

VERIFIED TRANSCRIPTS

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Audit reviews on

Improving our Schools: Monitoring and Support, and Funding and Delivery of Two Freeway Upgrade Projects

Melbourne — 29 April 2009

Members

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Mr D. Pearson, Auditor-General,
Mr A. Greaves, Assistant Auditor-General,
Mr P. O'Connor, Director, Performance Audit,
Ms M. Parrett, Director, Financial Audit,
Ms A. Smith, Director, Performance Audit, and
Ms C. Sandercock, Manager, Performance Audit, Victorian Auditor-General's Office.

The CHAIR — I declare open the Public Accounts and Estimates Committee's hearings on the review of the Auditor-General's audit findings and recommendations August 2007 to February 2008 addressing the following audits: *Funding and Delivery of Two Freeway Upgrade Projects* and *Improving Our Schools — Monitoring and Support*. On behalf of the Committee I welcome Des Pearson, the Auditor-General; Andrew Greaves, Assistant Auditor-General; Paul O'Connor, Director, Performance Audit, Victorian Auditor-General's Office; Ms Mashelle Parrett, Director, Financial Audit, Victorian Auditor-General's Office; Ms Alison Smith, Director, Performance Audit, Victorian Auditor-General's Office; and Ms Catherine Sandercock, Manager, Performance Audit, Victorian Auditor-General's Office. Members of the public and the media are also welcome. Any other members of Parliament are also welcome.

In accordance with the guidelines for public hearings I remind members of the public that they cannot participate in the Committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the Auditor-General, can approach the table during the hearing. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room. All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of the hearing — that is, the door — are not protected by parliamentary privilege. There is no need for evidence to be sworn. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript to be verified and returned within two working days of the hearing. In accordance with past practice, the transcripts and PowerPoint presentations, if any, will then be placed on the Committee's website.

Following a presentation by the Victorian Auditor-General's Office, committee members will ask questions relating to the audit findings and recommendations. Generally the procedure followed will be that relating to questions in the Legislative Assembly. I ask that all mobile telephones be turned off. I now call on the Auditor-General to give a presentation on the *Funding and Delivery of Two Freeway Upgrade Projects*, and *Improving Our Schools — Monitoring and Support* audits. Des, I will be guided by you. We are quite happy if you want to take one first or if you want to give a joint presentation to start off with.

Mr PEARSON — Thank you, Chair. I want to thank the Committee for this opportunity to assist the Committee with its inquiry into these two reports. You will appreciate that the Committee's support and ongoing interest in the activities of my office is very welcome and is an important complement to the accountability mechanisms operating in Victoria. It is important for transparency and for public accountability that the findings of audit reports, and more so the progress and implementation of the recommendations arising from those audits, once they are accepted and agreed by agencies, are periodically reviewed and evaluated. In my view the follow up by this committee is fundamentally important to that, and is a key and will inform the extent to which my office will undertake follow-up audits.

The reports today cover diverse topics, but both are about building capacity and capability. The first one we are going to deal with — the infrastructure assets — deals with physical capital, and the other education report deals with human capital. The freeway report in fact covers three separate but related audits. In that respect I will ask the two directors responsible for those audits — Paul O'Connor and Mashelle Parrett — to give us a short overview of the two dimensions. I think it would be appropriate to start with Mashelle with some introductory comments on the buyback of the CityLink concession notes that financed these works.

Ms PARRETT — Thank you, Des, and thank you, Chair.

The CHAIR — You will need to speak up because I am a bit deaf. They do not have the system today for me to be able to hear better.

Ms PARRETT — I might start with some introductory remarks providing an overview of the audit on concession notes and Paul will then do the two freeways, and then provide an opportunity for you to ask questions on the record.

The audit of the buyback of the concession notes examined the financial implications for the state of cashing in the CityLink concession notes to fund the infrastructure upgrades for the Tullamarine and Calder Interchange and for the M1. Once that decision was made we also decided to assess whether redemption represented financial value to the state. As you would be aware, this state and Transurban are parties to a concession deed

under the Melbourne CityLink Act 1995; in accordance with that deed Transurban designed, built and now operates, maintains and levies tolls on the Melbourne CityLink for a concession period of 34 years which ends in January 2034. Concession fees were required to be paid by Transurban to the state in accordance with the deed once certain financial conditions had been met. For example, Transurban was required to maintain an internal rate of return, and payments would only be made once certain cash flows were achieved in the prior period. Prior to the encashment Transurban had not made any cash payments to the state for the concession to toll. Instead, they issued concession notes — that is, promissory notes — to the state every six months as the financial preconditions required under the concession deed had not been reached.

At the time of our work the state's financial projections indicated that cash payments by Transurban to the state were not likely to commence until 2013, and indeed it was possible that the state would not receive payment of the full concession amount until the end of 2034. The state cashed in the concession notes in accordance with two deeds of assignment. The first in relation to TCI is dated 9 June 2005. Under that deed a number of concession notes issued by Transurban to the state with a face value of \$305.3 million were exchanged for \$100.8 million on 1 July 2005, and a further \$50.2 million on 1 July 2006. These proceeds were used to fund the upgrade of the Tullamarine Interchange. As part of this deed the state also negotiated to share revenue including an up-front payment of \$11 million from Transurban.

The second deed, the M1 corridor deed of assignment, was issued on 25 July 2006. The remaining issued and unissued future concession notes with a face value of approximately \$2.9 billion were exchanged for cash flows of \$181.6 million which was received on 30 June 2007, and \$222.46 million which was paid on 30 June 2008. The state is yet to receive \$148.3 million which is due to be paid on 30 June this year and \$61.7 million which is due to be paid in 2010. Proceeds from these encashments are being used to partly fund the upgrade of the Monash Freeway. In addition the deed allows for the state to obtain revenue generated by the upgrade. It also requires Transurban to upgrade the southern link.

Our findings: we found no evidence of detailed consideration of alternative funding sources for the funding of the TCI upgrade. However, five alternative funding sources were considered and analysed in depth for the M1 upgrade. However, the state did not draw comparative conclusions on the advantages and disadvantages of the long-term financial implications of the encashment of concession notes compared with debt financing options. Once the decision was made to encash the concession notes we asked the question: did the transactions represent good financial value? Our conclusion was that based on the assessments undertaken by the state, better financial value was obtained through the encashment with Transurban rather than a third party. In addition, the state identified the risks of holding the concession notes. The primary risk associated with holding the concession notes for the concession period was that the redemption profile of the concession notes is dependent on the financial performance of CityLink.

Accordingly there were significant advantages in relation to risk mitigation by the state in cashing in its interest in the concession notes. We found that appropriate experts were engaged by the state to assist and develop pricing methodologies and to negotiate on behalf of the state. We also found that a sound commercial pricing methodology was used. While the state did not conduct a formal risk assessment of either encashment, the state employed effective strategies to mitigate risks that were identified.

In conclusion we found that the lack of comparative financial analysis precludes provision of the assurance from us that the encashment approach was the most economic for funding the freeway upgrade. However, given the decision to pursue the encashment approach to fund the freeway upgrades, we found that selling the concession notes back to Transurban for a negotiated price provided the best value-for-money outcome for the notes encashment transactions. There were no recommendations coming from this audit.

Mr PEARSON — Chair, do we want to handle these serially, or do we want to cover the freeway upgrade projects and then the questions can mix in?

The CHAIR — I think it is probably best you give a total presentation. I am happy then for questions to come as they come. It is really up to the members then in terms of seeking guidance on the two projects.

Mr PEARSON — I will ask Mr O'Connor then to give an overview of the two actual upgrade projects.

Mr O'CONNOR — Thank you, Chair and members. I have prepared some remarks which I will read to you as well. Thank you for the opportunity to make a few remarks on the two components of this report, which

includes three separate audits that I had direct responsibility for, which were the Tullamarine–Calder Interchange upgrade and the Monash-West Gate M1 corridor upgrade projects. The agencies we examined for these audits were VicRoads and the Department of Treasury and Finance. The driving rationale for these audits was our desire to examine the effectiveness of the option development, investment planning and procurement processes used by these agencies for major road projects. The scope of these reviews mainly focused on the planning and procurement phases of the projects. We did a limited review of benefits delivery in the case of the Tullamarine–Calder Interchange, because it had actually been completed and just opened at the time of the audit.

We sent in draft specifications of both these audits to the PAEC in July. The M1 upgrade was a separate specification sent in August, so we did send those earlier on. For the Tullamarine–Calder Interchange upgrade, the project was a \$150 million upgrade, as you have heard from Mashelle already, funded by a concession note redemption. It is one of Melbourne’s most economically strategic freeway interchanges. At the time it was very heavily congested and dangerous with lots of casualty accidents occurring there. The project was the first major alliance undertaken by VicRoads in Victoria. An alliance is a type of relationship contract where parties to the contract jointly agree to the scope of the project and the costs up-front as well as commit to interactively sharing of risks as they arise and to set aside any individual rights to claims or disputes while they are joined to the contract — however, they can withdraw from the contract at any point. It is a different type of contract to what has been traditionally deployed in major infrastructure delivery. The Department of Treasury and Finance used learnings from this procurement process to inform its alliance contracting practitioners guide, which is now the model for alliances being undertaken in Victoria. We have done a couple of follow-on reviews recently on two alliances which have followed this guidance in various ways.

This audit found that although an alliance seemed to be an effective procurement option in this case, there was limited analysis of the costs, risks and benefits of other potential procurement options in the business case that was put to government. We found that the project was delivered on time and under budget. Based on preliminary completion data made available to us by VicRoads, we also observed that the completed interchange was working as intended, with measurable reductions in casualty accidents and improvements in travel time. Nevertheless our audit found a number of administrative lapses and oversights arising from the procurement process as well as minimal record-keeping surrounding some of the key decisions made within the alliance structure. However, we note that VicRoads has accepted our recommendations, and it has made changes in its business practices to give effect to the points of improvement we raised in this report.

