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Victorian Auditor-General's Office



Compliance with the Asset Management Accountability Framework

May 2019

Independent assurance report to Parliament
2018–19: 20



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Victorian Auditor-General's Office

The Hon Shaun Leane MLC
President
Legislative Council
Parliament House
Melbourne

The Hon Colin Brooks MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report
Compliance with the Asset Management Accountability Framework.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Andrew Greaves', is written over a faint, light blue circular watermark or seal.

Andrew Greaves
Auditor-General

23 May 2019

Contents

Audit overview.....	7
Conclusion	9
Findings	10
Recommendations	14
Responses to recommendations	16
1 Audit context	17
1.1 Background.....	17
1.2 The <i>Asset Management Accountability Framework</i>	18
1.3 Enforcing the AMAF	21
1.4 DTF's responsibilities under the AMAF and the standing directions	24
1.5 Departmental responsibilities for applying the AMAF	25
1.6 Departmental asset responsibilities	26
1.7 Previous audits	28
1.8 Why this audit is important.....	28
1.9 What this audit examined and how	29
1.10 Report structure	29
2 Applying the AMAF	31
2.1 Conclusion	31
2.2 AMAF implementation approaches	32
2.3 Whole-of-department asset management plans	37
2.4 Leadership	42
3 Checking compliance	45
3.1 Conclusion	46
3.2 Departments' 2018 attestation results	47
3.3 Departments' checks on compliance	49
3.4 Audit committees' checks on compliance	56
4 Supporting implementation and compliance.....	63
4.1 Conclusion	63
4.2 DTF's support for the AMAF	63
4.3 DTF's support for the standing directions	65
Appendix A. <i>Audit Act 1994</i> section 16—submissions and comments.....	69
Appendix B. The <i>Asset Management Accountability Framework's</i> mandatory requirements	93
Appendix C. Good practices in whole-of-department asset management plans	101
Appendix D. Audit committee responsibilities for reviewing compliance and the attestation	107

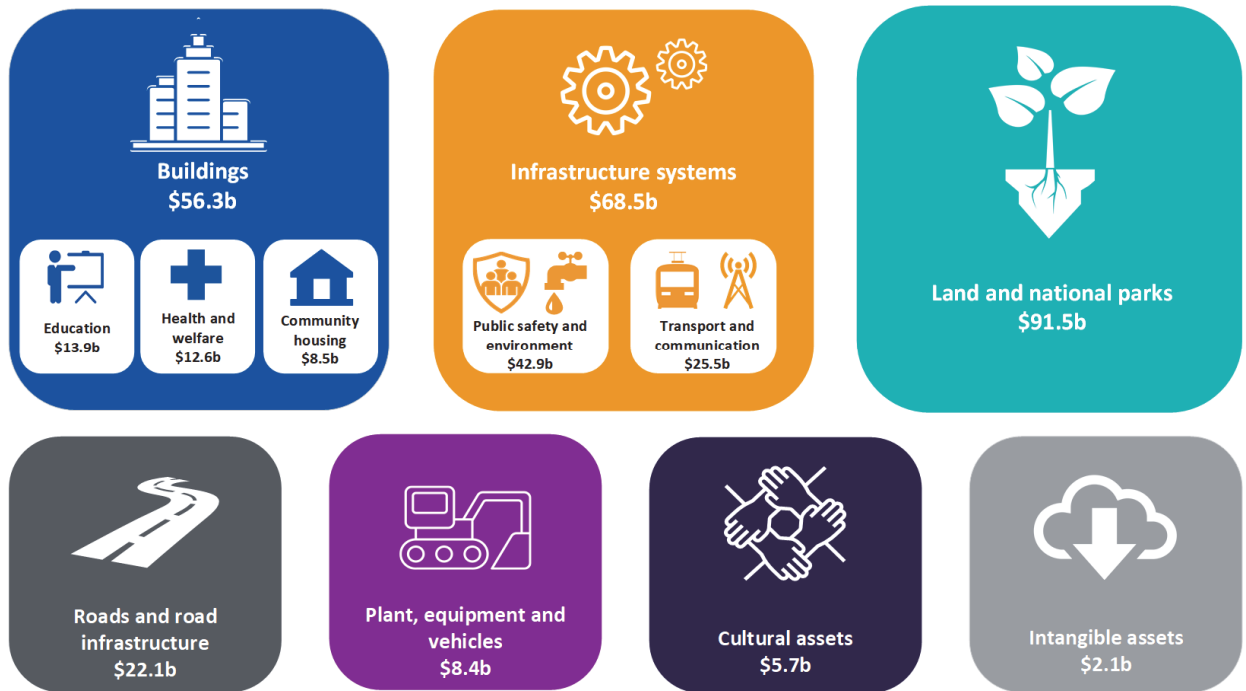
Acronyms

AIMS	Asset Information Management System
AMAF	<i>Asset Management Accountability Framework</i>
DEDJTR	Department of Economic Development, Jobs, Transport and Resources
DELWP	Department of Environment, Land, Water and Planning
DET	Department of Education and Training
DHHS	Department of Health and Human Services
DJCS	Department of Justice and Community Safety
DJPR	Department of Jobs, Precincts and Regions
DJR	Department of Justice and Regulation
DoT	Department of Transport
DPC	Department of Premier and Cabinet
DTF	Department of Treasury and Finance
VAGO	Victorian Auditor-General's Office

Audit overview

Victoria's roads, railways, schools and hospitals form part of \$265 billion of non-financial assets that government departments and agencies manage. These assets support the delivery of services that affect all Victorians, so it is important to manage them well. Having up-to-date knowledge of assets and their condition helps government agencies get the best value from their asset-related investments, make good decisions about when to acquire, renew or divest assets, be responsive to changes in demand or use, and provide better services.

Figure A
Examples of the types and value of Victoria's public assets (\$ billion)



Source: VAGO, based on the Treasurer of Victoria's 2017–18 Financial Report.

The Department of Treasury and Finance (DTF) released the *Asset Management Accountability Framework* (AMAF) in 2016 to replace *Sustaining Our Assets*, introduced in 2000. The AMAF aims to ensure that Victorian public sector agencies manage their assets efficiently and effectively.

DTF determined that to improve asset management, agencies need to be more accountable, and made this the core focus of the AMAF. The AMAF makes agency heads—such as government department secretaries—or governing boards accountable for applying the framework and its principles, and for complying with its mandatory requirements.

Attestation—a signed statement in an agency’s annual report from the head of the organisation to attest to compliance with the requirements of the standing directions under the *Financial Management Act 1994*.

An asset’s **criticality** refers to its importance to delivering services, measured by the consequences if the asset fails or is otherwise incapable of providing the service.

A **material compliance deficiency** is a compliance deficiency that a reasonable person would consider has a material impact on the agency or the state’s reputation, financial position or service delivery.

Secretaries must attest to compliance with the AMAF in their annual reports. The departments’ audit committees also have important responsibilities to review departmental compliance assessments and attestations. DTF is the policy owner and is responsible for supporting the AMAF and advising government on compliance across the public sector.

The AMAF sets 41 mandatory requirements that agencies must comply with, but allows flexibility in how they do this based on their operating environment and the criticality and complexity of their assets. The requirements span a range of activities including resourcing, governance, risk management, performance monitoring and information management.

The requirement to apply the AMAF is one of the standing directions made under the *Financial Management Act 1994*. The *Standing Directions of the Minister for Finance 2016* (the standing directions) was the version in place at the time of the 2018 attestation. Agencies must attest to compliance with all standing directions and related instructions in their annual report and disclose any significant issues (material compliance deficiencies) that are likely to impact the agency’s or the state’s reputation, financial position or financial management. An agency only attests publicly whether it has any significant or material deficiencies—it does not need to attest to non-material deficiencies. If an agency has nothing material to disclose, it must attest that it complies with the standing directions.

Departments made their first public attestation of compliance with the AMAF at 30 June 2018, in their 2017–18 annual reports. This first audit of compliance with the AMAF focused on how the government departments applied and assured compliance with the framework. As leaders among government agencies, we expect departments to be exemplars in applying government policies.

As the AMAF is new, DTF did not expect departments to fully comply with all 41 mandatory requirements by the time of the 2018 attestation. Our discussions with departments at that time identified that they were still implementing the AMAF. Recognising this, we did not audit compliance with each mandatory requirement. Instead, we audited the approaches departments took to apply the AMAF and provide assurance about the levels of compliance they achieved.

This audit's objective was to determine the reliability of departments' attestations of compliance with the AMAF. The audit included all seven departments in place at the time of the attestation:

- Department of Economic Development, Jobs, Transport and Resources (DEDJTR), which split on 1 January 2019 into the Department of Jobs, Precincts and Regions (DJPR) and the Department of Transport (DoT)
- Department of Education and Training (DET)
- Department of Environment, Land, Water and Planning (DELWP)
- Department of Health and Human Services (DHHS)
- Department of Justice and Regulation (DJR), now renamed as the Department of Justice and Community Safety (DJCS)
- Department of Premier and Cabinet (DPC)
- Department of Treasury and Finance (DTF).

Conclusion

Five departments use reliable approaches to determine the extent to which they comply with the AMAF's mandatory requirements. For the other two departments, their approaches are not detailed enough for them to assess whether they comply given the criticality, complexity and risks of their assets.

DEDJTR and DET demonstrated better practice in how they planned to implement the AMAF and assure compliance. This stems from the active involvement of their senior leaders, who have considered the criticality, risk and complexity of their assets, overseen implementation across the whole of their departments and, most importantly, are motivated to improve asset management as they understand its value to the success of their service delivery.

The remaining departments limited their whole-of-department asset management efforts to addressing compliance gaps ahead of the 2018 attestation. Many find it challenging to understand how best to implement the AMAF and what the right approach looks like. The better practices of DEDJTR and DET provide a good opportunity for them to learn from their peers, and some are already planning further action.

The standing directions guidance allows agencies to focus their compliance efforts on areas they identify as being higher risk, to reduce any unnecessary compliance burden. However, departments and their audit committees cannot readily show how they apply risk-based approaches to their compliance-related activities.

The wording that DTF requires agencies to use in attesting to compliance with the standing directions means that departments' attestations do not accurately reveal how well they are complying with the AMAF. This is because departments must attest that they 'comply' with all aspects of the standing directions collectively, unless they are aware of a 'material deficiency'.

Although DTF has helped the departments to apply the AMAF, there are still inconsistencies in the way departments interpret the AMAF's requirements and their accountability and compliance responsibilities.

AMAF implementation is at an early stage and all departments need to sustain their initial focus and address their asset management improvement needs. This will help departments to make better investment decisions and get more from the assets they need to deliver services over the asset lifecycle.

Findings

Applying the AMAF

AMAF implementation approaches

The benefits of a whole-of-department approach to implementing the AMAF include building a consolidated picture of a department's asset management strengths and weaknesses, which helps prioritise and direct effort and monitor progress across the department.

In the lead up to the 2018 attestation, one department—DEDJTR—approached the AMAF as an opportunity to improve the way it managed its assets. DEDJTR planned holistically for what it needed to improve to meet the AMAF's aims and principles. It also assessed whether it had the asset management capability and culture needed to support improvement. DJPR and DoT each adopted this implementation approach when they formed.

DET already had a plan in place to improve its asset management that pre-dated the AMAF.

Of the remaining departments, DHHS did not have a whole-of-department approach to implementing the AMAF. The other departments' implementation approaches focused on filling key gaps in policies and procedures against the mandatory requirements, rather than planning what they needed to embed these policies and procedures as 'business as usual' asset management practices.

An **asset class** refers to a group of assets that have similar physical and service characteristics. For example, public housing and public prisons are asset classes.

Half of the AMAF's 41 mandatory requirements relate to leadership. We found that senior leaders—deputy secretaries—in three departments were actively involved in driving the AMAF implementation and in overseeing progress and compliance at a whole-of-department or significant asset class level. For example, they led departmental asset management steering committees or provided specific feedback on key asset management documents. These departments had better implementation and compliance assurance approaches than other departments.

All departments have increased focus on asset management because of the AMAF. Actions have included updating policies and procedures, conducting asset stocktakes, creating new asset management positions and improving asset management capability. Since the 2018 attestation, all but one of the departments with a whole-of-department approach to implementing the AMAF have improved their approaches, for example, by revising their implementation plans, governance arrangements or asset management plans.

A whole-of-department asset management plan describes the asset management policy and strategy and outlines the system of policies and procedures that guides asset management across the department.

The plan may comprise one document for departments with simple assets or several whole-of-department documents for those with more complex assets.

The AMAF describes an **asset management system** as a set of interrelated elements that establish an organisation's asset management policies, objectives, and processes to achieve those objectives.

Whole-of-department asset management plans

In the lead up to the 2018 attestation, five departments introduced a whole-of-department asset management plan. DET had one before the introduction of the AMAF.

DEDJTR developed its plan to a level that addressed the mandatory requirements relevant to a whole-of-department plan. It included enough information to guide consistent asset management across its asset classes, appropriate to the department's size and the complexity of its asset portfolio.

The strengths of DEDJTR's plan are that it:

- communicates and establishes a shared understanding about the purpose, direction and expectations for asset management across different asset classes
- drives the department to improve capability and change practices in response to identified needs
- highlights the roles of senior leaders in asset management.

DHHS did not have a whole-of-department plan, but developed individual plans for its significant asset classes. It has missed the opportunity to direct and coordinate asset management activities across its different asset classes to achieve its whole-of-department objectives.

We identified opportunities for the other departments to improve their plans. Common weaknesses include providing insufficient detail on asset-related risk management and the asset management strategy, or inadequate references to the key policies and procedures that comprise an asset management system.

Checking compliance

Departments' 2018 attestations

All departments attested to compliance with the AMAF in their 2017–18 annual reports as part of their attestation of financial management compliance. Two of the seven departments identified material compliance deficiencies related to the AMAF. Although these attestations alert Parliament and the community to the most significant or material compliance deficiencies, several issues reduce their value:

- The attestations do not give a true indication of the level of compliance with the AMAF, because the standing directions require agencies with no material deficiencies to describe themselves as 'compliant' even if they have non-material deficiencies, as all departments did.
- The standing directions require agencies to assess compliance with the AMAF's mandatory requirements, but do not require agencies to use the assessment to inform the attestation. This risks some agencies overlooking potential material deficiencies.

