addressing staff recruitment and retention and
• Improving quality assurance processes.

Post audit priorities in HACC
The post audit priorities for HACC have sought to address the matters identified in the 2004 audit of the program.

Since 2003 a three year planning cycle for HACC planning has been introduced. The overarching priority for the 2003-06 and 2006-09 trienniums has been addressing relative funding inequity between and within regions in the state (priority 1). The remaining priorities have aimed to improve access to services for special needs groups, the Culturally and Linguistically Diverse (CALD) population (priority 2) and the indigenous community (priority 3).

Victorian directions for HACC for 2008-11 continue the work from the previous planning cycles. (The three year planning cycle has been revised prior to completion of the 2006-09 triennium in order to align with the new Commonwealth planning cycle). Three main priorities have been identified:

• Access and equity – improve client access to services and address inequity in funding
• Refocus service delivery models – improve capacity of the service system to better maintain and improve client independence through client centred approaches and responsiveness to particular client needs
• Capacity building – strengthen and support the sector to understand and respond to client needs.

Challenges within the HACC program
The HACC program continues to face a number of significant challenges:

• maintaining adequate growth in the program to meet the expected increase in demand due to population ageing
• ensuring equitable resource distribution across the state and the efficient use of available resources
• achieving improved client outcomes by
  • creating increased flexibility and responsiveness in the program to enable services to better cater for the increasing frailty, complexity and cultural diversity of consumers
  • increasing equity and efficiency in service provision through better assessment and coordination within HACC and with other health and primary care services.

Proposed audit
The proposed audit will follow on from the previous audit, taking account of the government’s priorities for the HACC program and the major challenges faced by the program.

It is proposed the audit focus on DHS’s performance with respect to achieving a major government objective for the program, ensuring equitable resource distribution across the state and the efficient use of available resources. Accordingly, the audit will examine two critical aspects of HACC program administration:

• the extent to which DHS has addressed resource inequities across the state and within regions

Home and community care
• the effectiveness of DHS regional planning and coordination, with particular reference to the coordination of HACC and related services.

Poor planning, ineffective resource allocation and inadequate service coordination at the state and regional level is a significant risk to government, impacting on the achievement of the government’s key priorities for the HACC program.

The interrelationship and coordination between HACC and related services is a further key issue impacting on the effectiveness and efficiency of the HACC program. There is a widely held view that poor program design and linkages between HACC and related programs present significant problems to achieving the best outcomes for clients as well as impacting on the efficient use of resources.

Audit objectives and sub objectives

This audit will examine the effectiveness of the DHS approach to addressing resource inequities between and within regions and the effectiveness of regional planning and coordination for HACC and related services. In pursuit of this objective the audit will consider three key sub objectives:

• What have been the benefits and outcomes of the DHS state wide and regional planning approach? Has the approach enabled DHS to allocate resources to address regional inequities and to expand services to priority areas of need?

• Is the monitoring and reporting for state wide planning adequate? Is the monitoring of regional planning adequate and linked to state wide reporting?

• Does DHS planning at the regional level take account of the interrelationships between HACC and related programs? What steps has DHS taken to ensure coordination between HACC and related services?

Audit scope

The scope of the audit covers:

• DHS’s statewide and regional planning framework for HACC services

• DHS’s management of resource distribution for HACC between and within regions to achieve equity

• The interface and cooperation between DHS and HACC services and related services at the regional level

• Resource efficiency and program effectiveness of HACC and related services and strategies adopted to address shortfalls

• DHS consultative arrangements at statewide and regional level with respect to resource allocation and coordination of HACC and related services, including how and whether stakeholders are involved.

Audit criteria and method

In conducting the audit the following criteria will be applied:

• The new planning approach enables resource inequities to be addressed between and within the regions

• The statewide planning model is evidence based, transparent and accountable

• The scope of DHS’s regional planning template is adequate, decision making is evidence based and transparent
• Planning for HACC service expansion at the regional level is linked to delivery statewide objectives, takes account of regional variation and the context of the broader regional community aged care system

• DHS has effective arrangements to consult with stakeholders at the state and regional level with respect to resource allocation priorities and improved service integration and coordination for HACC and related services

• The impact and interrelationships of HACC and related services on service efficiency, effectiveness and economy are well understood

• Reasonable efforts are made to maximise the efficiency and effectiveness of service arrangements for improved client outcomes and to mitigate negative client impacts

• Monitoring and reporting at the regional level is transparent and accountable and linked to state wide reporting.

The audit will assess state wide resource distribution over two planning trienniums. The audit will undertake case studies of three DHS regions, assessing the regional approach to planning and coordination, outcomes, constraints and limitations.

The audit will also conduct a review of studies undertaken in relation to HACC and related services and conduct a survey of HACC and related agencies within the selected regions.

**Proposed tabling date**

The audit is scheduled for tabling in third quarter 2008/09.

**Consultations on the audit specification**

The following organisations and individuals were consulted as part of researching the background for this audit specification:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title and organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Jane Herington</td>
<td>Director, Aged and Community Care DHS</td>
</tr>
<tr>
<td>Ms Jeanine Jacobson</td>
<td>Manager, Home and Community Care DHS</td>
</tr>
<tr>
<td>Ms Clare Hargreaves</td>
<td>Manager Social Policy MAV</td>
</tr>
</tbody>
</table>