I will just follow on with a description of the M1 project. At the time of our audit of the M1 corridor upgrade project, the announced budget for the project was \$1 billion. This upgrade is a very complex program of works that involves five distinct project packages, being the Monash Freeway upgrade from South Gippsland Highway down to Glenferrie Road; the CityLink widening project — or Southern Link, as it is described — and this part of the project is being undertaken by a concessionaire, Transurban; the West Gate Freeway upgrade; the West Gate Bridge strengthening project, which is separately funded through AusLink; and the freeway management system, which is a computerised traffic and ramp metering system, which actually extends beyond the M1 corridor.

We found that a comprehensive feasibility study and business case was put to government prior to the funding announcement. However, our review noted that the unusually high benefit-cost ratio of 16 to 1, which was used in the business case put to government to support the billion-dollar investment was mainly derived from a complex traffic model which was outside our audit scope or capability to comprehensively review. We also noted that VicRoads did not independently test the assumptions or the workings of this complex traffic model. We therefore made a recommendation on this issue and note that VicRoads has accepted that recommendation, and in its response has committed itself to seek a further level of assurance for major road projects worth more than \$100 million in the future. As to the various procurement exercises of this complex program of works, which were not fully complete at the time of the audit, we observed that they had been adequately conducted, although we did also note some similar administrative lapses, which led to a variety of similar recommendations to what we made in the Tullamarine-Calder Interchange audit.

To conclude, I would say it is pleasing to note that the intent of our forward-looking recommendations has been adopted and addressed by VicRoads. We look forward obviously to seeing further continuous improvement in the way major asset investments such as these freeway upgrades are planned, procured and implemented in Victoria. However, you will note from our response to the government’s response to our original

recommendations that we still have a difference of opinion with DTF on the question of role separation of probity practitioners. We will continue to discuss that issue with it as it arises in the future; I am sure we will get plenty of opportunity.

The CHAIR — Do you want to just give us a presentation on the skills one now so we have got the groundwork? Then questions will probably begin on the M1, et cetera, but we certainly have got then your views on both of them. It will be an appropriate time for members who will be welcome to ask questions on the other audit as well.

Mr PEARSON — I will ask Alison to introduce that report.

Ms SMITH — The report title is *Improving Our Schools — Monitoring and Support*. The rationale for the audit stemmed from the value in addressing a number of issues school performance and outcomes achieved by students were obviously critical. Education is an important underpinning for future achievement. There was a sufficiently long data set available going backwards. So this audit was done retrospectively, looking back at data over a period of time from 1998. There was sufficient data at the time to actually do an appropriate assessment. Enough time had lapsed since the introduction of the blueprint for changes to be implemented at both the central and regional offices and schools. So enough time had passed for things to have actually been achieved.

The object of the audit was to determine the Department of Education and Early Childhood Development's efforts in improving outcomes for students in government schools that were performing below expected levels and whether or not these had been effective. There were a number of high-level criteria. They centred around whether or not the education department central and regional offices had adequately identified and monitored schools and had effectively supported schools to improve. The way the audit was done, as I said, was largely around data. We did some analysis over a seven-year period. There was 128 schools assessed and a survey was done. The survey looked at school improvement processes and what that involved and looked at the outcomes.

There were three regions assessed: two regions had the greatest proportions of schools performing below expected levels. They were western metro and northern metro and a rural region to see if there were any different issues between metropolitan and regional schools. A sample of eight schools were visited to verify the outcomes of the surveys. There was a number of key findings. In terms of the capacity of regional offices to support schools, it was found that there was significant unmet demand for targeted schools and the department's efforts could be better directed to help schools in most areas of need. Some schools were in a downward performance spiral and would benefit from a joined-up approach. So there needs to be more information shared across the network. In some schools there were signs that the targeted support is making a positive difference, but there is insufficient information about how that would progress over time. In parts of the state, particularly in northern and western Melbourne, there was a concentration of schools performing badly in areas such as students' educational attainment, wellbeing and transition into employment and higher education.

The department has established a useful evidence base to inform future targeted support, but there are still some important data gaps and modes of support, such as student support service officers, that need to be resourced. Addressing school performance is difficult; schools that were subject of the audit face many challenges; particularly in the northern and western areas there are multiple challenges. The recommendations were largely supported by the department, but what we found was in the responses there was insufficient information to determine how things were going to be done. So it did generally accept the recommendations and progress has been made — it has definitely been made at the time of the audit. But there was not sufficient information about the duration of some of the interventions it was proposing.

The CHAIR — All right. I am sure members will probably follow them up. Thank you, Mr Pearson. We will start off with the audit, *Funding and Delivery of Two Freeway Upgrade Projects*. As you have rightly pointed out, it is actually at least three audits — sorry, you were sort of left out there — in the title. But you did do an analysis — —

Mr O'CONNOR — She did the funding bit.

The CHAIR — You did do an analysis of the buyback of CityLink concession notes, which of course is quite an important thing. You stated that there was value for money in that in terms of the way you looked at it. Looking at the other ones, on which of course you made a number of recommendations, there was mention of the practitioners' guide, the scope costs and time control guidelines. There are a range of systems in VicRoads

and the Department of Transport. Our understanding from them is that they have been upgrading these on a regular basis. You mentioned you have been doing some other audits. Are you reasonably happy with the progress that is being made in the upgrades, the guidelines and the practitioners' guide that they have?

Mr O'CONNOR — I guess when we went back and looked at the response that came in to our original recommendations, I think clearly VicRoads has made some real efforts to tighten up and to align the procurement practices to the new guidance that has been released in the rolling releases of guidance by Treasury over the last 18 months. So based on my understanding, which was only a desktop analysis of its response, I would say it has picked up on all of the points we raised in our review and based on the response it gave and the Minister for Finance, WorkCover and the Transport Accident Commission's response to the recommendations, I would say these are indicators that it is definitely heading in the right direction and that it has now brought their procurement practices in line with the existing guidance. It should be noted there is a bit of overlap between guidance that was in place at the time of the actual procurement decisions and guidance that was released post decision-making. Particularly around business cases, there was not much guidance around what a business case should contain at the time of the TCI — that is, the Tullamarine–Calder Interchange project.

The CHAIR — This is a business case in regard to the alliance arrangements?

Mr O'CONNOR — Any sort of business case for a major asset investment. However, Treasury's guidance is very clear now on what a business case should contain and it provides quite a lot of detail for agencies in terms of some of the things we have picked up, like stakeholder analysis, cost-benefit analysis, independent verification of financial models — things like that.

The CHAIR — So the Treasury guidance includes the Gateway process and the way that has been improved, including Gateway 6, of course, which is the follow-up?

Mr O'CONNOR — We have recommended that they actually apply Gateway 6 as a benefits realisation review.

The CHAIR — This has come from an old evaluation manual?

Mr O'CONNOR — That is right. I think what we should also note, though, is that the Gateway process is a peer support improvement process; it is not an assurance process.

The CHAIR — I understand that.

Mr O'CONNOR — There is a set of guidelines from Treasury, called *Investment Lifecycle Guidelines* which came out in July last year, that were refreshed and a whole series of guidance has been released. That is very clear around how a business case should be constructed and the type of analysis you would expect in a major asset investment such as these two projects. The practitioners guide for the alliancing is still in place. That is currently the model for alliance contracts. That really, as they say in the response, was informed by doing this first — let us call it 'experimental' — alliance for the Tulla–Calder Interchange but now there has been a growth in alliances and now this currently has, I think, four alliances in play, based on the latest announcement that alliance would be used to build the ring-road, plus the three that are in place for the M1 upgrade.

The CHAIR — That is obviously an important measure.

Mr WELLS — I want to draw your attention to page 2 of the executive summary. Under 'Buy-back of CityLink concession notes' and 'Consideration of alternative funding sources', in relation to the TCI project, you say that:

... we concluded that there was no evidence of detailed consideration of funding sources other than the encashment of concession notes.

In relation to the M1 project, you found that:

... the state did not draw comparative conclusions on the advantages and disadvantages of the long-term financial implications of encashment compared with debt financing options ...

I have a three-part question. The first part is: in terms of determining best use of taxpayer funds and in terms of transparency and accountability, major criteria for any government decision, surely these are major failings on

the part of the government in this instance? The second part of the question is: why did you not make a direct recommendation in relation to these major failures in the project development process? The third part is: should not a full analysis of all funding options for major projects be a mandatory requirement for government or department decision-making?

Mr PEARSON — I will answer that initially at least. Yes, clearly that is why we made that finding. Our view is that there should be a comprehensive analysis. In terms of a direct recommendation, I suppose the judgement was that we are auditing this, and it is not a continuing project. You will notice that there is a degree of difference of view in the response of the Department of Treasury and Finance to our findings, so to make a direct recommendation in relation to this project was frankly redundant. Yes, in principle there should be a full analysis but this is the area of debate, and I think that is something the Committee might like to give some consideration to. Our judgement clearly is that the level of analysis was short of expectations. I think you will see from the agency response they would have a somewhat different view.

Mr WELLS — Just to follow that up, surely if something is as wrong as this when it comes to their financing options, would this not have been the chance for the Auditor-General to make a direct recommendation that the way the government did it was incorrect and that would have at least set the benchmark for future major infrastructure projects? To say that you do not do it because the project is finished, I do not see how that can stack up. I would have thought that you did it and set the benchmark for future major projects.