- Not all agencies that disclosed a material deficiency provided information on the asset class to which the deficiency related or why it was considered material.

Departments' checks on compliance

Departmental arrangements for overseeing compliance are sound, but can improve. Approaches commonly include establishing a steering committee or reference group to oversee the AMAF's implementation and using the corporate finance group to coordinate compliance assessment across a department. In departments with the most reliable assurance approaches, senior leaders are involved in the steering committee and in endorsing compliance assessments. Senior leaders have authority to drive reliable and accurate processes and are directly accountable for progress and outcomes.

The standing directions cover 50 financial management topics and include 458 financial management obligations, of which the AMAF is one. Not all obligations apply to every department. Most departments used their existing arrangements for other financial management requirements to assure compliance with the new AMAF requirements. Internal audits of these arrangements identify that they are sound, but we found room for departments to improve the way they apply their arrangements to assure compliance with the AMAF.

Departments should take a risk-based approach to assure compliance across asset classes and to guide the level of evidence needed to do this. They are not doing this or, if they are, they have not documented and communicated their approaches. Some departments considered risk in deciding whether to assess compliance at a whole-of-department level or individually for significant asset classes, but none transparently took a risk-based approach to determine the levels of evidence or frequency of compliance assessments needed across their asset classes.

Two other issues resulted in some departments overstating their levels of compliance:

- There was inadequate evidence or incorrect identification of whether a requirement does or does not apply. For example, most departments consider they comply with the AMAF's requirements where they have evidence that a necessary process exists, without having evidence of how they applied the process.
- There was insufficient verification—only two departments verified their compliance assessments, and both found inaccuracies.

Departments need to better support their staff to make accurate and consistent assessments—for example, through providing templates, guidance and training as needed.

Audit committees' checks on compliance

Each department's audit committee needs to satisfy itself with the veracity of the department's recommended attestation of compliance with the AMAF before the Secretary approves it for the annual report. The committee also needs to review the department's annual assessment of compliance, and review and monitor the department's actions to address any compliance deficiencies. The standing directions encourage committees to take a risk- and evidence-based approach to their review activities.

The seven audit committees all received reports on the AMAF prior to reviewing the 2018 attestations. Audit committees followed one of two different approaches to review the departmental compliance assessment and satisfy themselves about the attestation:

- three audit committees considered whether they needed to check evidence of compliance to do this—the two that decided they needed to, then did so
- the remaining audit committees relied on departmental advice about compliance, the fact that senior managers in the department had endorsed the attestation, and the positive results from internal audits of their financial management compliance processes.

While DEDJTR's audit committee had documented many elements of its approach, none of the audit committees clearly documented how their strategies for reviewing the AMAF compliance assessment and attestation aligned with their asset-related risks. The committees did not record what they reviewed to satisfy themselves about the level of compliance reached or the compliance attestation.

An audit committee's responsibilities span a broad range of departmental risk and financial management activities, including reviewing compliance with the standing directions. This gives committees every reason to take a risk-based approach, but they need to be transparent about the approach they take.

Four audit committees received no information prior to the attestation about the requirements that were rated 'compliant', such as the compliance rating against each mandatory requirement or a description of the evidence substantiating those rated 'compliant'. Instead, the focus of the information they received was on compliance deficiencies. Three committees did not receive a rationale for why the departments determined their deficiencies were not material.

Supporting implementation and compliance

DTF has fulfilled its responsibilities under the AMAF to support the AMAF's implementation. This includes running regular asset management working group meetings for department representatives and producing the *Asset Management Accountability Framework Implementation Guidance* (the AMAF implementation guidance) in March 2017. DTF has also provided further guidance on specific issues, such as applying the AMAF to intangible assets and determining the materiality of compliance deficiencies.

This audit and DTF's 2018 review of the AMAF's implementation progress found gaps and inconsistencies in how departments interpret and apply the AMAF requirements and the standing directions. While departments remain accountable for applying the AMAF, DTF can provide more support and clarity on these issues. This includes clarifying:

- the relative importance of improving asset management compared to complying with the mandatory requirements
- the need to assess compliance against all 41 mandatory requirements and whether or when agencies are expected to fully comply with the mandatory requirements
- how departments can apply risk-based approaches to assessing compliance with the AMAF
- how agencies should approach the 2020–21 maturity self-assessments
- how it defines the concepts of attestation, compliance, compliance deficiency and material deficiency in the AMAF and the standing directions
- that the attestation only identifies agencies with any material compliance deficiency and does not identify whether agencies are compliant.

Based on the results of this audit, we consider it would be beneficial for DTF to conduct an evidence-based evaluation of the effectiveness of the AMAF after a further period of implementation. An evaluation would determine whether the AMAF is driving stronger leadership and improved asset management, and whether it is achieving its intended outcomes.

DTF's guidance for the standing directions identifies that DTF will oversee the standing directions from 2016–17. DTF has some arrangements in place to do this. One arrangement involves requesting annual summaries from departments about financial management compliance in the department and its portfolio agencies. Inconsistencies in how departments report against these requests limit the value the summaries provide as an oversight mechanism.

Recommendations

We recommend that all departments:

1. assign responsibilities for applying the *Asset Management Accountability Framework*, improving asset management and assessing compliance to senior leaders in charge of assets (see Sections 2.4 and 3.3)
2. ensure that their *Asset Management Accountability Framework* implementation focuses on improving asset management practices in addition to delivering remedial actions and achieving compliance (see Section 2.2)
3. adopt and document a risk- and evidence-based approach to assuring compliance with the *Asset Management Accountability Framework* (see Section 3.3)

4. improve the accuracy of their compliance assessments by ensuring they have appropriate evidence to substantiate compliance and by documenting their rationale for whether or not material compliance deficiencies exist (see Section 3.3).

We recommend that the Department of Environment, Land, Water and Planning and the Department of Justice and Community Safety:

5. assess compliance with the *Asset Management Accountability Framework's* mandatory requirements separately for each asset class that they identify as having higher significance, criticality, risk or complexity (see Section 3.3).

We recommend that the audit committees of all departments:

6. demonstrate that they are fulfilling their independent review responsibilities under the standing directions by:
 - adopting and recording a risk- and evidence-based approach to their *Asset Management Accountability Framework* review and monitoring responsibilities
 - recording the information they rely on to review compliance and how they satisfy themselves with the departmental *Asset Management Accountability Framework* compliance attestations (see Section 3.4).

We recommend that the Department of Treasury and Finance:

7. review and communicate the purpose of the attestation and ensure any reference to compliance in the wording it requires agencies to use for their attestations aligns with the definition of compliance under the standing directions (see Sections 3.2 and 4.2)
8. support consistent interpretation of the *Asset Management Accountability Framework* and its requirements by:
 - revising the *Asset Management Accountability Framework* and its implementation guidance and the standing directions guidance to clarify interpretation issues, including those related to:
 - the purpose and value of the *Asset Management Accountability Framework* for improving asset management practices
 - the number of mandatory *Asset Management Accountability Framework* requirements that must be assessed for compliance
 - expectations about achieving full compliance with the *Asset Management Accountability Framework* and how compliance relates to asset management maturity
 - how agencies can apply a risk-based approach to their *Asset Management Accountability Framework* compliance assurance activities

- clarifying and reinforcing audit committees' responsibilities under the *Asset Management Accountability Framework* and the standing directions to review the annual compliance assessment, the materiality of any compliance deficiencies and the compliance attestation
 - providing additional guidance on the maturity assessment well ahead of the 2020–21 deadline, including an optional template for the assessment (see Sections 4.2 and 4.3)
9. work with senior leaders across public sector agencies to reinforce the intent, benefits and accountability requirements of the *Asset Management Accountability Framework* and target the sharing of good practices with individual agencies to build their understanding of ways to improve asset management and apply risk- and evidence-based approaches to fulfilling their responsibilities (see Sections 2.2, 2.4 and 3.3)
 10. identify measures of success for the *Asset Management Accountability Framework* and, after the 2020–21 attestation, using these to evaluate the framework's effectiveness across the public sector, including the use of compliance and maturity assessments (see Section 4.2)
 11. evaluate the effectiveness of the standing directions in improving financial management practices and compliance, and ensure the whole-of-government information it collates on compliance with the standing directions for reporting to the Assistant Treasurer on *Asset Management Accountability Framework* compliance risks and improvement needs is comparable across agencies and provides the value intended (see Section 4.3).

Responses to recommendations

We consulted with all departments and considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report to them and asked for their submissions or comments.

All departments have accepted the recommendations from this audit and have planned actions to address them. The full responses are included in Appendix A.

1

Audit context

1.1 Background

Many public services rely on public assets such as trains, roads and schools to support their delivery. The Treasurer's *2017–18 Financial Report* identifies that the State of Victoria controlled a total of \$265 billion of non-financial assets at 30 June 2018. Inadequate management of these assets can affect the services these assets provide or support, and, therefore, the quality of life for all Victorians.

Our *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2015–16* to Parliament noted that although the state is spending more on adding new assets than it is on replacing existing assets, this ratio is trending downward, and it is spending less than it has in the past. Our report emphasised that reliable asset knowledge is fundamental to making strategic decisions about infrastructure spending.

Asset management involves a range of related activities throughout the asset lifecycle from the initial assessment of investment proposals, ongoing maintenance and renewal through to asset replacement or disposal decisions.

Good asset management allows the government to keep track of the number, location, performance and condition of its assets and enables it to:

- get the best value from asset-related investments by directing available funding to identified needs and risks—risks include the potential for services to be disrupted
- bring whole of lifecycle considerations to asset investment, divestment and replacement decisions
- minimise the demand for new assets
- optimise the use and lifespan of existing assets
- allocate maintenance funds effectively
- respond promptly to foreseen and unforeseen changes in demand or use.

1.2 The Asset Management Accountability Framework

Asset management is about knowing the assets held and the purpose they serve, understanding the risks associated with them, having a long-term strategy to manage the assets and risks, and knowing how to deliver the strategy. It is a longstanding management discipline.

DTF released the Victorian Government's AMAF in February 2016. It replaced *Sustaining Our Assets*, Victoria's previous asset management policy and framework, released in 2000. Despite these asset management frameworks, our audits and other reviews have repeatedly found poor asset management practices in many agencies. When DTF reviewed the past framework's effectiveness in 2013, it determined that a reason for this lack of effectiveness was that agencies were not taking accountability for their performance in managing their assets.

The AMAF aims to address this by strengthening the focus on leadership and accountability for asset management. Its purpose is to help public sector agencies manage their assets efficiently and effectively, provide better services and link asset information to investment decisions.

The AMAF applies to all non-current assets (physical and intangible), excluding financial assets, that government departments, agencies, corporations, authorities and other public bodies control. The AMAF sets 41 mandatory requirements. DTF provides guidance to help agencies implement the framework.

The AMAF makes agency heads or governing boards accountable for applying the AMAF and improving asset management. They must also publicly attest to compliance with the standing directions in their annual reports.

Victoria is the only Australian jurisdiction that applies this combination of accountability, mandatory requirements and public attestation to asset management.

Important characteristics of the AMAF

The **accountable officer** is the agency head:

- the Secretary of a government department
- the chief executive officer of a public body.

The accountable officer is responsible for applying the AMAF.

The **responsible body** is:

- the Secretary of a government department
- the board of a public sector agency.

The responsible body attests to compliance with the AMAF.

In departments, the Secretary is the accountable officer and the responsible body and has overall responsibility for their agency's financial management, performance and sustainability.

The AMAF assigns accountability to three key roles in an agency:

- accountable officers—the agency head is responsible for applying the AMAF
- responsible bodies—the board or Secretary is responsible for publicly attesting to compliance with the AMAF
- audit committees—the audit committee is responsible for making sure it is satisfied with the veracity of the agency's compliance assessment and of its proposed attestation of compliance with the standing directions, before the responsible body signs it.

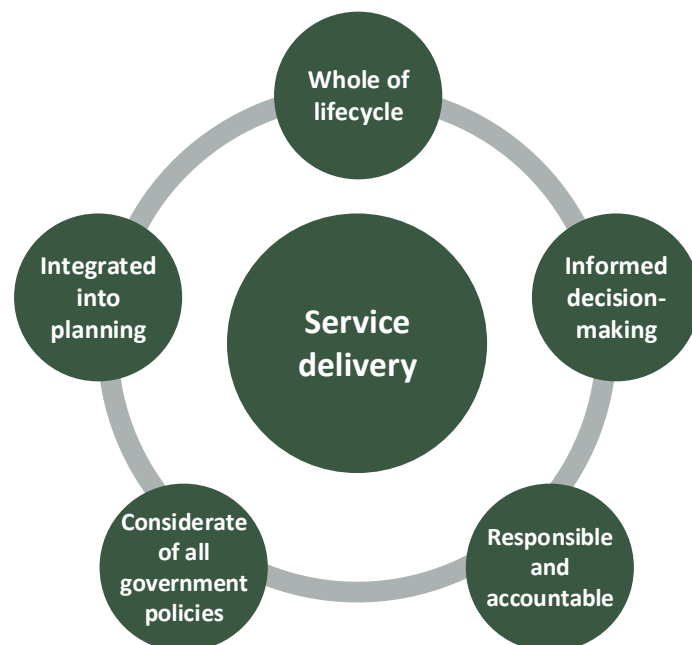
The AMAF aims to help public sector agencies manage their assets efficiently and effectively over the entire asset lifecycle and to:

- provide better and more efficient services
- optimise the longevity of assets
- maximise value for money
- minimise the demand for new assets
- use asset information to better inform investment decisions.

The AMAF identifies six principles to achieve these aims, as seen in Figure 1A.

Figure 1A

The AMAF's principles for asset management



Source: AMAF, DTF, 2016.

The AMAF uses the asset definitions under the Australian Accounting Standards and applies to all assets above the threshold value that each agency establishes. It closely aligns with the ISO 55000 series of asset management standards.

How the AMAF works

The AMAF and the standing directions require an agency head—the accountable officer—to ensure the agency applies the AMAF.

The AMAF is designed to allow agencies to apply the framework and meet the requirements in a way that is ‘fit for purpose’ to suit service delivery objectives and organisational characteristics, such as the agency’s size and the complexity of its assets.

DTF has provided guidance on implementation, materiality assessment and intangible assets to help agencies apply the AMAF.

To ensure agencies implement effective asset management systems that meet AMAF aims and principles for good asset management, the AMAF identifies:

- 41 mandatory requirements—what accountable officers **must** do
- 42 general guidance points—what accountable officers **should** do.

Appendix B shows the 41 mandatory requirements.

The requirements and guidance are grouped across five themes that span the asset lifecycle—leadership and accountability, planning, acquisition, operation and disposal—and relate to:

- resourcing and skills
- governance and allocating asset management responsibility
- asset management strategy
- risk management and contingency planning
- monitoring the performance of assets and the agency’s asset management system
- acquisition, maintenance and disposal
- information management and record-keeping.

The AMAF applies to asset management activities that the agency devolves or outsources, as well as those it manages in-house. It calls for agencies to do two things:

1. Manage their assets well and achieve better practice over time:

- The AMAF requires agencies to self-assess the maturity of their asset management systems and practices periodically from 2020–21.
- It expects that agencies’ asset management maturity will increase over time as they continue to apply the requirements and the general guidance.

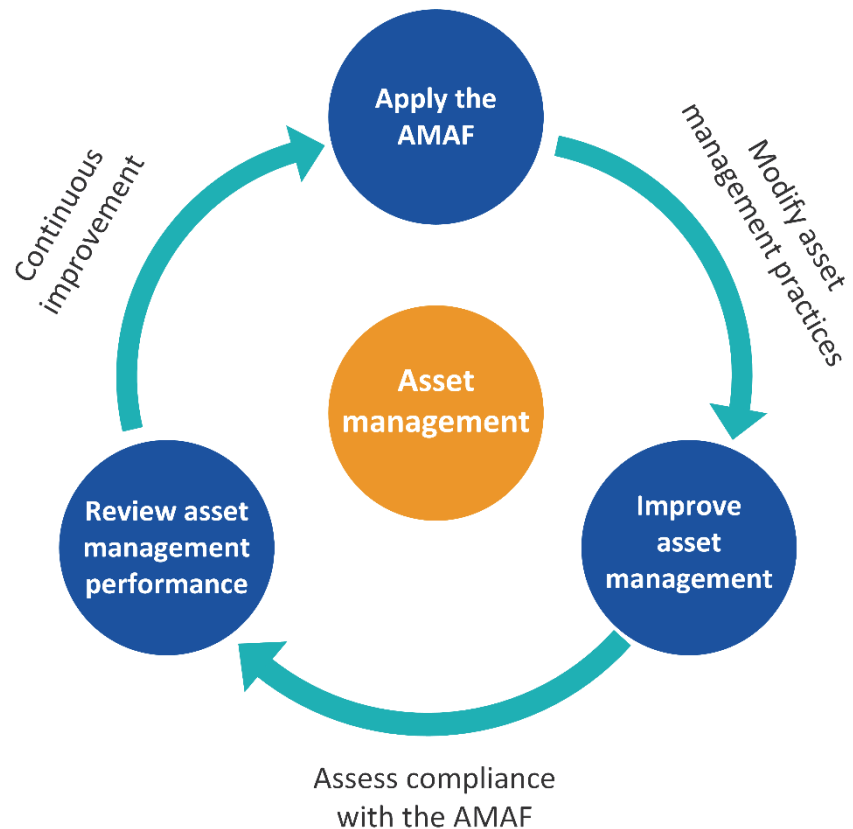
2. Comply with the 41 mandatory requirements:

- The AMAF requires agencies to attest to their compliance with the 41 mandatory requirements.
- Compliance is enforced through the standing directions.

Figure 1B illustrates the relationship between the improvement and compliance aspects.

Figure 1B

Relationship between the AMAF, improving asset management and compliance



Source: VAGO.

The AMAF does not set a time by which agencies need to achieve full compliance or an appropriate level of asset management maturity.

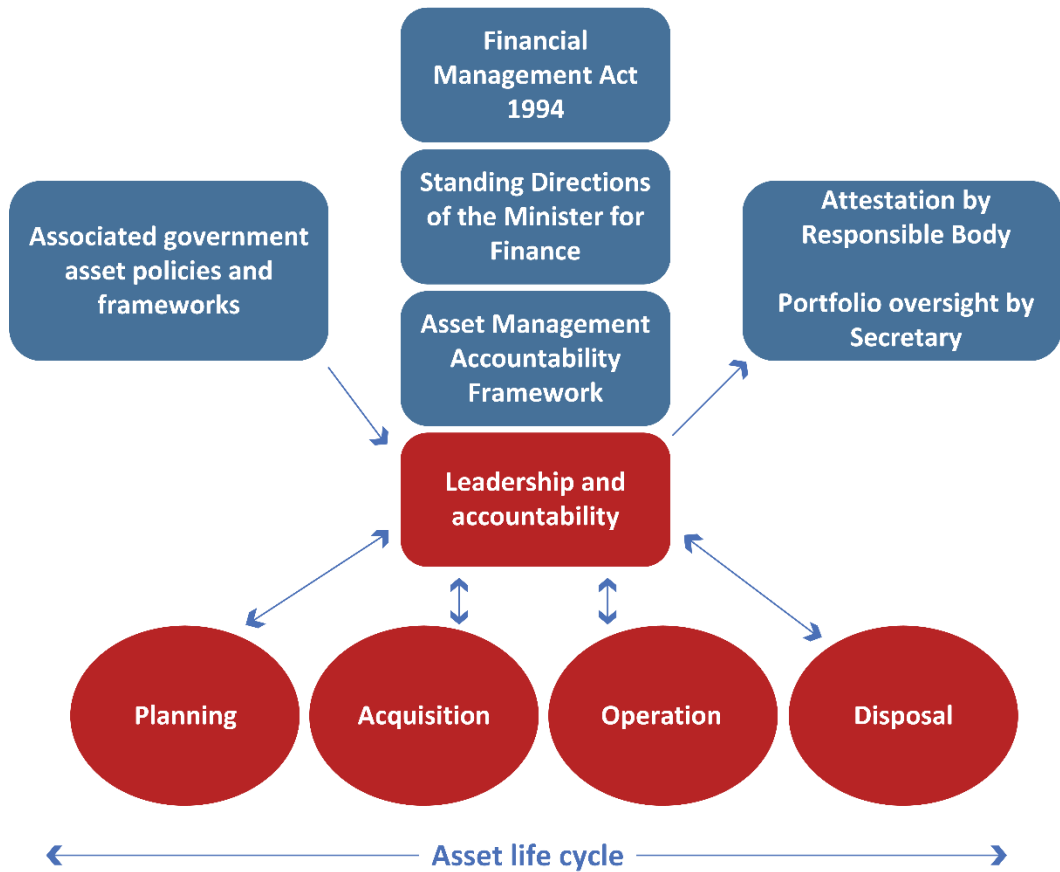
1.3 Enforcing the AMAF

To enforce accountability and compliance with the mandatory requirements, DTF made applying the AMAF one of the standing directions. This means that the accountable officer must assess compliance with the AMAF annually and publicly attest to compliance in their annual report.

Figure 1C shows how the AMAF relates to the *Financial Management Act 1994* and the standing directions and other government policies.

Figure 1C

The relationship between the AMAF and other government policies



Source: AMAF, DTF, 2016.

Standing Directions of the Minister for Finance 2016

The 2016 standing directions replaced the 2003 directions. The changes included the requirement for a public attestation of compliance with all standing directions, replacing the previous system of a public attestation for risk and insurance only and an internal attestation to DTF on the remaining requirements.

To accompany the standing directions, DTF published:

- *Instructions supporting the Standing Directions of the Minister for Finance 2016* (the standing directions instructions)—more detailed mandatory requirements related to specific directions
- *Guidance supporting the Standing Directions of the Minister for Finance 2016* (the standing directions guidance)—non-mandatory information to help agencies interpret and implement the directions and instructions.

From November 2018, the Assistant Treasurer became responsible for the standing directions. In December 2018, the Assistant Treasurer revised the standing directions to incorporate ministerial and machinery of government changes following the state election. DTF updated the standing directions instructions at this time. We conducted this audit against the 2016 standing directions and instructions because these applied at the time of the 2018 attestation.

The standing directions and instructions include 458 financial management obligations—not all are relevant to every agency—across 50 areas of financial management. The direction related to the AMAF is one of the 458 obligations.

Compliance requirements

The standing directions require agencies to assess and report compliance with all directions on financial management, including the AMAF. The standing directions require an agency to:

- assess compliance annually
- identify, respond to and report on material compliance deficiencies
- attest to compliance in its annual report
- use its internal audit function to review compliance with all requirements of the standing directions and instructions over the agency's three- or four-year internal audit planning cycle.

The standing directions also set responsibilities for the agency's audit committee, including reviewing the agency's annual compliance assessment and monitoring remedial actions to address all compliance deficiencies. The standing directions require departments to provide a compliance summary report to DTF.

Under the AMAF, agencies are accountable for compliance. The AMAF does not give DTF responsibility for checking or verifying agencies' compliance—this is up to accountable officers and audit committees. The compliance assessments and reporting rely on agency self-assessments.

Attestation requirements

Agencies' obligations to attest to compliance with the AMAF come from two sources—the standing directions and the AMAF.

Standing direction 5.1.4 requires:

- a department's Secretary to attest in the department's annual report to compliance with applicable requirements in the *Financial Management Act 1994*, the standing directions and instructions, and to disclose all material compliance deficiencies
- the department's audit committee to review the attestation.

The AMAF mandatory requirement 3.1.3 requires:

- a department's audit committee to be satisfied with the department's proposed attestation of compliance with the AMAF prior to finalising the attestation in the annual report—to be confident about its veracity
- agencies to follow other standing directions related to ensuring compliance and supporting the attestation.

The AMAF implementation guidance explains that the attestation's purpose is for accountable officers to demonstrate their oversight of asset management. When an attestation does not identify a material compliance deficiency, the agency is deemed 'compliant' with the AMAF and the standing directions.

Transition arrangements for attestation and maturity

The AMAF supported a two-year transition period leading up to formal attestation in agencies' 2017–18 annual reports to give agencies time to implement any new policies and systems. During this period, DTF expected agencies to implement the AMAF and conduct a trial attestation in 2016–17.

For the 2017–18 financial year, agencies were required to assess their compliance with the AMAF and, in their annual reports, attest to compliance on 30 June 2018 and disclose any material compliance deficiencies.

From the 2018–19 financial year, and on an ongoing basis, agencies' assessments and attestations will apply to a compliance assessment for the entire financial year.

From 2020–21, each agency must self-assess its level of asset management maturity at least every three years and state this in its annual reports. This requirement is designed for agencies to demonstrate progress towards better practice asset management.

1.4 DTF's responsibilities under the AMAF and the standing directions

Under the Victorian Government's devolved accountability model, responsible bodies must manage their assets in a manner that is consistent with their specific circumstances and the nature of their assets, and are accountable for their compliance. DTF has roles in supporting implementation of the AMAF and the standing directions. However, it does not have responsibility for checking or verifying agencies' compliance.

DTF's responsibilities for the AMAF

Under the AMAF, DTF is responsible for ensuring the framework remains up to date and consistent with legislation and other associated government asset policies and frameworks. DTF must also advise the government on whole-of-government asset management issues, which helps the government make decisions on asset planning, acquisition, and operational and disposal matters.

DTF's responsibilities for the standing directions

Under the standing directions, DTF may issue mandatory instructions that are linked to specific standing directions to provide more detail about the mandatory requirements. DTF may also issue non-mandatory guidance to provide supporting information in relation to the interpretation and implementation of the standing directions and instructions.

1.5 Departmental responsibilities for applying the AMAF

Government departments are one type of agency that the AMAF applies to. Each department is responsible for applying the AMAF to the assets it owns or has responsibility to manage, and for attesting to compliance with the AMAF for these assets.

Under the *Public Administration Act 2004*, each department also has oversight and support responsibilities for related public entities—portfolio agencies—that share the same minister(s) as the department. The standing directions require departments to oversee the financial management of their portfolio agencies, including their asset management.

Secretaries

Departmental secretaries are the accountable officers. They are responsible for applying the AMAF, meeting the requirements to manage assets under their control and attesting to all applicable standing directions.

Audit committees

Each department has an audit committee, which plays a key role in providing departmental management with independent and objective advice on matters including financial reporting, risk management, and internal and external audits.

The AMAF requires audit committees to satisfy themselves with the veracity of the department's recommended attestation of compliance with the AMAF and its disclosure of any material compliance deficiencies.