The CHAIR — There are too many — —

Mr PEARSON — My view is that we have set out our expectations, we have audited against them and we have reported that our expectations were not met. Any recommendation would have been to continue to do what we are already applying.

The CHAIR — There are some unique features about those projects.

Mr WELLS — No, hang on. You cannot say that there are unique features about these.

The CHAIR — There are; there are the encashment — —

Mr WELLS — The government made the decision about encashment of concessions. They did not seriously look at other options of funding these projects. That is why the Auditor-General has made a report. What we are saying is: why didn't they go the step further, to make it more clear that this should not happen again, unless there has been a serious analysis about options and funding?

Mr PEARSON — That is a judgement issue. I thought it was abundantly clear in the body of the report and the summary. We set out the criteria we applied and we reached a conclusion that they fell short and, as you will see, the agency response challenges that.

Mr WELLS — Can I ask then — —

The CHAIR — No, I think we will go on and come back to the — —

Mr WELLS — Just a very quick question.

The CHAIR — Just any clarification.

Mr WELLS — So should there be a full analysis of all funding options for major projects?

Mr PEARSON — In principle there should, and in this case that is clearly what we said. There will always be a value judgement about the degree of comprehensiveness and the degree of detail, but I consider that we have been quite conclusive there. We came up with an outright statement, that it had not occurred. You cannot be more definite or precise than saying something did not happen.

Mr WELLS — I guess the issue is, then: why was a direct recommendation not made, that that should be the situation for all major projects heading forward?

Mr PEARSON — I suppose that is a view. But we have pursued that more in the sort of guidance and better practice guides that Mr O'Connor referred to. It is a question of where do we pursue the recommendations. My judgement in this case is that I am reviewing a particular project and the finding was in relation to the project. The appropriate avenue to address the remediation was in the broader sphere. In that respect I think we have been quite successful, because as Mr O'Connor has outlined, there has been a quantum step forward from the time we did this audit in the quality and comprehensiveness of guidelines available to the situation we now have.

Mr O'CONNOR — Maybe if I can just add to that, clearly the business case guidelines that Treasury now puts out do say it all. Really the procurement option and the funding source need to be examined in detail at the time of business case development. That guidance did not exist. There was no Treasury guidance on the approach that should or should not be used for the funding of major infrastructure projects. There is probably a further argument that Treasury would make — that is, that money is money, and the fundability of the money, the source of funds is really a policy question rather than an operational question. I guess our point, as Des has said very clearly, is that regardless of the macro-economic policy or the financing/source of funds question, it is really up to the government to decide on. In terms of better practice from our perspective, you should examine all live options for your financing choices, and we say here very clearly that we did not see that, and I think probably we could not state it any clearer than what has been stated in the report.

Ms MUNT — I also want to talk about procurement. At page 9 of the report the response provided by the chief executive officer of VicRoads says:

In regard to the procurement strategy, VicRoads would also like to note that the TCI project was the first major road project to be delivered in Victoria under an alliance form of procurement.

I wonder if you could you expand for me a little the exact nature of that alliance form of procurement. The response continues:

As such, much of the procedures and good practice standards that have ... been reflected in the *DTF Project Alliancing Practitioners' Guide* were developed through the experiences and learnings of the TCI project.

Could you also detail what we have learnt from this very first project that has been delivered by this particular model? What have been the benefits or otherwise of this particular model?

Mr O'CONNOR — I am very happy to. I am a bit of an alliance junkie, so you might get a longer response than what you expected.

Ms MUNT — No, I want to find out.

Mr O'CONNOR — Alliancing is a form of procurement. If you think of procurement in a spectrum, probably at one end of the spectrum is the traditional design and construct (D and C) — or construct only, really — type of procurement, usually done through a sealed bid tender or something like that; the other form is an active risk-sharing joint venture type partnership where really the outcome is specified but not necessarily all the decision points along the way. That is quite an open-ended type of contractual relationship. An alliance probably sits closer to the active risk-sharing type of procurement, so it has really moved quite a way from the traditional D and C approach. It is a hypothetical organisation that is set up through mutual consent. An alliance does not physically exist as a body. Basically it is an expression of goodwill between the parties.

A part of the discipline that an alliance brings to an infrastructure project is that the actual total cost of the project has to be agreed up front, and it is done in a very interactive way. The fees or the cost base of the private sector partner, all the inputs to that cost modelling, are all done through open book. Their margins are transparent, and they are independently verified, usually by a third-party specialist firm, which will usually go back through previous projects they have done and benchmark whether the rates they are proposing are in line with earlier rates. So it does remove a lot of that question about whether they are loading up their rates or making super profits.

The other side of it, though, is that on the issues around design and risk management the contracting party — that is, the state — cannot transfer all the risk. It has to interactively engage with the private sector party and deal with the risks as they arise. There is a bonus pool that is usually put in there and made available, and there is also a floor on losses that can be made. So if there is going to be a cost overrun, basically it can only eat into

the agreed margin, and then from that point onwards there has to be a recalibration of the total project cost. That does remove the source of most major disputes in major infrastructure projects, which are usually claims and variations and also unexpected risks, or people misunderstanding the risk transfer from, say, the owner of the investment and the contracting party.

I think Queensland, for example, is embracing alliances like crazy. A lot of the reason it is doing that is the very tight time frames it has applied to its infrastructure projects, and of course timeliness, or delivery on time, is a major risk for projects. What alliancing attempts to do is to at least bring these forward and get all the parties to actually agree to them; and once they commence a project, to not then communicate to each other through their very expensive lawyers who are fighting over clauses in the contract but actually to have all the project delivery people sitting in the virtual organisation and resolving these issues as they arise. So as a form of procurement I think they are still developing but they are quite interesting, particularly for the highly complex or high-risk projects.

Ms MUNT — What have we learnt about the application of this first ever alliance project in Victoria?

Mr O'CONNOR — I think what is being learnt in Victoria — because I think it is continuous learning — is that they are a valid procurement option for those types of investments, but they are not a panacea for all major asset investment projects.

Mr RICH-PHILLIPS — Mr Pearson, can I ask you again about road funding in the report. At pages 40 and 41 it refers to the risk identification process that was undertaken with respect to the concession notes and the risks of either cashing them out or indeed holding them on an ongoing basis. I am particularly interested in the section of the report about the risk associated with holding the concession notes for the life of the concession period. The report refers to an adviser who considered the ring fencing arrangements surrounding the concession notes. Can you tell the Committee who that adviser was?

Ms PARRETT — Are you referring to the legal adviser?

Mr RICH-PHILLIPS — It is not clear if it was a legal adviser.

Ms PARRETT — Clayton Utz did provide legal advice on the ring fencing provisions.

Mr RICH-PHILLIPS — Was Clayton Utz the adviser who undertook a preliminary high-level assessment of the potential financial impact to the state of the ring fencing?

Ms PARRETT — I think that would be Rothschilds.

Mr RICH-PHILLIPS — Rothschilds. As far as the actions that were recommended to mitigate the risk associated with that, were any of those implemented? Or was it simply a case that they became redundant once a decision was taken to go down this path?

Ms PARRETT — I believe that most of them were redundant once the decision was made. In terms of the encashment then, the ring fencing provision risk was mitigated through the encashment process.

Mr RICH-PHILLIPS — So they were never implemented?

Mr GREAVES — But prior to that — at the bottom of page 36, in relation to the encashment decision — they did actually have an adviser check on whether or not ring fencing provisions had been complied with. So they actually did take some action pre the encashment.

Ms PARRETT — Yes.

Mr GREAVES — But then it became superfluous once they decided to sell. In fact that was one of the risks they identified, the difficulty of enforcing the ring fencing provisions, as over time Transurban became a much more complex business, and as it grew, or it was likely to grow, then it would be much more difficult to enforce ring fencing provisions.

Mr RICH-PHILLIPS — Did the government form a view on those recommended actions to assist the ring fencing mechanism? Was that one of the factors that led to the decision to go down that path, that those were not practical avenues to ensure the ring fencing provisions?

Mr GREAVES — I am not sure I understand the intent of your question, sorry.

Mr RICH-PHILLIPS — The actions that were recommended by Rothschilds, were they deemed as impractical by the government, and hence the decision to go down the encashment path?

Mr GREAVES — No, we did not examine that aspect of it.

Mr RICH-PHILLIPS — Thank you.

Ms HUPPERT — I want to ask a question about the process for the encashment. On page 39 you talk about the method used by VicRoads to determine how that was done. Do you have any conclusions about the process carried out by VicRoads?

Ms PARRETT — In our report we have concluded that the process was a reasonable approach and that they employed an effective and appropriately skilled firm to undertake the review for them.

Ms HUPPERT — Thank you.

The CHAIR — Just to follow on, on the due diligence procedures, you said here that they were reasonable.

Ms PARRETT — Yes.

The CHAIR — What does that mean?

Mr PEARSON — They met the expected level of coverage — —

Ms PARRETT — Inquiry.

The CHAIR — So in your discovery what did you discover? What were the tests?

Mr GREAVES — As set out in the report, what we were concerned about is that this is obviously an unusual type of asset. As it says in the report, it was viewed by the market as quasi-equity. It was viewed as what we call zero-coupon or no-interest, long-term bonds. So getting an appropriate market valuation, where they are not actively trading in the market, is a difficult issue. And we have already alluded to the fact that ring fencing was one of the risks, and they identified that the future cash flows, as we say in our report, were also at risk in terms of the timing. Underlying that, of course, is the counter-party risk itself with Transurban in terms of whether it continued to exist. So there is a whole range of risks. The due diligence was around looking at those risks, and the major steps they undertook, as we say in the report, were to benchmark relevant reference rates in terms of a discount rate and to do some market soundings. So our assessment of that approach to due diligence was that it was sound and reasonable.