The standing directions and related instructions and guidance further require committees to:

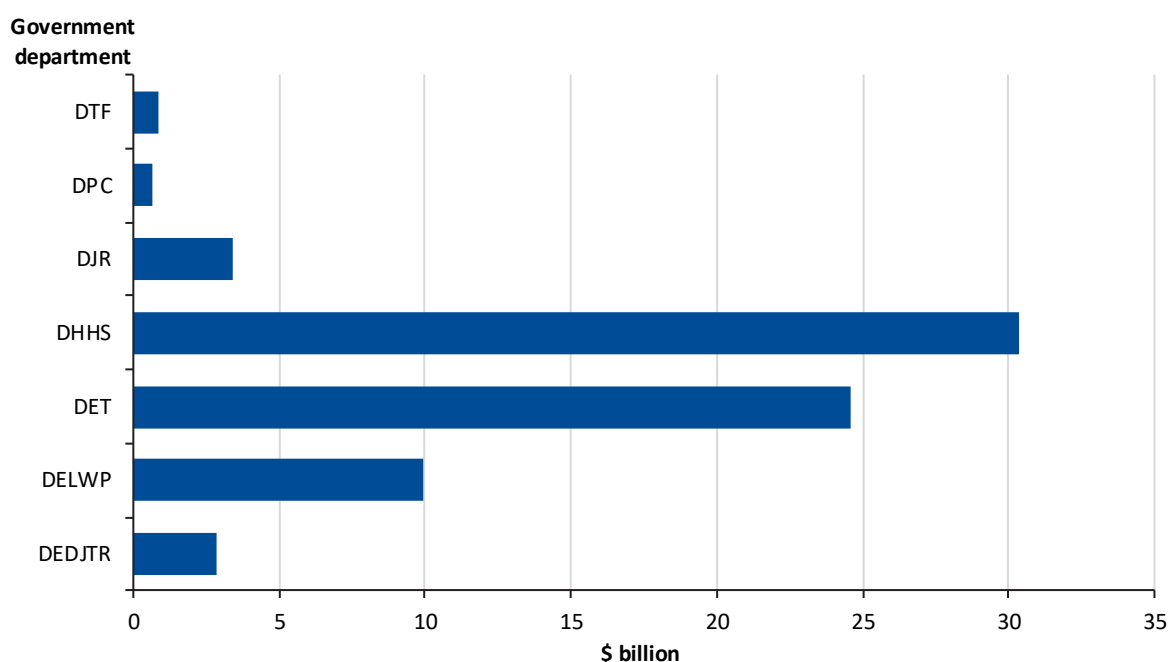
- review the department's annual assessment of compliance with the AMAF
- provide the Secretary with assurance, advice and recommendations on the level of compliance attained, issues to be resolved and proposed mitigation plans
- review and monitor the actions the department takes to remedy compliance deficiencies.

1.6 Departmental asset responsibilities

The departments are responsible for a significant proportion of the Victorian Government's assets. The value and types of assets vary significantly between departments, as highlighted in Figure 1D and the following sections.

Figure 1D

The value of non-financial assets controlled by government departments at 30 June 2018



Source: VAGO, based on departments' 2017–18 annual reports.

Machinery of government change

Machinery of government refers to the allocation of functions and responsibilities between departments and ministers. From 1 January 2019:

- DEDJTR separated into two new departments—DoT and DJPR
- DJR changed to DJCS.

DEDJTR and DJR were the departments in place at the time of the 2018 attestation, so they were the focus of our audit analysis and are the departments we mostly refer to in this report.

Department of Treasury and Finance

DTF held \$878 million of non-financial assets at 30 June 2018, with \$825 million of this in land and buildings. Some DTF portfolio agencies, including Cenitex and the Old Treasury Building Committee of Management, also manage assets.

Department of Economic Development, Jobs, Transport and Resources

DEDJTR was responsible for driving Victoria's economic development and job creation. Its major portfolio agencies included Public Transport Victoria, V/Line, VicRoads and VicTrack.

At 30 June 2018, DEDJTR directly managed \$2.8 billion of non-financial assets, including \$708 million related to agriculture, \$430 million related to creative industries, \$232 million related to tourism, major events and international education, and \$172 million related to major projects. More than \$92 billion of transport assets sit with two portfolio agencies, VicTrack and VicRoads.

Department of Education and Training

DET provides learning and development support and services for schools, TAFEs and early childhood centres. School property, plant and equipment represent 88 per cent (\$24.5 billion) of the department's total assets. Corporate assets, including information technology and intangibles, make up the rest of DET's non-financial assets.

School asset planning and management is the shared responsibility of departmental staff, school principals and school councils. DET is responsible for delivering school infrastructure, funding school assets, and setting asset management policies and standards. Principals are responsible for asset management in schools. The responsibilities of school councils include community engagement, fundraising and the purchasing, use and maintenance of facilities.

Department of Environment, Land, Water and Planning

DELWP is responsible for Victoria's planning, local government, environment, energy, forests, emergency management, climate change and water functions.

At 30 June 2018, of DELWP's \$9.96 billion non-financial assets, various categories of public land made up \$8.3 billion. The remaining \$1.6 billion includes 40 000 kilometres of roads, bridges and tracks, office buildings, depots, firefighting equipment and water bores. Major portfolio agencies include the Environment Protection Authority Victoria and water and catchment management authorities.

Department of Health and Human Services

The responsibilities of DHHS encompass areas such as public housing, hospitals, disability, mental health and child protection services. DHHS held \$30.4 billion of non-financial assets at 30 June 2018. This figure excludes assets controlled by health and human services agencies that are separate to the department, such as public hospitals.

Department of Justice and Regulation

DJR led the delivery of justice services in Victoria, with service delivery responsibilities ranging from managing the state's adult prisons and youth detention centres to providing consumer protection. At 30 June 2018, DJR held \$3.4 billion of non-financial assets, with most of its assets in public prisons.

Department of Premier and Cabinet

DPC supports the Premier, Deputy Premier, the Special Minister of State and other ministers, as well as the Cabinet. DPC reported \$660 million of non-financial assets at 30 June 2018. Its major assets are the land and buildings associated with Government House, and public records and facilities in the Public Record Office Victoria.

1.7 Previous audits

Recent reports that have included an asset focus include:

- *Protecting Victoria's Coastal Assets*, 2018
- *Results of 2017–18 Audits: Local Government*, 2018
- *Results of 2017 Audits: Technical and Further Education Institutes*, 2018
- *Managing School Infrastructure*, 2017
- *Managing Victoria's Public Housing*, 2017
- *Results of 2016–17 Audits: Public Hospitals*, 2017
- *Results of 2016–17 Audits: Water Entities*, 2017
- *Managing the Performance of Rail Franchisees*, 2016.

A common theme of these audits is that asset management is a critical issue for departments and agencies, as it is important that assets are managed well to deliver good services.

1.8 Why this audit is important

Good asset management is critical to supporting service delivery and achieving value for money from investments in infrastructure and other assets. Previous reviews have identified fundamental weaknesses in the way public sector agencies manage assets across a range of portfolios, from schools and hospitals to transport and coastal protection. Our past audits identified recurring weaknesses in the way public sector agencies manage assets across a range of portfolios. Agencies often focus on building or buying new assets, rather than on managing existing assets strategically to maximise value, and public sector asset management is often neglected or poorly done.

The AMAF aims to remedy this by increasing agencies' accountability for asset management and requiring them to adopt better practice asset management approaches.

This audit assesses aspects of the AMAF's operation early in its rollout. It provides Parliament with assurance about the reliability of the compliance attestations made by all departments and shares good practices from their progress in implementing the AMAF.

1.9 What this audit examined and how

Our audit objective was to determine the reliability of departments' attestations of compliance with the AMAF.

We examined whether departments:

- have sound approaches to implementing the AMAF and supporting an accurate attestation
- have applied their assurance approaches as planned and make reliable attestations.

We focused on the approaches departments had in place to inform their 2018 attestations.

We chose to focus on departments because of the significant value and criticality to service delivery of the assets they manage directly or oversee through their portfolio agencies. We did not examine departments' asset management practices and operations, nor their oversight arrangements for portfolio agencies.

The departments we audited were DEDJTR, DET, DELWP, DHHS, DJR, DPC and DTF.

We also examined DTF's role as the policy owner of both the AMAF and the standing directions.

We conducted our audit in accordance with Section 15 of the *Audit Act 1994* and ASAE 3500 *Performance Engagements*. We complied with the independence and other relevant ethical requirements related to assurance engagements. The cost of this audit was \$595 000.

1.10 Report structure

The structure of this report is as follows:

- Part 2 examines how departments have applied the AMAF through their whole-of-department implementation planning and asset management plans.
- Part 3 focuses on the approaches that departments and audit committees used to assure compliance with the AMAF and support the 2018 attestation.
- Part 4 assesses DTF's actions to support the AMAF's implementation and departments' compliance with it.

2

Applying the AMAF

Previous audits have identified that many departments and agencies need to improve their asset management practices. The AMAF has a strong focus on continuously improving asset management. Departments need well-planned approaches to use the AMAF to improve their practices, and departmental staff need to be well organised and clear about their roles.

We examined how departments planned their AMAF implementation approaches at a whole-of-department level, and the leadership that steered the implementation. We also reviewed the key documents that form whole-of-department asset management plans.

Figure 2A highlights how the AMAF implementation and the whole-of-department asset management plan form part of a department's asset management approach.

2.1 Conclusion

The introduction of the AMAF has increased departments' focus on asset management. DEDJTR and DET recognised early that to apply the AMAF they needed to change their practices and document their processes, and they planned how they would do this. These departments positioned themselves to not only achieve compliance, but to improve asset management practice across their organisations. Their senior leaders played a significant role in driving and overseeing this improvement.

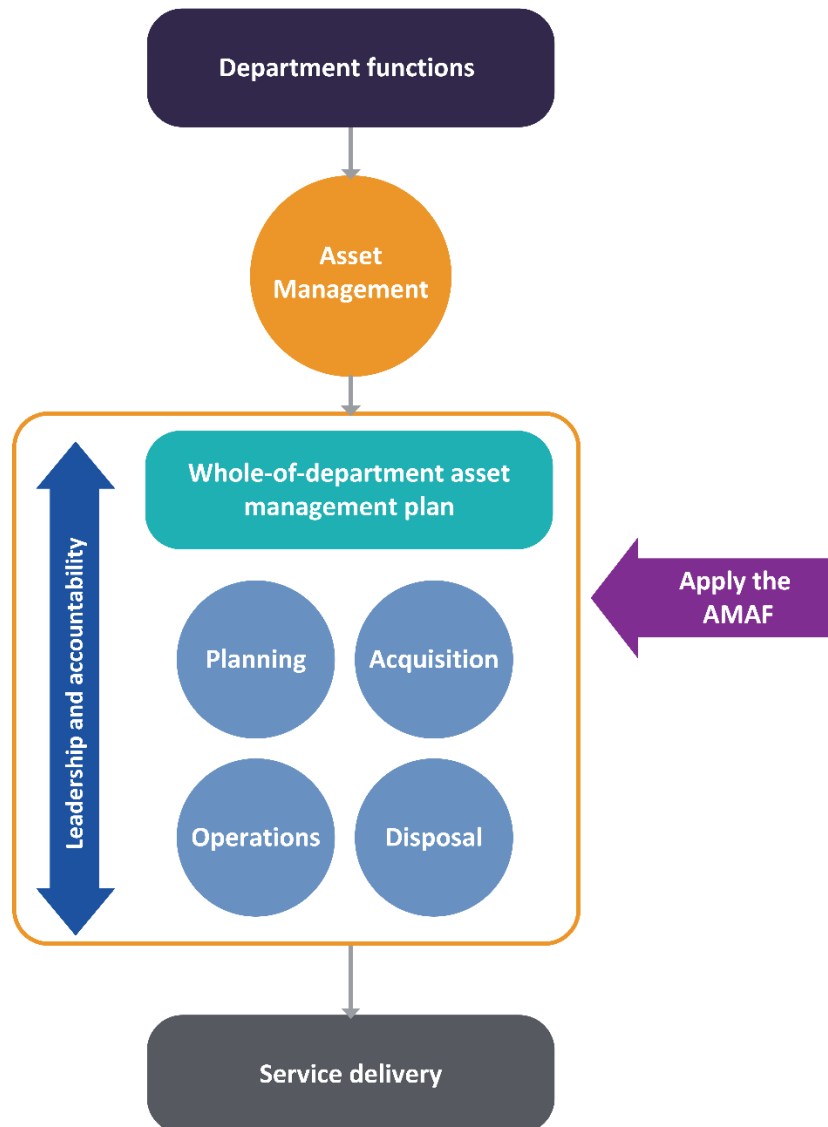
The other departments' whole-of-department implementation planning focused on what they needed to do to prepare for the 2018 attestation rather than on their longer-term improvement needs. Three departments are now planning further action to address their longer-term asset needs.

At the time of the 2018 attestation, only DEDJTR had a whole-of-department asset management plan that was comprehensive enough, relative to the complexity of its assets, to coordinate and control its asset-related activities. This is not surprising because, for most departments, having a whole-of-department plan is a new approach to managing their assets. Three departments are now improving or planning to improve their whole-of-department plans.

Departments without a whole-of-department asset management plan or with limited content in their plans may find it challenging to consistently achieve their asset management and service delivery objectives and comply with the AMAF across all their asset-related activities.

Figure 2A

Relationship of AMAF implementation and the whole-of-department asset management plan to a department's overall asset management approach



Source: VAGO.

2.2 AMAF implementation approaches

All departments have a whole-of-department approach to implementing the AMAF except for DHHS, which adopts a 'bottom-up' approach—implementing the AMAF separately for each of its asset classes.

DHHS advised us that it did not embark on a whole-of-department approach because of the variation in responsibilities between asset classes and in the way business areas manage their asset classes.

We consider that a whole-of-department approach would better enable DHHS to:

- understand where its asset management strengths and weaknesses lie
- prioritise, direct and coordinate effort across the department
- monitor progress, not just in implementing the AMAF but in improving asset management.

We reviewed the DHHS public housing group's implementation of the AMAF as an example of its approach for an individual asset class and found that overall it has a good implementation plan. However, gaps remain at the departmental level.

DHHS's June 2018 report to its audit committee highlighted that one asset class was likely to be non-compliant because it had been slow to address deficiencies identified through the department's 2016–17 trial assessment. This demonstrates that the lack of a whole-of-department implementation approach and monitoring can put the department at risk of overlooking certain asset areas, which can negatively impact the implementation process.

Gap analysis

The AMAF implementation guidance suggests undertaking a gap analysis as a starting point for organisations to implement the AMAF. It points out that by evaluating current systems, processes, policies, information and reports, agencies can understand the gaps to achieve compliance with the AMAF and identify any actions required to address these gaps.

We assessed whether departments followed common steps in a gap analysis. Steps include analysing the current state of asset management, identifying the ideal future state—for departments this involves consistently applying the AMAF principles, improving outcomes for assets and service delivery, and achieving compliance—and identifying actions to bridge any gaps.