The CHAIR — Okay, I just wanted clarification, given the last two questions.

Ms PENNICUIK — If I could briefly follow up on the alternative funding sources. I was having a little bit of trouble hearing Mr O'Connor. Can you clarify: you said that in terms of finding that that was not carried out in that project, it has now made its way into guidelines? Is it the expectation of the Auditor-General's office that those guidelines would then mean that for future projects, that would happen?

Mr O'CONNOR — Thanks for the question. I think yes is the short answer. I think what we really need to make clear, though, is that the guidelines are very normative. They are basically designed to produce better practice, but they are not prescriptive, so they do not give a check list or actual boxes that need to be filled in. They say, 'Here are the core better practice principles of a business case, how you should construct one, and the type of information you should include in it'. Part of that is to understand the source of funding and to do an analysis of the various funding options, including, for example, the new ruling that any investment over \$50 million must be considered as a PPP. That is part of the funding consideration that needs to occur now in all business cases in government, for any asset investment in any agency, and that is very clear in the guidance.

The second part of it is really about the question, then, of what funding option you go down. Of course a business case is only an input to a decision-making process, and in that decision-making process, of course, the decision-makers have the right to make their own decisions about where they are going to get the funds from or what type of funding vehicle they are going to use. However, we do expect, at least at the business case level, and that is reflected in the guidance, there be at least an analysis — and in particular, as we say in this report, a comparative analysis, not just an analysis — to actually look at the pros and cons and cost benefits and risks of each one of the potential options to fund and also the procurement options as well.

Ms PENNICUIK — I have another question which is about the probity process; the probity advice and the probity audit. Given we have seen in the private sector that there have been conflicts of interest between auditing firms being consultants as well as auditors, and from the comments that you have made in regard to this it sounds as if there is a conversation going on between the agencies and the Auditor-General's office, is there any scope for the Auditor-General's office to recommend that the Victorian government procurement for guidelines be updated?

Mr O'CONNOR — I think that is actually what our recommendation does say, that they should provide firm guidance on that too.

Ms PENNICUIK — Rather than guidance, more prescription?

Mr PEARSON — That issue of separation of auditor and adviser is one I would welcome the Committee's further deliberation on. I recall the Committee looked at that in the myki inquiry and, if I recall correctly, formed a view similar to that of my office, that the role should be separated, but as you will note in this report, there is a difference of view, and as auditors we have no executive authority; we can only make recommendations.

The CHAIR — Yes, we did, and we went a bit further than that. We also said that these guidelines which apply for departments should also apply for other agencies and corporations.

Mr NOONAN — I want to go to the TCI project. In reading the audit I am trying to determine whether the state received good value for money with this project. Mr Greaves has talked about this. Perhaps we should try to unpack the market sounding process and try to get a better understanding about it. You might explain how the market sounding process works and perhaps in practical terms based on your audits. I note in terms of the benchmarking analysis that in your conclusion you have looked at this market sounding as a reasonable method to assess better financial value. I wonder if you can explain that conclusion as well.

Mr GREAVES — I will elaborate on my earlier comment. As I said, there are two separate issues with the value-for-money (VFM) consideration. There is the source of the funding and then there is the asset you are investing in and whether it is going to give you a return. If we stay with the funding decision, I think as Mr O'Connor has quite rightly said, there are macro-economic decisions that are made by government that are outside the scope of that and our mandate to comment on. What we were simply looking at in our report was to say that those decisions should be informed by good comparative analysis. So that was the first issue about the funding options, and we could not draw a conclusion one way or the other about those. But then once the decision had been made to fund it this way through a sale of a financial asset, the question that arose from the VFM context, if you like, is a narrow question which is: did the state get a fair price for the asset that it sold?

As I said, this is not an asset that is actively traded in the market. It is a financial instrument, but it is not like a share, so there was not an active market that you can go to or refer to. You have to do your own due diligence on what you think you will be able to get for the asset. The organisation itself will do its own assessments and work out its own revenue forecasts, its own traffic and growth forecasts, and do its own assessments of the timing of cash flows. But at the end of the day, while that is relevant as a reference point, it is actually what the market is prepared to pay. VicRoads and the government were faced with two options. We either sell this asset to Transurban, who was a party to the deed, or we sell it to other market participants. The market soundings were really there to go out and talk to other potential buyers of the asset. We looked at that as an appropriate thing to do if you are trying to establish a reference price against which to determine whether or not you are getting fair value.

Mr SCOTT — During an answer to a previous question Mr O'Connor touched upon alliance projects and the perception that exists that alliance projects help deliver timely outcomes for capital works projects. Could

you give us some further information on why that is, why there is a difference or a perception of a difference in the timeliness of the method of the delivery?

Mr O'CONNOR — I am happy to provide general comments if you are willing to receive them in that context and if you are happy for me to give a general view.

I think part of the reason and one of the biggest issues on timeliness of delivery of projects is usually that the deadline is set before the plan is written, and the reality then is the deadline becomes fixed without actually having done detailed planning to realise the activity that needs to occur in the project to achieve whatever you are building or whatever you are producing. The core difference with an alliance contract is that the budget and the deadline are usually not fixed at the time of signing on the contracting party. Those two major elements of project delivery are cooperatively developed within the alliance structure. So the deadline or the actual delivery date is an informed delivery date, and it has been, as I have said, actually agreed by all parties to the alliance agreement. You could draw an inference from that that what that actually means is you are getting a lot more informed and realistic estimates of activity and of the actual effort and elapsed time that is required in order to achieve that milestone.

It does not mean that you can't actually gear or make the alliance deliver to a very tight deadline, but once again that obviously will then have cost impacts because you may have to load up work, you may have to have a larger workforce than required because you are going to do parallel project work. The trade-off then is really if we are going to deliver this early, we may have to spend more money on it. If you can understand, there is quite a difference in the mentality around what an alliance contract is, and particularly risk management does help on timeliness as well, because usually what happens when you go into a dispute is people stop working, and that is one of the major causes of delay when there is a dispute.

The CHAIR — I want to come back to the probity stuff, because I know we have had extensive discussions on this one, and we have supported separation of the probity adviser and the probity auditor. I want a bit of clarification because I note that on page 107, in recommendation 4.4, the probity plans should accord with the VGPB probity best practice advice. I assume you are still disagreeing with the probity best practice advice in terms of the separation of the probity auditor and the probity adviser, and I just wanted to clarify that that is the case — or are you satisfied with the way this is being implemented now?

Mr GREAVES — No, we are not satisfied.

Mr PEARSON — From an audit perspective, we are not satisfied; we think the best practice should be improved. In my mind there are two driving issues — there is the separation of the adviser from the auditor; that goes to the core, and in the auditing profession there is a lot of precedent there. The other dimension that is inadequately recognised in agency responses in my view is a lack of appreciation that there is a quantum difference in the way you treat public moneys compared to normal commercial transactions that are full-exchange transactions, at risk. Parties can opt in an out of commercial transaction, but in spending public moneys I believe a higher level of regard needs to be paid to not only doing the right thing but being able to demonstrate that you have done the right thing.

Mr O'CONNOR — If I could just add a clarification to that?

The CHAIR — I understand that this is in regard to a particular project and major deficiencies?

Mr O'CONNOR — It was a particular compliance finding in this case. The guidance is very clear. In this particular context I can remember having long conversations with John Cunningham about this; he is the project director. I think VicRoads did not actually see themselves as — and you can see in their response that they do not believe they are bound by VGPB rules — doing construction work. The discussion we had with them is that when you procure an alliance, you are procuring a relationship, you are not procuring an asset as such. They really did move into the VGPB territory with alliance contracting.

The CHAIR — This particular section is not covered by an alliance contract?

Mr O'CONNOR — That is right, and this is where the discussion occurs because this is a D and C component — a design and construction component.

The CHAIR — Which is VicRoads.

Mr O'CONNOR — It was a bit easier to do this one down the centre median so there were not as many risks they saw arising. That was the intent of our recommendation there and why we said that.

The CHAIR — Thanks very much.

Mr WELLS — I refer to page 30 which deals with an assessment of the alternatives to the M1 project. You state that the analysis did not set out any information in relation to the alternatives beyond the next five years, nor did it consider how any debt financings might be repaid in the future. I also note that in response to this finding, on page 4, the Secretary of the Department of Treasury and Finance stated that:

It was unnecessary to explicitly consider how any debt financing might be repaid in the future because:

it would have been repaid out of budget surpluses.

Obviously the Department of Treasury and Finance know more than us. So my question is: as Auditor-General, did you not find it strange that not only did the government and DTF not explore all financing options for the M1 project or Tullamarine–Calder Interchange project but also they did not have to consider how any debt would be repaid because it would come out of budget surpluses?

The second part of the question is: why have you not made any recommendations in relation to this lack of analysis and apparent disregard for current and future economic and financial circumstances of the state when making a major funding decision for major projects?

Ms MUNT — So, Kim, you are in favour of state debt then, are you?

Mr WELLS — I thought the Auditor-General was there, not over here. I might have that wrong.

Ms MUNT — Increasing state debt?

Mr WELLS — Could we just have some clarification? I know the government is very sensitive about surpluses and debt. I was just wondering if we could get some clarification on this question.

Ms MUNT — That is the policy?

The CHAIR — Both of you, thank you very much. Can you reply, Mr Pearson, insofar as it relates to the functions of the Auditor-General, and not deal with policy?

Mr WELLS — Hang on, this is the Auditor-General's statement.

Mr PEARSON — Can I reply? I will ask Mr Greaves to reply in the broad, but one distinction I would make at the start is that my report is the conclusion. What the Secretary of the Department of Treasury and Finance says is their entitlement — under section 16 of the Act I think it is — and as in later reports, because of the nature of the responses, I have been increasingly drawing attention to the fact that while in what I say as an auditor I am constrained by an absolute compliance with auditing standards, agencies in their responses are not so constrained, and in later reports I have drawn attention to that difference in the level of rigour that is applied to the basis for the comments, but I will ask Mr Greaves to deal with it in detail.

The CHAIR — But you are constrained in respect of policy?

Mr PEARSON — And by auditing standards in terms of the level of evidence and the basis on which I can reach conclusions. I cannot make unfounded assertions.

Mr GREAVES — In relation to the question about a recommendation, I think we have addressed that previously. I think they are related as to why we did not make recommendations. I think the Auditor-General has addressed that. To explain further the comment about the future projections, that is in the context of the lead-in, if you like, which is about the comparative analysis. Basically, given that these concession notes had cash flows which could go out to 2034, if there were a comparative analysis done, one of the options would be looking at the timing of those cash flows beyond five years. That was the context of the finding and the reference to the five years, which is over and above the normal budgeting time frame that governments look at.

Mr WELLS — I guess the question still remains though as to why there were no recommendations in regard to some debt repayment plan as an alternative to what was put forward with the encashment of concessions.

Mr GREAVES — Once again, we would not traverse into policy about whether debt is the appropriate option or not. That is not our role; our role is to look at the advice that went to the government and on which the government made a decision. We are simply making the point here that, as has now been referred to a number of times in more recent asset investment guidelines, the documentation and the comparative analysis of the financial advantage and disadvantages of different funding options should be undertaken. That is the simple point we make.

Mr WELLS — Does it concern you the government is making an assumption that debt repayments will be made out of future surpluses?

Ms MUNT — Chair, can I have six questions, too, when it is my time?

Mr PEARSON — Can I answer that? That is a policy question. It is not appropriate for the Auditor-General to comment. That is for the electorate to reach a judgement each election time.

The CHAIR — Thank you for that. I think we might concentrate on the audits rather than necessarily solve every problem in the world.

Ms MUNT — I would like to change the subject a bit, if I can.

Mr WELLS — I bet you would.

Ms MUNT — I refer to *Improving Our Schools — Monitoring and Support*. I think education is very important, and that is why I wanted to speak about education before our time line runs out at half past 11.

Mr WELLS — Is that your no. 1 priority for the government this week — to speak about surpluses?

Ms MUNT — If I get six questions — —

The CHAIR — In order to help Hansard, one at a time, please.

Ms MUNT — Thank you, Chair. On page 2 of that report it says:

In a relatively short period, considerable progress has made in addressing school performance. However, more attention needs to be directed at some aspects of the support which constrain regional offices from providing the right support at the right time.

What sorts of supports are we talking about, and what sort of considerable progress are we talking about? Could just expand on that particular aspect?

Mr PEARSON — Just while I collect some thoughts on that, I might just apologise in advance on this one — the director who actually oversighted this audit is on extended sick leave; he has had hip surgery, so Alison has stepped in.

Ms SMITH — I was not there, you know. I am feeling very happy about it, though!

Mr PEARSON — I am sure she is up to it, but if there is any sort of hesitancy on Alison's part, it is because she is coming from the outside.

Ms SMITH — Okay, no blood spilt! I will split the question essentially into two questions. In terms of the regional capacity, the implementation of the blueprint did not take into account fully the capacity of the regional offices at the time. They all changed without necessarily assessing at that time the capacity of the offices to undertake the change, so their resources got spread more thinly. More attention needs to be directed at some aspects of the support. That is what that is targeted at. But considerable progress has been made. I am going to throw to Catherine, who was part of the audit team at the time.

Ms SANDERCOCK — I guess under the blueprint there were a lot of changes that came in for particularly regional offices and how they work with schools. When we went out to visit the regional offices we could see

that they were actually taking those up and putting them in place. Part of that was working physically with schools that needed the support to help them with their annual planning process — so getting schools to be better planners and clearer about where they wanted to go. They also put in what was called a differential review process. The department was making an assessment of how schools were going, talking to the schools about how the schools felt it was going and then deciding on what sort of a review they needed. Where both considered that there was a greater need for help, then they put in a special review process for that, which really then gave schools a chance to dig down with a specialist into what the issues were and then try to match that up with appropriate strategies for getting back out of that spot they were in.

Ms MUNT — Is that done yearly or three yearly? How often is that sort of review being done?

Ms SANDERCOCK — Schools have a quarterly cycle, and they have a review every four years. But part of what the regions had started adopting was that each year they would consider across all schools and say, ‘Actually this school needs its review brought forward; it looks like it is going downhill’. Or they might have decided that a school that might have had its review that year did not really need it, and they could put it off because something else was happening in the school at that time and it was not appropriate.

The other aspects they were putting in place and schools were taking up were particularly around targeted support for schools, which had not necessarily been there in the past, activities such as targeted school improvement, wherein there was funding for a set of schools that had low academic results to say, ‘How can we change things here?’. They brought in things like the teacher coaching approaches and the literacy improvement teams; trying to work with teachers. That was part of a whole approach, I suppose, recognising that leadership in the school is important, the quality of the teaching is important, and saying ‘Let us tackle these two things and help schools on the improvement journey’. Part of it too is that there is an understanding that when we did the audit, the regional offices themselves were working on what is school improvement and what it looks like. That can vary for different schools. But when we were out there we could see that regions were talking to schools about it, and they were putting steps in place to address it. It was a mutual process that was being put in place.

Mr DALLA-RIVA — On the motion to buy back CityLink concession notes, on page 39, ‘2.6 — Risks relevant to the transaction’, I understand it is not your officers’ practice to document claims that could not be substantiated by your office in your reports. So I ask: were there any claims made by advisers or the accounting firm in relation to the risk to the value of the concession notes that could not be verified by your office? And could you expand on any such advice uncovered during the audit and whether you are aware of any action by DTF or VicRoads?

Mr PEARSON — The answer is no.

Mr DALLA-RIVA — Definitely no?

Mr PEARSON — Yes.

Ms MUNT — Definitely?

Mr DALLA-RIVA — No, that is good. No, that is all there is.

Mr PEARSON — Can I just clarify what we can put in a report and what we cannot? Everything we see we pursue to the extent we can to reach a conclusion. I take us back to where we started this morning, on our conclusions in terms of no evidence of detailed consideration of funding sources other than encashment of the concession notes. We reached that conclusion. There was no evidence — and that is a strong word for an auditor; ‘no’ is absolute, ‘limited’ means inadequate or limited, ‘shortcomings’ means a few problems with it; that sort of degree. If there is nothing there, we report there is nothing there. But to the extent there are risks identified, we revise in accordance with our test plans the reliability of the examination or consideration of those risks and reach a conclusion that it is either acceptable or there are problems with it. In that context, my answer is a no.

Mr GREAVES — Just as a general comment in relation to an audit, the other point to make here, I think, is that audits do not ever provide absolute assurance. Audits provide reasonable assurance in relation to the things that we look at. Your point was do we look behind the evidence and substantiate what we say in our reports.

The answer to that is yes. It depends, though, on the objective and what we were looking for. In this case we were looking at process predominantly and we certainly wanted to see that they had identified risks, that they had mitigated those risks, that they had engaged appropriate personnel who were appropriately qualified and that they themselves had taken appropriate steps to review and assure themselves that the information they were being provided was accurate. From that process-based perspective, we did not have any concerns or we would have raised them in the report. Whether we could go and attest to the underlying accuracy of every single assumption that has been made, I would say the answer to that is we would never be able to do that in an audit because that is not the nature of an audit.

Mr NOONAN — I am also looking at the *Improving Schools — Monitoring and Support* audit. I went to page 7 and in the department's response it suddenly questioned the methodology used for this particular audit in terms of the survey process to principals. I think I read in the body of the audit that you did not receive responses to all of these. I wonder if you might explain for the Committee's benefit the methodology for this particular audit. You also went out to some schools but limited numbers. I suppose from my point of view there can be a bit of discretion used in responses to surveys. Perhaps you could identify how you catered for a bit of discretion in those responses.

Ms SMITH — I will do that again in two parts. We often use surveys. Surveys give us a good idea generally and we can get to a broader audience. We obviously have fairly small audit teams, so we can get a fair amount of information using a survey tool, and that is what we do. And we verify the results. Catherine will give you some more detail on that. We do go to the most senior person; it is usually the principal. We do not just rely on that information. We do have to verify it, and we do verify it. But also we do not expect a 100 per cent response rate. We do make sure that we get a significant number of responses before we draw conclusions using that data. The methodology is outlined in the report, and I will get Catherine to give you a bit more detail on the numbers.

Ms SANDERCOCK — What we did was retrospectively identify which were the schools that were performing at lower than expected levels in 1998, because the department did not do that back then. There was not an established methodology to use the method they use now and say, 'Who would it have been in the class of 1998?'. We had 128 schools that were identified, and out of those I think two had closed since. We sent out a survey to that entire group that we were looking at and that the audit was focused on; they were the schools that were performing below expected levels, in the polite language. As a result then we selected a small number of those to go and verify the responses of the survey and to see for ourselves what school improvement looked like on the ground. Part of what we did in selecting those schools out of the survey was to say, 'Let's select some that look like they have improved their performance over the time, some that based on the data alone would suggest they have not improved their performance over the time — a mix of school types'. We knew that a lot of the low-performing schools were in the northern and western metropolitan regions and we selected those regions as part of it. As Alison mentioned, we went out to a rural one as well to have a look.