Four departments completed whole-of-department gap analyses and the remaining three did this for individual asset classes. These exercises helped departments define their asset types and values, assess gaps against each of the AMAF's 41 mandatory requirements, and identify deficient areas and actions to address them.

All but one department considered their capability and practices as part of this gap analysis, along with assessing whether they had the right policies and procedures.

Only DEDJTR comprehensively assessed what it needed to improve to meet the AMAF's aims and principles, and how much it needed to strengthen its asset management culture, capability and practices to be able to do this.

Implementation planning

Implementation planning approaches varied between departments in terms of timing, comprehensiveness, complexity and quality. This did not always align with the complexity of their asset portfolios.

Aligning implementation with asset complexity

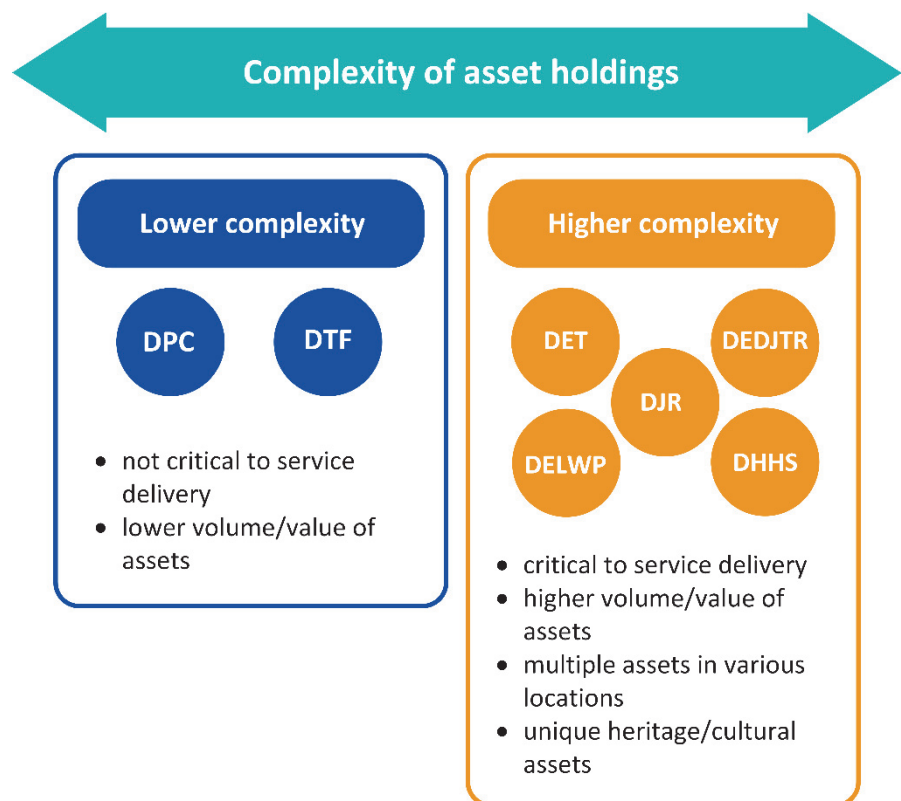
The AMAF implementation guidance recommends agencies determine the complexity of their asset portfolios as the basis for scaling their compliance approaches to match need. Together with the gap analysis, this helps departments identify the time, effort and detail of planning needed to implement the AMAF across their assets.

Departments with low complexity may need a simpler plan and shorter time for implementation, while departments with higher complexity and risk will require more effort and a relatively longer time to implement the AMAF.

Figure 2B identifies some of the factors that determine the level of complexity and shows departments' relative positions in terms of asset complexity.

Figure 2B

The relative complexity of the departments' asset portfolios



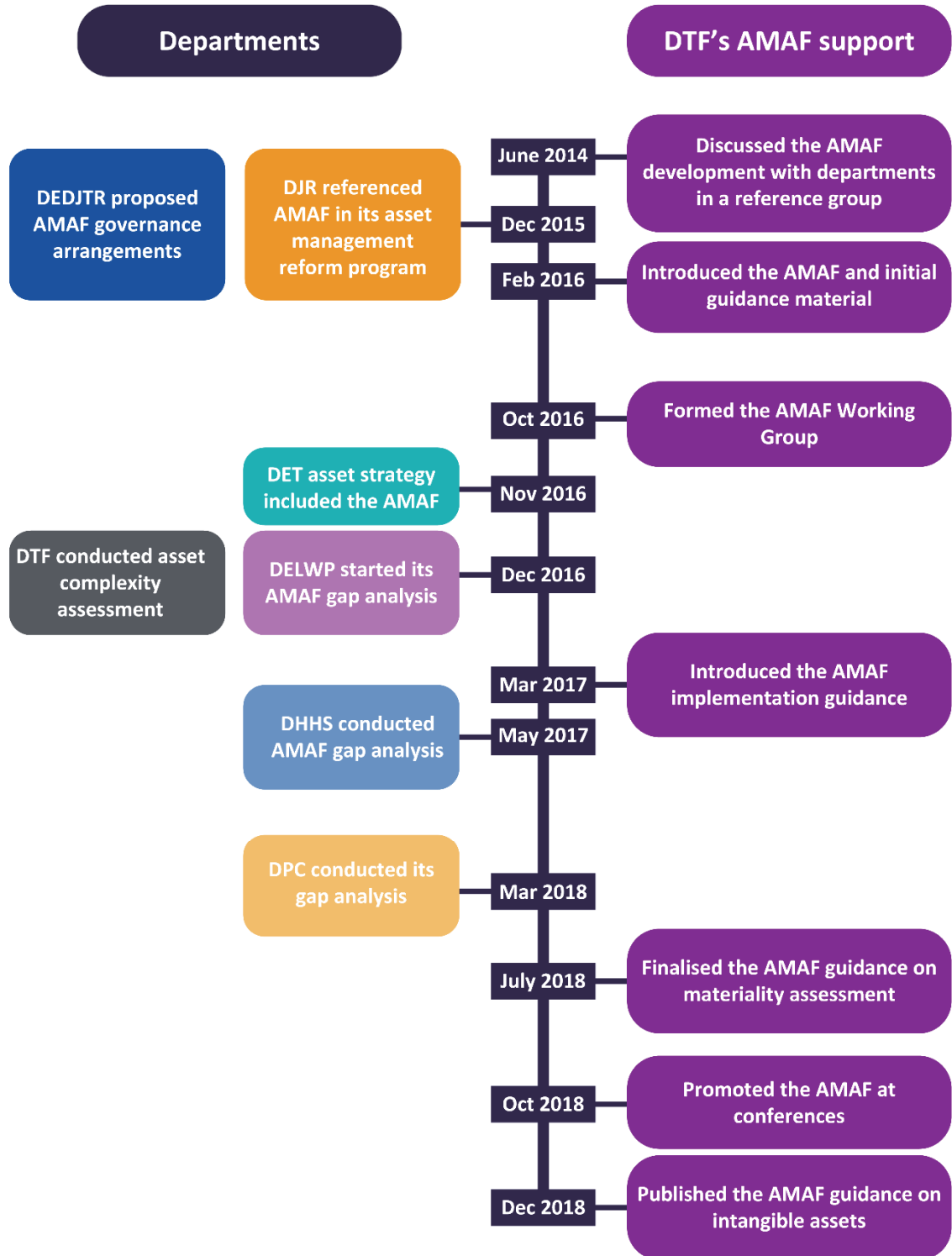
Source: VAGO.

Figure 2C shows when departments started their implementation planning and DTF's progressive support throughout the journey.

Three departments recognised that implementing the AMAF and applying it across their large organisations and portfolios with multiple asset classes would take a long time—between two and five years.

Figure 2C

Time line of departments' AMAF implementation planning and DTF's support for implementation



Source: VAGO, based on departments' information.

Detail of implementation planning

The departments' implementation plans range from a one-page schematic to more detailed plans. Only three departments—DEDJTR, DET and DTF—have plans that align to the nature of their assets and the breadth of their organisational involvement in asset management. DJPR and DoT each adopted DEDJTR's implementation approach when they formed.

DEDJTR and DET had many good practice elements in their implementation planning approaches, as shown in Figure 2D. Better practices are more common in departments with dedicated resources and trained staff members supporting AMAF implementation. They designed appropriate actions and developed internal guidance to help staff to implement the AMAF.

Figure 2D

Good practices in implementation planning

- Gap analysis considers current and future asset management needs and risks and includes a complexity analysis.
- Complexity and gap analyses provide the rationale for the implementation approach.
- Implementation planning addresses gaps in compliance with the mandatory requirements and identifies support needed to improve asset management to the level desired and achieve full compliance. The planning includes:
 - implementation objectives, which align with corporate objectives
 - the governance structures needed to guide and oversee delivery and embed AMAF implementation in routine department business planning
 - identification of staff responsible for delivering actions and time lines for delivery
 - incremental targets for improvement—for example, levels of compliance achieved or levels of maturity in asset management practices.

Source: VAGO, based on DEDJTR's and DET's implementation approaches.

The other five departments had short-term implementation approaches that focused on compliance and what they needed to do for the 2018 attestation only. They planned to fill key gaps in policies and procedures against the mandatory requirements, but did not plan beyond that to implement these policies and procedures and meet future needs.

They adopted this short-term implementation approach even though the AMAF does not focus on a time frame for achieving compliance. It recognises that agencies will have different starting points and different pathways towards achieving compliance.

In three departments, the corporate finance and compliance group was the main unit responsible for driving or coordinating the AMAF implementation. This may be appropriate where the asset base is simple and has lower risk. However, where assets are more complex and higher risk, the finance and compliance group found it difficult to drive the whole-of-department AMAF implementation if it did not have strong support from those with asset management responsibilities or expertise.

Departments' implementation progress

Up until the 2018 attestation, departments had introduced a range of actions as part of their AMAF implementation, including:

- developing or updating asset management policies and procedures
- communicating the aim of the AMAF to staff
- conducting stocktakes of certain asset classes
- establishing clearer roles and responsibilities with other asset managers in the department and/or other agencies with roles in the asset lifecycle
- introducing new roles specific to managing assets at a whole-of-department or asset class level and improving asset management capability.

Three departments are now introducing longer-term whole-of-department implementation plans, and three are clarifying and strengthening their governance arrangements. One department does not yet have further implementation activities underway.

Maturity assessment

Although the AMAF does not require a maturity self-assessment until 2020–21, five departments—DEDJTR, DHHS, DPC, DELWP and DJR—conducted one before the 2018 attestation.

DEDJTR built the maturity assessment analysis into its compliance assessment and attestation tool. Each business unit completed multiple compliance and maturity assessments prior to the 2018 attestation. This approach provided an early opportunity for the department to raise staff understanding of asset management maturity and the AMAF implementation journey. It also provided the Secretary with evidence of commitment to and progress in improving asset management.

2.3 Whole-of-department asset management plans

The AMAF aims to support agencies to implement effective asset management systems and be accountable for their assets and asset management. Many of the AMAF's requirements collectively describe an asset management system, and a structured approach for developing, coordinating and controlling asset-related activities.

Our audit included a focus on the key whole-of-department documents departments use to describe their asset management systems, because these documents are important for guiding consistent asset management across the multiple asset classes of each department. We refer to these documents collectively as the 'whole-of-department asset management plan'—not an asset management system—because there are other components of their overall systems.

The whole-of-department asset management plan sets expectations and explains to staff with asset management responsibilities:

- how their asset management should align with corporate service delivery objectives and business systems
- what their asset-related decisions need to consider
- how risk should inform their practices
- the asset information that the department requires from them
- expectations for continuous improvement.

All departments also have a suite of additional policies and procedures that are designed to support asset management, but sit outside the whole-of-department asset management plan. These were not part of this assessment because:

- some are specific to individual aspects of asset management, such as asset disposal policies, maintenance plans and operating procedures
- others are part of the corporate business environment, such as the delegations instrument, occupational health and safety policy, and the procurement manual.

Departments with complex asset portfolios or assets with high-risk exposures may need more detailed information in their whole-of-department asset management plans than those with simple assets or lower risk exposures. The management approaches that different asset managers take should align with the whole-of-department plan, but will necessarily vary between different asset classes and at various stages of the asset lifecycle.

We assessed the comprehensiveness of the whole-of-department asset management plans at the time of the 2018 attestation to determine whether they had enough information relative to the complexity of the departments' asset portfolios.

Establishing whole-of-department plans

Establishing a whole-of-department asset management plan was a common starting point to implementing the AMAF across departments:

- Only DET had any whole-of-department asset management plan documents in place before the introduction of the AMAF.
- Five of the other six departments developed them in response to the AMAF requirements.
- DHHS chose not to develop a whole-of-department asset management plan or other asset management system elements. Instead, it relied on managers of its different asset classes to do this. This approach meant the department was not in a strong position to direct or control asset management activities across its five asset classes.

The departments' whole-of-department asset management plans ranged from a single document that aimed to describe the policy, strategy, and the system of processes and controls to having separate documents for these. For five of the six departments that had whole-of-department plans, the overall approach aligned with the complexity of their asset holdings.

Content of the plans

The AMAF is non-prescriptive. This allows agencies the flexibility to manage their assets according to their own operational environments and the nature of their asset bases. In practice, agencies can find it challenging to know whether an approach is appropriate to meet the AMAF's aims and principles and to support compliance.

Our assessment of the content of the whole-of-department asset management plans identified that only DEDJTR had a comprehensive plan at the time of the 2018 attestation.

It is not surprising that other departments did not have a comprehensive whole-of-department plan by then, as it is a new approach for them. Most have continued to improve their plans since the attestation.

DEDJTR's plan was comprehensive because it:

- largely addressed the mandatory requirements
- contained enough department-specific information and references to relevant policies and procedures to adequately guide asset management across its asset classes.

We identified examples of good practice for different components of the plans across the other departments. Weaknesses in content were common across most departments. Appendix C describes these characteristics.