But I think it is partly an interpretational issue. In the report we clearly state that we were examining what was happening in those three regions. There are some aspects where we looked across the 128 schools and followed through what had happened to them. I think where we do that and where we are referring to the survey in particular, we can talk about that as the cohort we are referring to and make generalisations for that group and what has happened to it over the 8 or 9 or 10 years in between, but at the other times when we are talking specifically about the schools in the regions that we looked at, then we are trying to be very clear that that is what we were looking at. There is a distinction made there, I think, and where there are generalisations made we are generalising across that group of schools that we looked at and not across the whole population of schools.

Mr NOONAN — So if you did the audit tomorrow you would do it the same way?

Ms SANDERCOCK — Yes.

Ms SMITH — There are outlines on page 18 as well.

Mr NOONAN — I have read the report. I suppose I was interested in your response to the department's response. I suppose they are suddenly questioning the methodology and the small sample size in order to, probably, cast a light across the entire education system.

Ms PENNICUIK — I was interested, Mr Pearson, in your comment that you had constraints in terms of what you could say but the departments do not have such constraints. I wonder whether you could elaborate a little bit on that.

Mr PEARSON — It is really an extension of what Mr Greaves was saying. Basically the auditing profession has a range of standards to provide parameters of practice and to provide a framework within which people can take reasonable assurance. To underscore the resources we put at it, we are never going to provide absolute assurance; an audit conclusion is not an absolute guarantee. The term is ‘reasonable assurance’, but in all reasonable contexts you can rely on that conclusion where we are giving a high level of assurance, as we are with an audit. In other engagements such as the estimated financial statements that will be included in the forthcoming budget, we are required under legislation to do a review of that. That is a lower level of assurance we provide, because it is dealing with forecasts and the evidence is nowhere near as reliable. There we give a review report on it. But at the end of the day the standards are set up for, I suppose, the fair and reasonable context. We observe those for our own credibility, and we are required to do that. I suppose to a degree it is a personal frustration that justifiably the extent of the conclusions I can reach are constrained by those. But in terms of agency responses, and we have just dealt with one, in a sense agencies are able to cast aspersions or put an alternate view but they are not required to meet the same evidentiary standards. In that case the education response is quite reasonable, but it might be coming from a statistician’s perspective whereas the team use it as an information gathering tool and a means of identifying areas to focus on and then to apply our audit techniques. We are leveraging that methodology; we are not relying on it totally.

Ms PENNICUIK — Does that mean the responses from the agencies do not go quite to the question you asking?

Mr PEARSON — In a word, yes.

Ms PENNICUIK — Following on from that, is there anything we can do in terms of having them focus more on that?

Mr PEARSON — This inquiry is the core area and an opportunity to hold agencies to account. In the extreme cases where in my view agencies have gone beyond the pale we have taken the step of adding additional audit comment to provide that added warning. But certainly so far as this committee is concerned I have no real reservations in drawing attention to the fact that those agency responses are just outright assertions that they are legitimately entitled to make, but the reader needs to be aware of that.

The CHAIR — We are just trying to get everyone to cooperate.

Ms HUPPERT — I have a question on the *Improving Our Schools* report. I draw your attention to the conclusion you reached on page 53 regarding the measures for assessing school performance having been improved. I wonder if you could expand on that conclusion.

Ms SANDERCOCK — For the schools we were looking at in 1998 there was a very narrow set of data that was available to them, and that was good because that was the start of a continuous data set that we were able to follow through over the next 10 years. It was limited to student learning outcomes in the particular streams of learning that are done, and the range of assessments that are used to gather that data. But over time one of the improvements we noted is that the department recognised that student learning outcomes is only one area of outcomes that it is important for kids to be getting when they go to school. The other two areas are student engagement and wellbeing, which was recognised in the blueprint, and the transitions and pathways between schools, and then once they get out of school.

As part of that process they then developed measures for assessing how well things were going for students at school in their engagement and wellbeing, and that was done primarily through student surveys, teacher surveys and parent opinion surveys, and then also gathering information on transitions and pathways by trying to track students through long-term tracking as they moved between schools and as they left schools. They have gone from a very narrow dataset that told you about the academic performance of a student at school but not how they were travelling as rounded individuals, and what was happening to them when they left. We saw that as an improvement over time.

Mr WELLS — Just for a change I have a two-part question. It is in regard to the wording of a report. We had this situation last time when Mr Frost was heading it up in regard to whether the wording was soft or appropriate. I refer you to pages 11 and 12 of the executive summary, and I will start with page 12.

Mr PEARSON — Sorry, which report is it?

Mr WELLS — This is the report about freeways. Page 12 of the report on freeways includes recommendation 3.4 of the executive summary. There has been discussion this morning about the issue of conflict of interest from the probity adviser and the probity auditor. The report states:

The Victorian Government Purchasing Board should consider revising and amending its probity advice to:

ensure that a probity auditor's role is not confused with the role of a probity adviser in order to maintain clarity of the two distinct roles and strengthen accountabilities of the separate functions

Why then does your recommendation say 'should consider' and not 'must consider'. We have spoken about it and you have raised concerns. That is my first point.

The second point is in regard to recommendation 3.2 on page 11 of the executive summary. It states:

VicRoads should continue to ensure independent validation to confirm the reasonableness of the assumptions and inputs underlying cost and benefit estimates

I would have thought that for something as serious as that the wording should be 'must' and not 'should'. There is a big difference.

Mr PEARSON — Can I answer that in two parts as well? In relation to recommendation 3.4, maybe I am just a bit slow, but in our style manual and editorial approach within the office that is something I have already identified and we have firmed up on that. It seems to me that if it is a recommendation you should do it. With hindsight I agree 'should consider' is on the soft side. I hope in current reports you will not find us saying 'should consider' or 'should continue' because 'continue' is not a recommendation. I take your point on that.

On your other point in relation to the word 'must', perhaps it is where I was educated or my life experience. It will be an exception for you to find in our recommendations the words 'ensure' and 'must'. I have a reservation on a couple of counts and obviously a lot of it is personal experience, but it also relates back to the audit. We have no executive authority so we are not in a position to direct or whatever, and to me the word 'must' is a directive. I am a staunch supporter of the word 'should', which means you absolutely should unless there is a real reason that you should not. There are some times when you might say 'must', but I can see there could be a reason where it would be appropriate not to do it because of a particular circumstance.

Similarly 'ensure' to me is too absolute. I am shifting the focus of our report to focus on what is the actual outcome, because to me 'ensure' is a word that I find overused. On the one hand it is physically and humanly impossible to acquit; on the other hand it is overused everywhere and it is depreciating the value or the thrust of the term. We are turning those around. I am not good at editing on the spot, but I would be turning that into more of an action recommendation than our current approach — replace 'ensure' with 'achieve', or something like that, the appropriate outcome.

Mr WELLS — It is like the government when it responds and says that it will accept it 'in principle'. You know it is never going to happen.

Ms MUNT — That does not necessarily follow.

The CHAIR — It is probably not an appropriate comment on this one. If you have a follow-up clarification question to ask.

Mr WELLS — No, I am happy. Thanks for that.

Mr SCOTT — My question is about *Improving Our Schools — Monitoring and Support*, and I note that our friends opposite have not taken an interest in education so far in these hearings. I draw attention to page 21 where there is a discussion about socioeconomic factors in the background of students, people moving schools and displaying somewhat contrary behaviour. What consideration is given in examining the government's

response or the education department's response for improving our schools in relation to what appeared to be the causal relationship you have alerted to on this page of the report between low socioeconomic status and poor performance in schools?

Ms SMITH — I think the relationship has been acknowledged. If you go back through a lot of the policy documentation, they tend to break it up into three parts — one for each. I think 40 per cent of student's ability to achieve is allocated to their socioeconomic status. It is done, it is recognised and there are a number of programs that are put in place by the department and through the regions to address some of those factors. Having a look at some of the characteristics, non-English speaking background is an indicator of performance. It will actually be picked up — things like school attendance, people coming from areas of high unemployment. It is about emphasis on that, so it is encouraging people to go to school, making sure they are engaged. It is looking at those factors. They tend to break them down. Socioeconomic status is one thing, but then they break them down and they have particular programs in place. They have welfare officers specifically targeting some of the initiatives.

Ms SANDERCOCK — One of the ways that the department has acknowledged that and put it in a change is through the student resourcing package to schools. Among the changes they brought in I think subsequent to the 2003 blueprint was to increase the component of what they call 'equity funding' in it and to re-target that on fewer schools so that more money was going to fewer schools. It is my understanding that has been a continuous improvement journey they are on. It is a hard thing to tackle, and trying to get the funding right and to the right schools was something they were working on at the time of the audit.

The CHAIR — Did you do an audit of the Middleborough Road project?

Mr WELLS — Which page are we on?

Mr O'CONNOR — I know about it.

The CHAIR — The only reason I ask is because of the alliance arrangements. That was an alliance arrangement there.

Mr WELLS — Which page is that?

The CHAIR — I am talking about alliances. There is a whole chapter on alliance projects; there are two chapters, actually. I am just interested in the lessons learnt. I know that recommendation 3.9, for example, on page 80 shows the benefits and the outcomes from these things. What sort of preferred methodology do you have in suggesting evaluation of projects?

Mr O'CONNOR — I guess that is a very broad question. To give you once again a non-specific, very general answer, of course we have not audited the Middleborough Road project, but I am happy to provide some comments to you, Chair. The interesting thing about the Middleborough Road project is that once again it is a virtual alliance. My understanding is there was no actual alliance contract signed. The three core parties to that project were Connex, VicRoads and the constructor. Because it is a very complex interface — live rail operating environment plus a major road — you have got lots of overlays of interactive risks. Probably in that case an alliance, and once again this is not an audit opinion or an observation by any means —

The CHAIR — No, but I am interested also in learning lessons from the alliance projects that have gone.

Mr O'CONNOR — Based on the risk profile of that project, the complexity around safety, live rail environments, high traffic and also the very extreme window that was there in terms of the shutdown period, which was only six weeks, quite a massive amount of preplanning was done on that project so that they could get in there and actually rip the rails up and lower the track there. In that case an alliance procurement option for that particular project, if you look at the DTF guidance, would be a candidate for that approach.

The CHAIR — So what have we learnt from these alliance projects?

Mr O'CONNOR — I think the continuous learning that is occurring in agencies is that not one size fits all. PPPs are probably appropriate for certain types of investments, D and C is probably appropriate for certain types of investments and likewise are alliances or any other hybrid form of relationship contracting. The only view we would have as an audit office is that agencies need to do a proper analysis of all these options, which is

exactly what we have said in this report. You do not pick your option first. You do not pick your procurement vehicle first and then make the business case fit that. You actually go through an iterative, logical comparative analysis of all the procurement options and you match it to the risk profile of the project. This is all normative model stuff.

The CHAIR — We have got three alliance contracts in this one here. You have got one for the Calder one and you have got two for the M1. Is there anything to learn from the difference between those alliances?

Mr O'CONNOR — They are all sort of vanilla. I mean really a contract is a contract. The contract really binds the parties to behave in an alliance way; it does not actually define the total cost or the actual detailed project planning. That is done in that virtual organisation known as the alliance. The contract does not actually specify any of that stuff. That is what I think is interesting about an alliance. It is a virtual organisation that is formed, as I said, as a crystallisation of an expression of goodwill of all parties to the actual procurement.

Mr RICH-PHILLIPS — Mr Pearson, back on the freeway report, the back of page 41 has the section on the assessment of risks of holding the concession notes for the concession period. There is a reference to VicRoads engaging an accounting firm to look at wanting to take a review of Transurban's compliance with the ring fencing provisions. Firstly, can you tell the Committee who that accounting firm was that did that work for VicRoads? Secondly, the finding is that there was no evidence of significant non-compliance. Can you tell the Committee if there are were any non-compliance and what that constituted?

Mr PEARSON — Can I just make a comment before I ask Ms Parrett to answer that? A conscious decision I have taken in reports is not to name the private sector providers, because my audit is of public sector officials and holding them to account. So to me the report is focused on the accountable officer; they can delegate responsibility but not accountability. With that reservation I do not see a problem in naming the firm, but I would just — —

Mr RICH-PHILLIPS — Obviously from this committee's point of view it helps to know if the same firm is used for various assessments or different firms. Hence my earlier question about who did the other assessments.

Mr PEARSON — I am happy to provide it, but I would like to say my preference is that I would prefer the Committee to pursue the agency for those sorts of details.

The CHAIR — We can do that later on today.

Mr PEARSON — But to expedite, I am happy to mention it. It is in accountability's interest to reinforce that the agency or accountable officer is accountable. Mashelle, are we in a position to name?

Ms PARRETT — Yes. I believe the firm was Deloitte. I would like to take the other question on notice. I would have to go back to the working papers and look to see if there was any non-compliance there.

Mr RICH-PHILLIPS — I assume from the comment there would have been some non-compliance?

Ms PARRETT — Some minor non-compliance.

Mr RICH-PHILLIPS — If we could get a handle as to what that was, that would be helpful.

Mr O'CONNOR — I mean I worked with Mashelle side by side on this, and if I remember back, that document is held by DTF. So you should request that from DTF.

The CHAIR — That is appropriate. We will do that.

Mr RICH-PHILLIPS — Would you still hold it?

Mr O'CONNOR — Even if we did, we would not be able to release it to you unless Des agreed to it.

Mr PEARSON — Well, we should not.

The CHAIR — We have been through this before.

Mr RICH-PHILLIPS — I will just clarify: Ms Parrett said she would take on notice. Are you saying you cannot take on notice?

Mr PEARSON — What I would see as taking on notice is that we will look at the work papers and give you a debrief on the description of any non-compliance or the basis for saying there is no evidence of significant non-compliance.

The CHAIR — So it is not appropriate for us to ask them to re-audit it? We can ask DTF for that and any questions.

Mr RICH-PHILLIPS — I did not ask for anything to be re-audited but — —

The CHAIR — It is a question, though, of them having access to papers and then going back and asking the department for access.

Mr RICH-PHILLIPS — It is my understanding was that the auditor's office is still holding — —

The CHAIR — They have got their notes. That is fine.

Mr PEARSON — We will have notes in our methodology references, and we will elaborate on evidence of significant non-compliance.

Ms MUNT — I would like to go back to *Improving Our Schools — Monitoring and Support*. I refer to page 12:

2.3.2 System-wide performance of government schools, 1998-2005 —

which analyses subsets of performance measures. It shows learning outcomes for primary school students. It says:

As figure 2B shows, the median result across all schools increased for each of the measures over this period, and the gap between the lowest outcomes and the highest outcomes narrowed.

I note particularly the assessment of reading in year 2 that between 1998–2005, the median increase was just over the 80th percentile to just over the 90th percentile, which are very high outcomes. There are similar improvements for all of the other measures. What measures did you look at when coming to those figures? Did you come to any particular conclusion on why those performance measures increased really quite markedly between 1998–2005?

Ms SANDERCOCK — The measures that we used are listed down the bottom of the chart in terms of the assessments that we used to gather the information. What that chart does do, though, is summarise the results across the different areas of learning, so it is a culmination of results in literacy, numeracy, science and the other subjects.

Ms MUNT — So where it says, 'teacher assessments of progress', what sorts of assessments would the teachers actually do? Is that year 3 and year 5 testing? Is it in-house assessments or other measures used Victoria wide? What are those measures?

Ms SANDERCOCK — The reason they have got the range of measures is that usually they are aimed at achieving different things.

Ms MUNT — Yes.

Ms SANDERCOCK — So there is the statewide testing, and that is represented there for year 3 and year 5. But they also have what are called the teacher assessments of progress or teacher judgements, which are the more subjective judgements of the teacher about how that child has progressed in all areas across a whole year, whereas the statewide testing, of course, is just point-in-time testing. You can only include a narrow selection of the curriculum in any test because of time constraints, so what the teacher assessment of progress attempts to do is to look more holistically across the progress that students make.

Ms MUNT — Based on Victorian essential learning standards (VELS) or whatever?

Ms SANDERCOCK — Yes.

Ms MUNT — Okay, and did you come to any conclusion on why those outcomes have improved over those seven years and what factors influenced that improvement?

Ms SANDERCOCK — Really the purpose of the audit was to look at our subset of schools out of that, so we were looking at the data for those schools over time and seeing what had happened for those. We have the comment that I think it was 75 per cent of the schools of that original 128 had improved their results, not necessarily to the same extent as seen here. Some of them might have been more, but 25 per cent of the schools, based on those narrow academic results, had not improved. That was really the focus of our audit. We were not looking at the government school system results for this.

Ms MUNT — It was really a statistical measure of the actual outcomes, rather than what might have produced or been factored in to those outcomes.

Ms SANDERCOCK — Yes.

Ms MUNT — Just for instance, I was a school council president for a while and we found that the literacy programs in prep to 2 had an effect in prep to 2, but had a much greater effect when you tracked those children through to, for instance, grades 5 and 6 to the same cohort at the same time who had not had the benefit of the prep to 2. That sort of information has not really been included in this particular analysis?

Ms SANDERCOCK — No. We were just looking at a snapshot of what was happening in the system as a context for then the specific examination we have done in our 128 schools.

Ms MUNT — So given this data we have to go back, then, and work out what contributed to those outcomes during those years, because whatever it was, it was positive.

Ms SMITH — We looked at the process of implementation, rather than the specifics of all those programs. So it is a bit of a higher level audit, if you like. To do what you are suggesting would be within each school within each region and there is a range of factors. It is a much more detailed audit.

Ms MUNT — Not necessarily. You can do comparisons between smaller class sizes and larger class sizes and extra resources in prep to 2 that are here but are not in other places.

Ms SANDERCOCK — That is a good question to be asking the department, the specific evaluations that would underlie their interpretation of that data.

Mr WELLS — I will bet they do not ask it.

Ms MUNT — Government investment, I believe, and an interest in education that has not been shown by the opposition, who still have not asked a question about it.

The CHAIR — We will get onto the next question.

Mr DALLA-RIVA — I refer to page 28 of the freeways upgrade projects report. Just as an aside, I note that on that page there is a footnote 4 where you have referenced a particular organisation as an adviser as part of the assessment. That is confusing, given the answer to a previous question by Mr Rich-Phillips, where you did not want to raise companies, but it is here. Maybe you might want to explain it. It is not the reason for the question; I just noticed it on that page. In 2.4.3, headed 'M1 upgrade project', you say:

The state (via DTF and VicRoads) identified and then considered a number of financing alternatives. Alternative 1, which was the alternative preferred by the state, is:

1. Encash all concession notes currently held by the state and all concession notes receivable in the future (except for additional concession fees) with Transurban —

et cetera. My question relates to what is enclosed in the brackets where it says, 'except for additional concession fees'. I ask: how are these additional concession fees then being protected into the future, value-wise, and can you give just a bit of an outline as to what was part of the process in your assessment of the alternatives that allowed for the exception of the additional concession fees?