One component of the whole-of-department plan that many of the departments struggled with was describing an asset strategy over the entire asset base and asset lifecycle, which is one of the AMAF's mandatory requirements for agencies. The AMAF and its implementation guidance outline what agencies should consider in developing the strategy component. Departments determine what they need to include in their whole-of-department strategy and what is more appropriately included in plans specific to individual asset classes.

Figure 2E provides a good practice example of an approach to the strategy component of a whole-of-department asset management plan, based on what we found in department documents and the AMAF implementation guidance.

Figure 2E

Good practice: Strategy component of a whole-of-department asset management plan

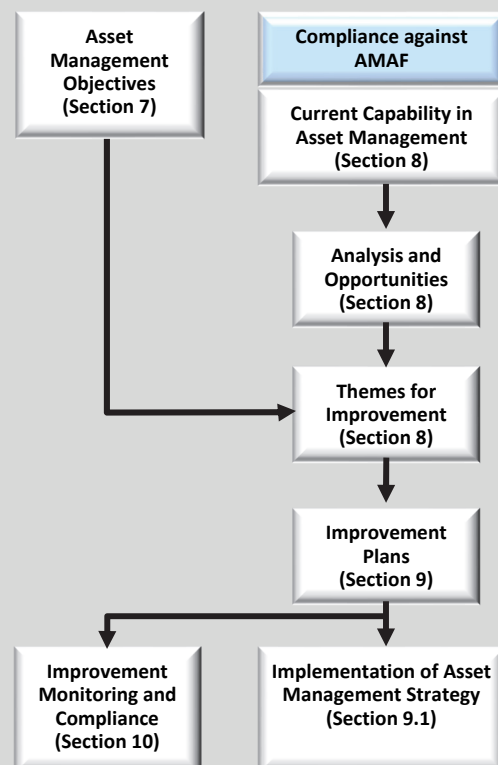
Good practice at a whole-of-department level means that the department understands:

- the policy, legal and accountability environment in which it operates
- the composition, value and risk associated with its asset portfolio
- where to focus activities based on service dependency risks
- its asset management service delivery goals and objectives
- where it needs to improve across the whole portfolio
- how it intends to deliver improvements to achieve its objectives
- how it monitors improvements and provides assurance of compliance
- how it allocates resources across the portfolio.

Including this strategic information in the plan increases staff awareness of expectations, since the whole-of-department plan has wider exposure than an implementation plan or asset class plans.

Appropriate asset management strategies for the asset classes or portfolio agencies would underpin this approach. Depicted below is one example of a good department-level approach.

High-level department asset management strategy



Source: DEDJTR Asset Management Strategy.

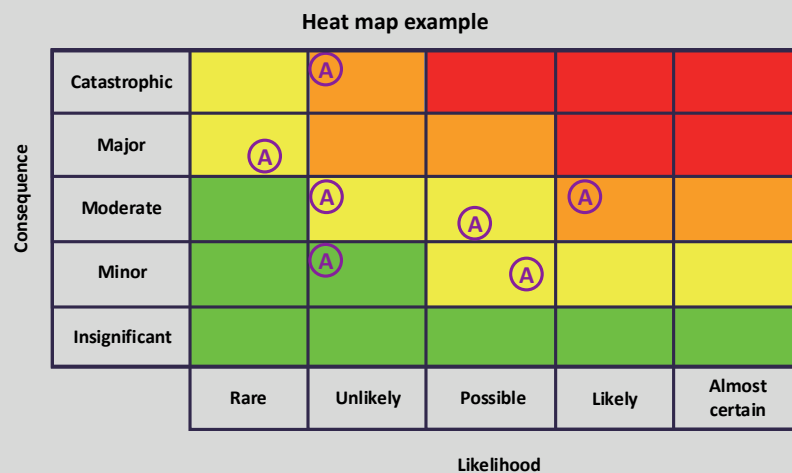
Source: VAGO, based on AMAF guidance and good practices observed in departments.

Departments can also improve their whole-of-department asset management plans by incorporating more specific information on how they identify and manage asset risks. Figure 2F describes a good practice example, based on published literature on managing asset-related risks.

Figure 2F
Risk management and contingency planning

Some departments referred to corporate risk frameworks as the basis for their asset risk assessment. However, they did not typically refer to the application of risk assessments in determining which assets are critical to agency performance. Critical assets are those that would have significant consequences if they failed—for example, a bridge. Identifying critical assets enables an agency to determine asset management strategies for, and prioritise expenditure on, those assets that pose the greatest risk.

Asset criticality assessment is a useful tool for identifying critical assets. Criticality assessments can be applied at the departmental level to assess the department's asset risks and can be depicted visually using a 'heat map'. Criticality assessments can also be applied by asset class to gain a better understanding of risk exposures and enable management strategies or actions to be determined.



Note: The 'A' points indicate the relative allocation of risk across the different asset classes.

Conventional risk (likelihood and consequence) matrices can be used to support asset risk and criticality assessments provided they contain appropriate consequence categories, such as worker and public safety, customer or community service, or financial or regulatory compliance impacts.

The resulting risk profiles also need to be considered against a department's risk tolerance statement to determine acceptability. Risk profiling in asset classes can best be performed using asset information and data collected to highlight condition and performance.

Asset management strategies best suited to manage the relative criticality of assets can then be identified in line with the department's asset risk tolerance—for example, 'we plan to avoid failure of critical assets'.

Depending on the criticality rating, appropriate management strategies can range from asset performance and condition monitoring, predictive maintenance and planned replacement for critical assets to fix-on-fail strategies for non-critical assets.

Source: VAGO.

Appendix C provides examples of good practices for two other important areas of the AMAF—asset information and performance monitoring—for which we found common weaknesses across most departments.

Updates to asset management plans

All departments have continued to implement the AMAF since the 2018 attestation. Three of the five departments where we identified multiple weaknesses have improved or started improving their whole-of-department asset management plans.

DHHS advised us that it sees the merit in having a whole-of-department asset management plan and intends to develop one when its asset class plans are completed.

2.4 Leadership

The AMAF identifies that ‘effective asset management is supported by organisational leaders who promote the principles and policies of asset management’. Half of the AMAF’s 41 mandatory requirements and a third of its good practice guidance points relate to leadership. These include the need for senior leaders to:

- drive the application of the AMAF, the agency’s asset management system and any supporting policies
- drive a culture of continuously improving asset management
- proactively promote the implementation of the AMAF and asset management more broadly in the agency to ensure that asset management adds value and is not just a compliance process.

The audit assessed the extent to which senior leaders who have asset management responsibilities—such as deputy secretaries—were involved in applying the AMAF and checking compliance with it.

Figure 2G summarises examples of good leadership by senior leaders in three departments. Senior leadership and accountability for asset management was less visible in the remaining four departments.

Figure 2G
Good leadership practices

Leadership actions that drive the AMAF include secretaries:

- delegating accountabilities for the AMAF to deputy secretaries with asset management responsibilities
- communicating directly with portfolio agencies on their AMAF responsibilities and oversight arrangements
- providing input to the whole-of-department asset management plan.

Other leadership actions that drive the AMAF include:

- the involvement of executive committees in early decisions about the priority and approach needed to implement the AMAF
- the inclusion of senior leaders on the asset management steering committee/reference group to provide direction for the AMAF implementation
- the requirement by senior leaders for an objective form of checking compliance before information is sent to the audit committee.

Source: VAGO.

Examples of implementation issues linked to senior leaders being inadequately engaged included:

- departments not strongly engaging with DTF's AMAF implementation working group meetings
- when senior leaders advised us that the introduction of the AMAF did not affect the on-ground staff, who needed to maintain their assets every day regardless of the AMAF
- where there was no identifiable implementation of AMAF by asset classes
- when the funding for projects to improve asset management was not approved, senior leaders in one department made funding available from other business areas, while those in another department decided to put the project on hold.

Two of the three departments in which senior leaders were more visibly or actively engaged in the AMAF's implementation and compliance are also the departments that have better approaches to implementing the AMAF and whole-of-department asset management plans.

3

Checking compliance

Key requirements for agencies to comply with the standing directions include:

- conducting an annual assessment of compliance with all applicable requirements, including the requirement to apply the AMAF
- attesting to financial management compliance and disclosing all material compliance deficiencies in their annual reports
- taking remedial action to address any compliance deficiency, whether material or not.

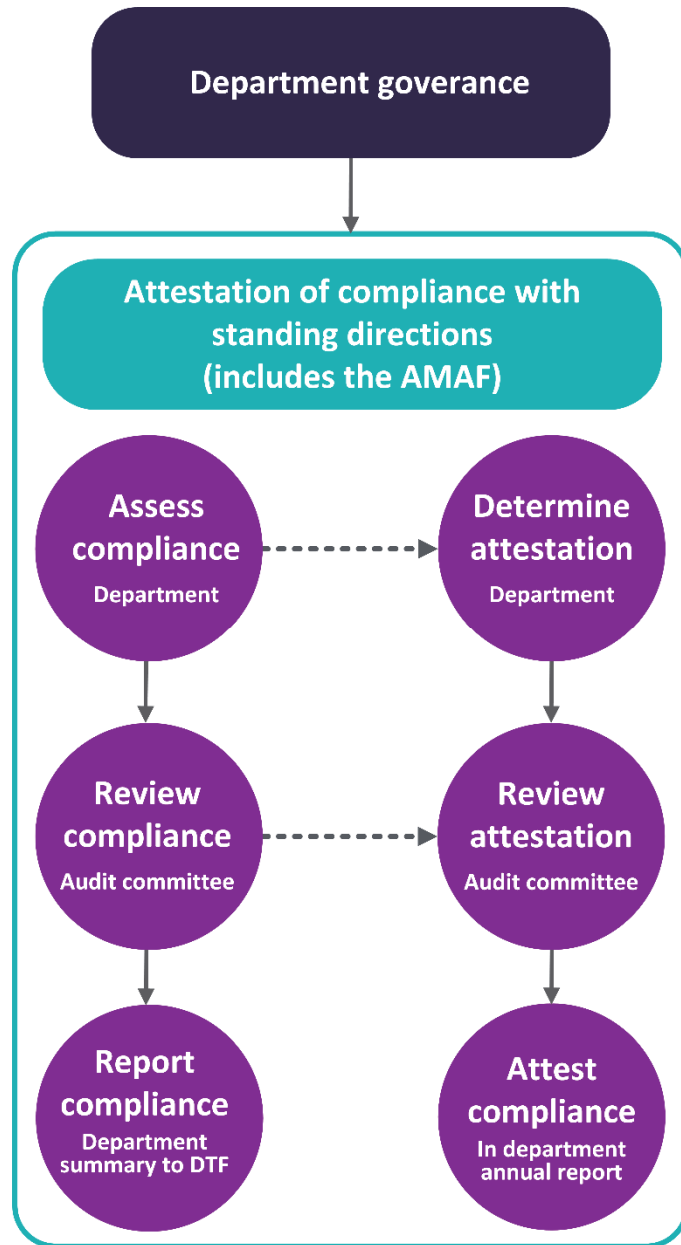
DTF also requires departments to report to it annually on their financial management compliance and that of their portfolio agencies.

Departmental secretaries and audit committees have key responsibilities to assure the reliability and accuracy of compliance assessments and attestations.

The standing directions instructions explain that these requirements are designed to ‘improve rigour in compliance assessment, ensure action is taken to improve identified compliance weaknesses ... and increase transparency’. The standing directions guidance explains that agencies are expected to ‘take a practical, risk-based approach to demonstrating compliance’ for their annual compliance assessments, provide the assessments to their audit committees and use the assessments to inform their annual compliance reports to DTF.

Departments need well-designed arrangements to assure compliance and support reliable attestations. In this Part, we examine the assurance approaches used by departments and their audit committees. Figure 3A highlights the main steps of the attestation process.

Figure 3A
The main steps in the attestation process



Source: VAGO.

3.1 Conclusion

Five departments used reliable approaches to assure their compliance and support their 2018 attestations. The remaining two departments do not have enough detail in their approaches to be able to assess whether they comply with the AMAF, given the criticality, complexity and risks related to their assets.

The attestation itself does not indicate how well departments are complying with the AMAF. This is because the standing directions require agencies to say they comply even when they have not met all mandatory requirements, unless the department considers that non-compliance for one or more mandatory requirements is significant or material.

All departments have weaknesses in the reliability or accuracy of their compliance assessments, such as gaps in their oversight arrangements or not having the right evidence to show compliance. Departments that involve senior leaders with asset management responsibilities in overseeing compliance are more likely to demonstrate better assurance practices and have more reliable and accurate compliance assessments.

Audit committees' limited record-keeping makes it hard for them to show how they apply a risk- and evidence-based approach to their review role or how they satisfy themselves that departmental compliance assessments and attestations are accurate.

3.2 Departments' 2018 attestation results

Two departments reported a material compliance deficiency for the AMAF in their 2017–18 annual reports—DET for school buildings and DHHS for the assets of its health building authority.

The standing directions instructions mandate that the attestation wording includes:

- a brief summary of the reasons for, or circumstances of, the material compliance deficiency
- details of planned and completed remedial actions.

The way DET and DHHS provided this information in their attestations differed:

- DET identified that its deficiency related to school assets was material because the AMAF had not yet been applied across all schools, but it had a five-year plan to address this.
- DHHS identified that it had a material deficiency and that this would be addressed by December 2018, but did not explain which asset class(es) this related to or what made it material.

The limited information in DHHS's attestation does not provide transparency about the nature of the deficiency.

Determining if material compliance deficiencies exist

The focus of the attestation is on identifying any material compliance deficiencies and actions to address them. DTF's guidance to agencies on materiality and the AMAF provides an example about a major telecommunications distribution cable—any failure is likely to disrupt service delivery over a wide area and damage agency finances and reputations, and would therefore be material. However, if the computer systems in the telecommunications retail provider failed, it would inconvenience customers by closing shopfronts, but the telecommunications service would continue, and would therefore be non-material.

All departments took steps to identify material compliance deficiencies, although only DEDJTR provided specific guidance on how staff should apply the department's risk management framework to determine this.