Mr PEARSON — Just before I ask Ms Parrett to answer the specifics, the answer to the reference to the private provider is again part of our continuous improvement. We were not alert to it at that stage but something was subsequently triggered in my mind.

Mr DALLA-RIVA — I just picked it up, when you answered the question, but that is all right.

Mr PEARSON — I appreciate it.

Ms PARRETT — In response to the first part of your question — I might need to get some clarification about the second part of your question — the additional concession fee is due to uplift, so where the traffic volumes exceed what was currently expected. The measurement of those was quite difficult and was one of the risks identified in the report. DTF or the state have done nothing to change those circumstances in relation to that uplift, but going forward you will see in the deeds that they actually have changed the measurement of uplift revenue in both the M1 and TCI deeds, where they actually have an agreed basis on which to measure the traffic on each freeway.

The CHAIR — Any other comments?

Ms PARRETT — The second part of your question I did not quite catch.

The CHAIR — Just on that one, it also has followed on the narrow revenue-sharing arrangement, when it gets above that. The second part of the question?

Mr DALLA-RIVA — I think that was what I said.

Mr NOONAN — I am also on the schools report. I picked up that the last paragraph on page 32 sort of describes one of the mechanisms to target support in schools. In the case of 15 schools, it talks about an MOU being signed by regional office and the schools. Then it further indicates that the principals who responded to the questionnaire and the schools visited deemed it valuable. I just wonder whether through the process of the audit you were able to view a copy of the MOU or understand better the terms on which these MOUs were struck, and also, in looking at that component of the targeted support, whether there was any link with what I see on page 30, around the introduction of the student resource package, which is a formula based on family occupation. That goes to Mr Scott's question, which seemed to be targeted to a smaller number of schools, so whether there is any link between the MOUs being struck, the terms and whether there is any linkage to some of that funding to assist in those particular cases.

Ms SANDERCOCK — If I can answer the second part first, there would have been an overlap, because the same sort of process is being used by the central office, in targeting the equity funding through that student family occupation index of disadvantage. But then when the regional office is looking across all its schools and thinking, 'Who needs our help this year?', that is one of the factors that they are bearing in mind when they are doing it. So invariably some of the schools that they look at and target for support each year would be in that category for receiving the equity funding, although when they do their targeted work with schools over a year, they might also be picking schools that they feel are doing well but should actually be doing a lot better, given the intake of students that they have. So there is a bit of a mix in how they target that.

Mr NOONAN — And the MOU part of the question?

Ms SANDERCOCK — Yes. The MOU serves a purpose. The school does a strategic four-year plan. There is a review at the end of that four-year process. In between it does annual implementation plans. The region receives funding from different sources and schools can receive funding from different sources, so it is easy for a school to keep setting its direction according to what those different sources of funding are about. One of the aims of the MOU is to say, 'Really, school improvement is a unified purpose, so let us get a longer term agreement about where you are going with that and what you are going to deliver out of this funding'. It took it to a higher level, I suppose, than you would find in an annual implementation plan, but provided more detail than you would get in the school's strategic plan. But I suppose the process was important also because this was fairly new for schools and regions, and it was an opportunity to get them agreeing on what that improvement journey would look like and how they would know if they got there.

Mr NOONAN — Were you able to view a sample?

Ms SANDERCOCK — Yes, we saw examples of MOUs.

Mr NOONAN — Was it your view that they were helpful principles in terms of your assessment about them?

Ms SANDERCOCK — Yes. One of the points we make — I cannot remember which page it is on — is that when we went to schools they did not really have in their annual implementation plans a sense of what you might expect to see on the ground after a year. There were a lot of output types of measures — that is, saying, ‘We are going to do this’, but not really about how that was going to further them down their improvement process. ‘What the MOUs were doing that was not there before’ was a much better description of the sort of improvement you would expect out of the processes they were going through. I think the schools and the regions saw that as valuable. The next step then was to try to get that more strongly built into the strategic planning and annual planning.

The CHAIR — Moving to outcomes rather than outputs.

Ms PENNICUIK — In reading the audit responses to the department’s responses to the recommendations 4, 5 and 6, ‘the auditors’, your report says the department has either not indicated how it will achieve something, has not addressed a recommendation, or how it will address the recommendation is not clear. Those are the sorts of comments on pretty well all of those recommendations. Do you have any further comments to make about that?

Mr PEARSON — No, that is a different position we are in at this stage. We have done all our field work and produced the report, but have not had any subsequent work. I think that is an issue that I would encourage the Committee to pursue with the department. The order of hearing people might be something to consider for future hearings of the Committee, because from an audit perspective, by the time we have done our report, that is the sum total of our knowledge. There might be merit in reversing the order of examination, by examining the department first, and then us in light of that knowledge.

Ms PENNICUIK — Thank you.

The CHAIR — So the process normally is the audit. The second chapter of the audit normally includes the departmental responses. Then every year, normally in December, I think, the Minister for Finance provides a response for the audits in the previous 12 months, and then we follow them up in the best way we can in terms of questionnaires and some hearings — —

Mr PEARSON — Yes, in November–December.

Ms HUPPERT — I have a question on the *Improving Our Schools* report. Obviously you have looked at it specifically in three different regions. In the area of capacity building, at pages 33 and 34, you talk about the different approaches of the regional offices. Did you get a sense that the system looks at the regional offices as having a different characteristic and that that informs the decision-making process and the approaches taken by the different regions?

Ms SANDERCOCK — There certainly is that recognition there. However, I think one of our comments is that that was not consistently applied, if you like. There was a recognition that regions should have the flexibility to decide or to determine capacity of their schools as it suited them; and that, depending on the schools they had, the relationships they had with them and the problems they were facing, from a central office perspective they also recognised that with some of the funding streams some regions would need more than others. But when it came to things like recurrent funding, there was no recognition of the different needs of the regions to an extent that matched the differing needs we saw on the ground and the schools within those regions.

Mr RICH-PHILLIPS — I refer you to page 32, which is the VicRoads assessment of the assumptions in the model. Halfway down page 32 you say:

We reviewed the due diligence undertaken by VicRoads and consider that these procedures were reasonable.

In reviewing that due diligence, did you become aware of any instances where VicRoads had difficulty getting access to documents from Transurban or was denied access to documents from Transurban when putting that modelling together?

Ms PARRETT — There were no issues of that nature raised whilst undertaking the audit.

Mr RICH-PHILLIPS — Have you since become aware of any otherwise?

Ms PARRETT — We did not become aware of any issues of that nature.

Mr PEARSON — And our audit procedures would be alert. We do not just look at what is put in front of us. We exercise reasonable cautions as to whether we have access to everything that is available — obviously we cannot provide an absolute guarantee — that there are no obvious flaws or gaps in what we were shown. So we have to reach that conclusion, that we are reasonably satisfied — —

Mr RICH-PHILLIPS — That VicRoads saw everything it needed to see, and that Transurban did not put any impediments in the way?

Mr PEARSON — Yes.

Ms PARRETT — And you will note the cases where VicRoads did its own analysis, where it was provided information from Transurban.

The CHAIR — There is time to have a final question.

Mr SCOTT — Okay, a final question. I note again on page 21 of the schools audit that declining enrolments was a characteristic that was identified by schools responding to a questionnaire. In conducting the audit, what consideration was given to the need for different responses to schools of a different size? Was any consideration given to that, in terms of evaluating the department's responses to school performance?

Ms SANDERCOCK — Sorry, do you mean by — —

Mr SCOTT — It was identified that a number of schools were of a very small size, or there were declining enrolments. In the audit process was consideration given to the department having different responses to the problems within schools dependent on their size?

Ms SMITH — Whether we did it or whether the department did it?

Mr SCOTT — Whether you did it — —

The CHAIR — No, in conducting your audit.

Mr SCOTT — In conducting your audit. That is a question I am not asking the department.

Ms SANDERCOCK — If I understand rightly, when we — —

Mr SCOTT — Was it a factor in your consideration of how well the department was performing, insofar as there was a different response to schools of different sizes?

Mr PEARSON — We did not delineate on a size basis.

Ms SMITH — No. I think it was more around need — how was need identified by the regional office and the central office and what characteristics were actually taken into account. We were looking at what they did and how they did it.

Mr SCOTT — Now I understand.

Ms SANDERCOCK — I think what we do point out, though, in our sub-sample of schools that we went out to visit, we did visit three in particular that I can think of that had quite small numbers now compared to what they had and were facing prospects of no new enrolments, versus others where the enrolments were tracking upwards and things were a lot more positive. Again, I cannot quite remember what page it is on, but we do talk

about how for those schools in particular there are reputation issues around that declining enrolment, and then no-one wants to go there and it is a sort of self-fulfilling prophecy in the end. We did have a discussion on what the department was doing to address that.

Mr SCOTT — That is fine.

Ms SANDERCOCK — Part of that has been through their consideration of what they call a regeneration or reorganisation options.

The CHAIR — Yes, like in Broadmeadows, for example.

Ms SANDERCOCK — When you look at the boarder catchment area and say, ‘What is viable within this catchment?’. So they were doing work around that.

The CHAIR — That concludes the consideration this morning of *Funding and Delivery of Two Freeway Upgrade Projects* and *Improving our Schools — Monitoring and Support*. I thank Mr Pearson, Mr Greaves, Mr O’Connor, Ms Parrett, Ms Smith and Ms Sandercock for their attendance today. It has been a useful session. I note the quote from the Auditor-General that responsibility can be delegated but not accountability. Where questions were taken on notice, the Committee will follow up with you in writing at a later date. The Committee requests that written responses to these matters be provided within 30 days.

Witnesses withdrew.