DET and DHHS documented their rationales for why those deficiencies were material. DPC was the only department to document a rationale for why its compliance deficiencies were not material.

Although all departments identified non-material compliance deficiencies, only DET and DHHS identified material compliance deficiencies in their 2018 attestations and only around five per cent of all public sector agencies reported material deficiencies. This is because the 'reasonable person' test in the standing directions deliberately sets a high bar for a deficiency to be considered material. Other regulatory bodies in Australia and overseas apply different but similarly high bars to define materiality, including the Australian Accounting Standards Board and the U.S. Securities and Exchange Commission.

Definitions of compliance and the relationship between compliance and the attestation

The purpose of including the AMAF in the standing directions and the attestation is to hold agency heads or governing boards accountable for applying the framework. The focus of the attestation is on identifying material deficiencies, to alert Parliament, public agencies and the community to any significant gaps in financial management.

The standing directions instructions state:

where the Agency has not identified a Material Compliance Deficiency that occurred during the relevant year, attest that the Agency has complied with the applicable Directions and Instructions, in the form set out in clause 2.2(a) of this Instruction.

However, this does not match the meaning of compliance under the standing directions. Although the standing directions do not define compliance, they define a compliance deficiency as:

an attribute, condition, action or omission that is not fully compliant with an applicable requirement in the FMA [*Financial Management Act 1994*], Standing Directions and/or Instructions.

The implication is that compliance with the standing directions means not having any compliance deficiencies, material or not. So, although the attestation usefully identifies agencies with significant or material financial management issues, its assertion that all other agencies comply with the standing directions is misleading. The five departments that did not have material deficiencies all still had compliance deficiencies with the AMAF, and that was for just one of 458 financial management compliance obligations.

Departments must report on their financial management compliance annually to DTF, separately to the attestation. DTF publishes a summary of these reports on its website, but does not make public the individual department results.

DTF advised us that these different definitions of ‘compliance’ reflect the fact that the public attestation and the compliance reporting are two separate, parallel processes. However, the AMAF describes the mandatory requirements as ‘mandatory attestation requirements’ that accountable officers ‘must meet to allow for full attestation of compliance’.

This means agencies need to know their levels of compliance, not just their material compliance deficiencies, against all 41 mandatory requirements to inform the attestation.

Five departments recognised the benefit in using their compliance assessments to provide a systematic, evidence-based approach in determining whether they had material deficiencies.

3.3 Departments’ checks on compliance

Overseeing compliance

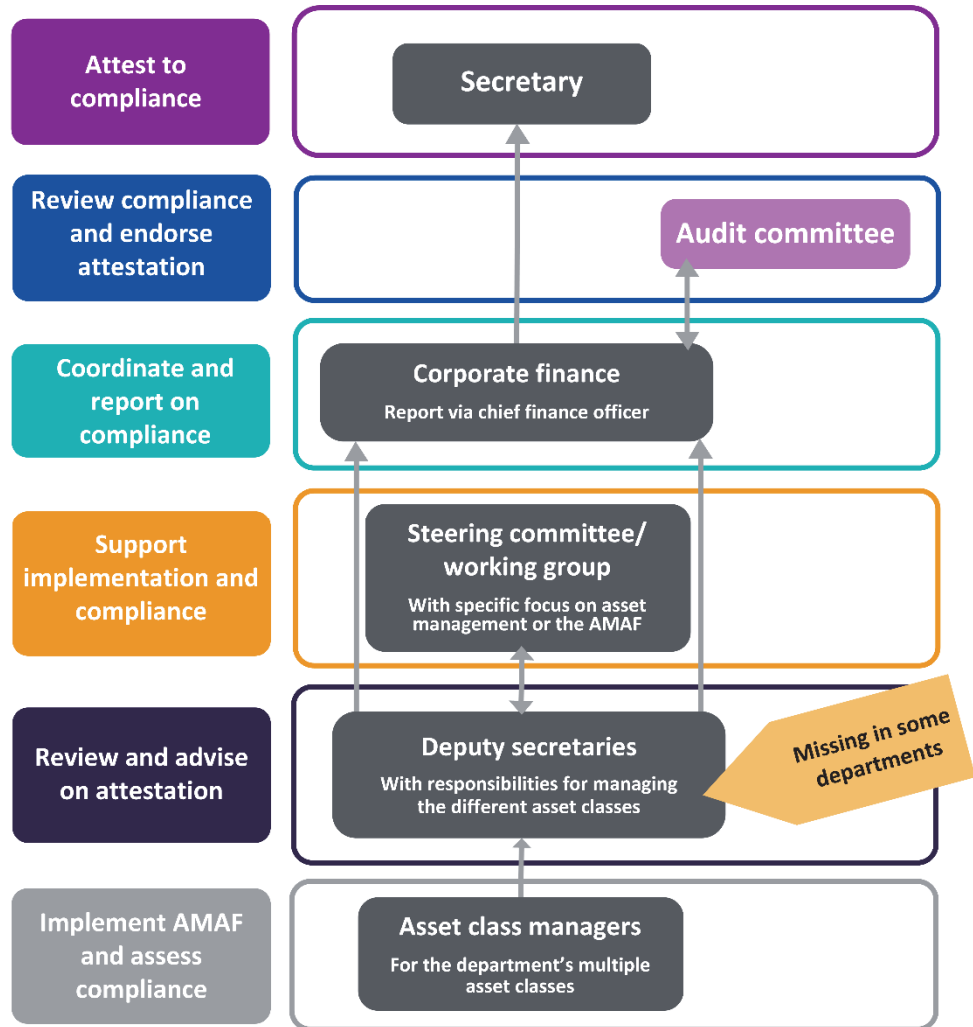
For departments, the Secretary is responsible for the accuracy and completeness of the attestation. In each department, the Secretary delegates this responsibility to one or more senior leaders—deputy secretaries or other executive officers—but still approves the final attestation.

Under the AMAF and the standing directions, agencies should identify responsibilities and processes for monitoring compliance and should ensure systems and processes to support it are in place.

All departments have arrangements to oversee compliance with the AMAF and follow a similar oversight model, as shown in Figure 3B. The extent of their oversight varies, with a key area of difference being the extent to which they assign oversight responsibilities to senior leaders.

Figure 3B

The oversight model commonly used by departments



Source: VAGO.

Figure 3C highlights the good practices we saw in departments' oversight arrangements.

Figure 3C

Good practice elements in oversight arrangements

- A whole-of-department committee or group of asset managers oversees the AMAF implementation.
- Departments delegate AMAF implementation and attestation responsibilities to deputy secretaries with responsibilities for managing assets.
- Deputy secretaries are involved in the committee and the attestations.
- Formal progress reporting arrangements show active oversight—for example, through feedback on compliance assessment results, approvals of key documents and decisions about remedial actions.

Source: VAGO.

Most of the departments with large and complex asset portfolios and risks have arrangements that include senior leaders, but gaps exist in the way they are executed. The main gaps are:

- senior leaders not actively fulfilling their identified responsibilities
- the whole-of-department committee having limited or informal oversight.

In the departments that did not include senior leaders, the AMAF implementation responsibilities sat solely with their corporate finance areas. Although this enabled streamlined approaches to implementation and compliance assessments, it missed the opportunity to engage a senior leader with operational asset management responsibilities to ‘champion’ and drive the AMAF and asset improvement across the organisation.

Compliance assurance approaches

The AMAF identifies examples of the types of evidence that demonstrate compliance with the mandatory requirements, but it does not specify how agencies should assess compliance. The standing directions expect agencies to establish the processes they need to assess compliance. Departments also have a responsibility to provide high-quality information to their audit committees to support the committees to perform their review roles.

We assessed whether departments have reliable processes that are appropriate to their size and asset complexity and whether those processes are:

- communicated to those conducting assurance activities and approving the assessments
- applied consistently across different asset classes.

The requirement to publicly attest to all standing directions was new in 2018, and the AMAF and reporting requirements were also new. However, before this, agencies were required to publicly attest to their risk management compliance and to separately certify their financial management compliance to their responsible minister and report this to DTF. This means that assurance processes such as assessing compliance should be well established in departments.

Five departments advised us that they followed the centrally coordinated processes already established for their other financial compliance obligations. Departments’ internal audit results show these processes are reliable.

The departments’ processes all included similar assurance steps for the AMAF, and these aligned with guidance for the standing directions and the AMAF.

The departments that had the most reliable compliance assurance processes—DEDJTR and DET—communicate and apply well-designed approaches that include several of the good practices in Figure 3D. They paired these approaches with strong central coordination. DEDJTR also provided specific guidance to staff on aspects such as evidence requirements and material deficiency considerations, and verifies its compliance assessments and evidence.

Figure 3D identifies the main assurance steps and the good practices and weaknesses we found in how departments apply them.

Figure 3D

Good practices and gaps identified in departments' assurance processes

Assurance process step	Good practices across departments	Identified gaps and issues
Develop process and communicate to staff	Make documented process available to all staff, e.g. on the intranet	Process not documented or only in internal audit papers
Assess compliance	Complete separate assessments for important asset classes, or on a rolling program	Aggregated assessments that do not provide detail about important asset classes
	Support consistent assessment across asset groups, e.g. by providing an assessment tool and guidance on aspects such as evidence requirements, assessing material deficiency, developing remedial actions	No common assessment tool No guidance provided
Determine any material compliance deficiencies	Use corporate risk framework to assess material deficiency	Rationale not documented when it is determined there are no material deficiencies
	Document rationale for whether there is a material deficiency	
Develop remedial actions	Identify positions responsible for completing actions	Limited planning details to support implementation of remedial actions
	Develop remedial action plan(s)	
	Monitor the progress of actions	
Approve assessments	Senior leader responsible for assets approves the assessments	No executive approval or approval not documented, i.e. no formal sign off
	Senior leader completes the accountable officer checklist from DTF's AMAF implementation guidance	One example where the assessor was also the approver
	Verify compliance prior to approval—can be risk-based, e.g. for higher risk asset classes or AMAF requirements	No review or verification prior to audit committee review
	Draw on asset management expertise to verify compliance	
Endorse attestation	Deputy Secretary signs declaration related to the compliance assessment/attestation	
Inform audit committee	Ask audit committee to specify the information it needs to support its attestation role	Audit committee not consulted
Monitor remedial actions	Whole-of-department oversight and monitoring	No monitoring in place

Source: VAGO.

The AMAF is one of up to 458 financial management directions that agencies must assess compliance for, which sets a very broad base for the attestation. The standing directions allow agencies to take a risk-based approach to assurance, so that they focus their compliance efforts and evidence on checking the areas of their operations that are higher risk or value. All departments would benefit from doing this and documenting their chosen approach and the basis for their risk approach.

Compliance assessments

Departments need to know their levels of compliance with the AMAF's mandatory requirements and be confident in their assessments, to support the attestation.

Room exists for departments to improve the accuracy and consistency of their compliance assessments.

The AMAF and the standing directions expect that agencies will take a ‘practical, risk-based approach to demonstrating compliance’. This allows flexibility in approaches so that smaller agencies and those with lower risks can use proportionately less detailed assessments and evidence and avoid an unnecessary compliance burden, as Figure 3E indicates.

Figure 3E
Relationship between compliance-related risks and evidence needs



Source: VAGO.

Five departments align their compliance assessment approaches with their asset risk or complexity, although none clearly documented the rationale for the assessment approach. Examples of their approaches included:

- one department that matched its diverse, often complex and high-value assets with compliance and maturity assessments for every asset class and key portfolio agency
- another department that contracted asset management consultants to individually assess its major asset class, and compiled an aggregated assessment across its simple asset classes.

The remaining two departments also identified that they had higher risk or complexity associated with some asset classes, but only used aggregated, whole-of-department assessments. We consider that both these departments need specific assessments for their higher-risk asset classes to provide an accurate assessment and a sufficient baseline of compliance, and identify any deficiencies to help prioritise improvement and risk management efforts.

Figure 3F summarises the good practices we saw in the way departments assessed compliance.

Figure 3F

Good practices for compliance assessment

- Using knowledge of the asset portfolio to guide the compliance assessment approach.
- Using asset management expertise to determine the assessment approach needed, and to either conduct the assessments (significant asset classes) or help corporate finance staff conduct or verify the assessments.
- Requiring individual compliance and maturity assessments for significant asset classes against all mandatory requirements.
- Documenting the compliance assessment approach and communicating it to staff—for example, by making it part of the compliance assurance process description, the whole-of-department asset plan or another relevant, widely communicated document.

DTF advised us that a flexible approach could involve assessing the compliance of lower-risk assets less frequently and requiring less evidence and verification efforts for those, but none of the departments did this and most had not understood that it was an option.

Source: VAGO.

Adequate evidence of compliance

The standing directions guidance specifies the need for evidence to substantiate compliance. The AMAF implementation guidance provides examples of the types of evidence that could substantiate compliance with its different requirements for complex and simple asset portfolios. The AMAF and the standing directions identify that achieving the mandatory requirements and demonstrating compliance require that asset policies, systems and controls are in place and are being applied as intended.

Through our analysis and from the results of two departments' internal audits, we found numerous issues that reduced the accuracy of the compliance ratings and led to some overestimates of the level of compliance—that is, rating requirements as compliant when they are not. The main issues were:

- inadequate evidence of compliance across all departments' assessments
- missing evidence in some departments' assessments
- errors identifying whether requirements are applicable or not at different stages of an asset's lifecycle.

The most common evidentiary-related problem is that departments' assessments rated some requirements as 'compliant' on the basis that they have a policy or process, even though, for many of the mandatory requirements, compliance means also showing that these processes are followed.

Value in verifying compliance assessments

Compliance with the AMAF and standing directions is based on agency self-assessments. The assessments do not require independent verification or validation. It is up to agencies to determine their approaches to assuring themselves about compliance.

Australian and international accounting policies and standards for attestations identify the need to test evidence that underpins the attestation, or to test the completeness of the explanation if the attestation is supported by a management assertion.

Only DEDJTR and DHHS showed good practice by verifying their compliance assessments. Figure 3G highlights the good practices we saw in how they verify compliance.

Figure 3G
Good practices for verifying compliance assessments

- Verifying compliance assessments and evidence prior to senior leaders approving the assessments and attestations, and before any audit committee review.
- Using an external reviewer to assess the AMAF implementation progress, re-doing the gap analysis and maturity assessments, and comparing these results against the initial baseline.
- Using internal audit functions to review the evidence supporting the compliance assessments and ratings for all or selected asset classes or mandatory requirements.

Source: VAGO.

These verification activities identified examples where insufficient or no evidence substantiated assertions of compliance, and where mandatory requirements had been incorrectly identified as applicable or not applicable to a particular asset class. They showed that one department had significantly overstated compliance for some of its asset classes.

This underscores the value of verifying evidence for significant asset classes or mandatory requirements to improve the reliability and accuracy of the information supporting the accountable officer's attestation. It also highlights the need for departments to guide and train their staff to conduct accurate assessments.

Consistency of assessments

DTF provides a compliance assessment tool template on its website. Although this is optional, it is a mechanism that can support consistency in and across departments. For the AMAF, the tool prompts agencies to assess:

- all 41 mandatory requirements
- compliance and evidence of compliance
- compliance deficiencies and actions to address them
- any material compliance deficiencies, justification for these and actions to address them.

Five departments based their approach on DTF's template, although three departments changed it. The main area missing from all departments' tools was the justification for whether deficiencies were material.

Four departments assessed compliance separately for individual asset classes. Each used a common assessment tool in the department but, despite this, their assessments were not always consistent or adequate. For example:

- they assessed compliance against different numbers of mandatory requirements for different asset classes
- they explained the reasons supporting 'compliant' and 'deficient' ratings for some asset classes but only explained deficiencies for other classes.

This meant that many departments received limited value from the assessments to understand their levels of compliance and compliance deficiencies, and to help prioritise future improvement actions.

3.4 Audit committees' checks on compliance

A department's audit committee needs to review and satisfy itself with the attestation statement before the Secretary signs off. The 2016 standing directions strengthened the audit committee's role and responsibilities to advise the Secretary on the attestation and exercise independent judgment in its decisions concerning the attestation.

The AMAF requires an audit committee to satisfy itself with the department's recommended attestation of compliance prior to finalising it for the annual report. Audit committees have other key obligations in the standing directions, instructions and guidance to:

- review the department's annual assessment of compliance with the AMAF
- provide the Secretary with assurance, advice and recommendations on the level of compliance attained, issues to be resolved and proposed mitigation plans
- review and monitor actions the department takes to remedy compliance deficiencies.

Appendix D provides the full list of audit committees' requirements for reviewing compliance under the AMAF and the standing directions. It is up to each committee to determine the information and evidence that it needs from the department to satisfy these responsibilities.

We examined how the audit committees fulfil these responsibilities by looking at:

- the processes they put in place to identify their information requirements and guide their review and monitoring activities
- the information they received
- their review actions.

Audit committees' approaches to reviewing the compliance assessment and the attestation

Reflecting the considerable volume and complexity of legislation, policy and directions that agencies must comply with, the standing directions allow agencies and their audit committees to undertake their roles and responsibilities in ways that are proportionate to the complexity and risks of their operations. This includes expectations that they:

- focus on the directions that pose the highest risks to them in managing their compliance responsibilities
- take a practical, risk-based approach to the evidence needed to demonstrate compliance.

All audit committees advised us that they take a risk-based approach to their AMAF responsibilities. The approaches vary, in part reflecting the distinct characteristics of their departments' asset portfolios.

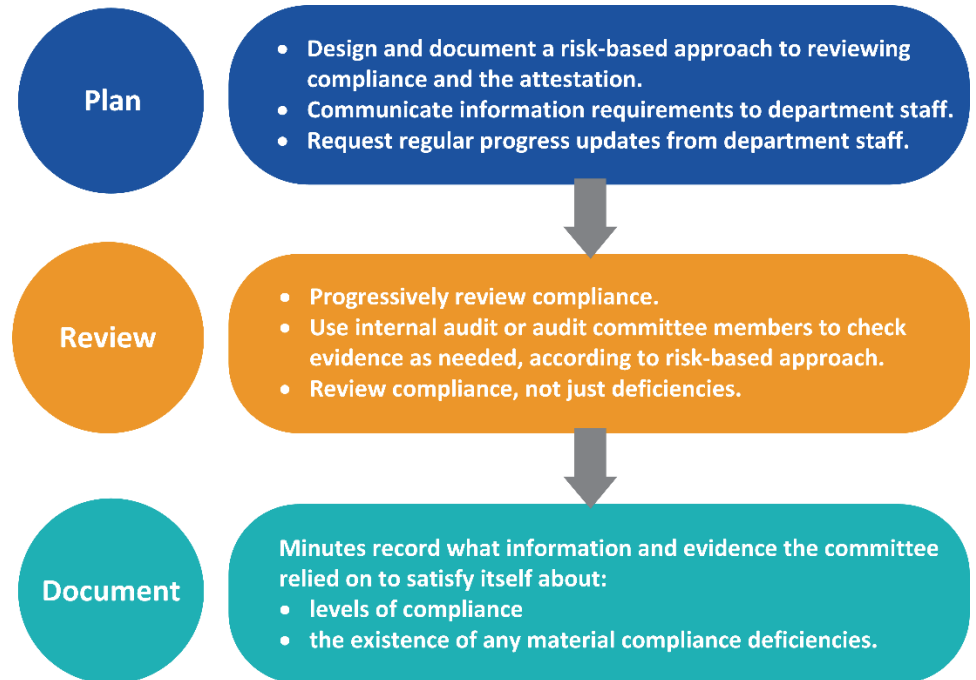
While DEDJTR's audit committee documented elements that showed its approach, none of the audit committees transparently recorded that they plan or adopt a risk-based approach to their compliance and attestation-related actions, for example, in their internal audit plan, meeting papers or minutes. Only DTF's audit committee minutes identify the information that it expects the department to provide.

Documenting the approach is not a specific requirement of the AMAF or the standing directions. However, the significance of audit committees' obligations under the standing directions is high relative to the number of members and amount of time they have to fulfil them. Audit committees and their members also need to demonstrate accountability and transparency in performing their roles. Planning and articulating a risk-based approach—considering the nature of a portfolio's assets, value, materiality and significance to service delivery—would help committees avoid unnecessary compliance burdens and third-party costs.

Based on our findings, Figure 3H identifies a good practice model for audit committees' future review of the AMAF compliance assessment and the attestation. The extent to which all elements are relevant to each department will depend on the complexity and risks of their asset portfolios, the level of compliance and maturity, and the potential for material compliance deficiency.

Figure 3H

A good practice model for audit committees' future review of AMAF compliance and attestations



Source: VAGO.

Information received by audit committees

An effective approach to compliance enables a department to meet its obligations under the standing directions. The annual review and reporting against financial management obligations for the AMAF should provide rigour in compliance assessment, ensure action is taken to improve identified compliance weaknesses at the departmental level and increase transparency. Audit committees play a critical role in this.

Our August 2016 *Audit Committee Governance* audit found that providing effective operational support for audit committees is a significant role of departments. It also identified that an audit committee's operation is enhanced by having high-quality information. It recommended that departments work with their audit committees to better identify the committee's information needs, including whether reported information is reliable and understandable. All departments accepted the recommendation.

Departments provide varying levels of written information to their audit committees to enable them to review compliance, understand whether deficiencies are material or not, and satisfy themselves about the attestation. Figure 3I identifies good practices we saw in relation to this.

Figure 31

Good practices in information that departments provided to their audit committees

Departments provided to their audit committees:

- information on compliance with the AMAF and evidence for this, not just on compliance deficiencies
- rationales for whether or not any compliance deficiencies are material
- compliance information against each of the 41 mandatory requirements, either at a whole-of-department level or for significant asset classes, to assist the committee to understand and review the department's compliance assessment and attestation and inform its advice to the Secretary about compliance, deficiencies and any material deficiencies
- proposed remedial actions to address compliance deficiencies and material deficiencies—for example, in the form of an improvement plan.

These practices are relevant to audit committees of departments with simple or more complex asset portfolios, although the level of detail needed may vary in proportion to the criticality, complexity and risk.

Source: VAGO.

There are gaps in the documentation departments provide to audit committees about AMAF compliance:

- The information provided to four committees only identifies compliance deficiencies, and does not include information to support areas assessed as 'compliant'.
- Where compliance information is included, two committees received limited information describing the basis or evidence for why individual requirements are rated as 'compliant'.
- Three committees received no information on why identified deficiencies were not material.
- One committee received no information related to compliance or compliance deficiencies—only a rationale for why there were no material compliance deficiencies.

The chairs of six audit committees and a committee member of the seventh said that their committees considered that the level of AMAF evidence and the information that they received from departments met their expectations. Most of the committee members we spoke to advised us that progressive briefings from departmental staff and the results of trial attestations undertaken in 2016–17 helped them fulfil their annual reviews of compliance and attestation responsibilities. One chair explained, 'we understood where we were going. We had the chance to ask questions and understand the requirements'. Another considered that the AMAF was 'a small part of the attestation' and did not need more detailed information.

Given the accountability focus of the AMAF, we consider audit committees need more information on the annual AMAF compliance assessments, at least for significant asset classes or where the department identifies significant risks associated with the AMAF. This would include information on which—if any—of the 41 mandatory requirements they are compliant with and why, in addition to information on non-material compliance deficiencies. It would also include a clear rationale for why any compliance deficiencies are not material, as well as for any that are deemed material. Although oral presentations, discussions and past results are important, they should complement the documented compliance assessments and determinations, and not be a substitute for them.

Audit committees' review of the attestation

We found that few audit committees checked evidence of compliance. Although they all discussed compliance, none recorded how they satisfy themselves about compliance and the attestation.

Checks on the AMAF requirements assessed as compliant

Only DEDJTR's and DHHS's audit committees could demonstrate that they reviewed evidence supporting the departments' compliance assessments. One committee chair explained that it is important to review compliance evidence because 'we need to satisfy ourselves ... we want a second pair of independent eyes'.

Both committees commissioned internal audits of the departments' AMAF compliance assessments to check the evidence of compliance. DEDJTR's audit committee chair also reviewed the hardcopy compliance assessment sheets completed for the department's multiple asset classes and the attestations made by the senior leaders with delegated responsibility for them. The internal audits provided objective and independent assurance to the audit committees on the level of compliance with the AMAF mandatory requirements, and about whether material compliance deficiencies existed.

This is a sound approach for departments with complex asset portfolios or significant AMAF or asset-related risks.

The two internal audits found multiple examples where a compliant rating was based on inappropriate or inadequate evidence, showing that the departments had overstated their AMAF compliance. This shows the benefit of an internal audit to support an accurate compliance assessment and identify where staff making the assessments may need additional training and guidance.

DPC's audit committee recorded that its simple asset holdings did not warrant a review of evidence. This is consistent with a practical and risk-based approach.

The remaining four audit committees did not check evidence of compliance. They relied on two sources of information to satisfy themselves about the accuracy of the compliance assessments, which were:

- managements' assertions about the departments' AMAF progress and compliance, and sign off by delegated senior leaders on the compliance assessments—although the committees did not record how they tested the completeness of the explanations supporting the management assertions
- the positive results from internal audits of their controls over compliance.

They also advised us that they were aware that supporting evidence was available should the committee want to review it.

As three of these departments identified significant compliance risks related to the AMAF, their audit committees' reviews would be more transparent if they recorded how they were satisfied that the evidence provided justified the compliance assessment.

Processes audit committees use to satisfy themselves about compliance and the attestation

Audit committee chairs and departmental staff who attended committee meetings advised us that compliance and material deficiencies were discussed prior to the attestation. However, there are limited records in audit committee meeting minutes indicating how the committees considered compliance and compliance deficiencies, and the evidence for them.

No audit committee transparently recorded how it considered the department's information to satisfy itself about the AMAF attestation. While audit committee meeting papers indicate what information is presented to the committees, committee minutes are brief and decision-orientated and do not record the discussions held. They do not indicate how the information provided is used to satisfy committees about the departmental compliance assessments and attestations. For example, they do not identify how committees check the assertions that departmental staff make, how much weight they give to draft internal audit reports or how they gain assurance that material compliance deficiencies do not exist.

As a result, most audit committees could not demonstrate that they used risk- and evidence-based approaches to satisfy themselves about the level of compliance attained and the compliance attestation.

One audit committee only considered the overall potential for any material compliance deficiency, without receiving any ratings of compliance, evidence of compliance or information on compliance deficiencies prior to the 2018 attestation. If audit committees only consider the potential for material deficiencies, they are not fulfilling their compliance review role.

Audit committee chairs all agreed that balance is needed in the level of detail they record in their minutes on the considerations that inform key actions and decisions. The chairs or members of four audit committees we interviewed agreed that recording key discussions relating to the AMAF could be looked at for transparency.

4

Supporting implementation and compliance

DTF is responsible for supporting the implementation of the AMAF and overseeing compliance with the standing directions. We examined its approach to meeting these responsibilities and the extent to which it has addressed departments' needs for guidance and support.

4.1 Conclusion

DTF actively supports the departments to apply the AMAF and has met its responsibilities for this under the AMAF. Despite this, most departments find it challenging to understand how best to implement the AMAF and determine an appropriate approach to managing their assets. Departments also interpret requirements of the standing directions related to compliance differently. These issues are a risk to the AMAF's success and DTF's ability to understand and monitor departments' levels of compliance.

4.2 DTF's support for the AMAF

Current support actions

DTF has a role in supporting the AMAF. Under the AMAF, agencies' accountable officers are expected to drive implementation and are best placed to understand how to apply the AMAF for their assets and business operations.

DTF has fulfilled its responsibilities to support the AMAF, including by running regular asset management working group meetings for department representatives, producing the AMAF implementation guidance and reviewing agencies' implementation progress. DTF also released further guidance, covering:

- managing intangible assets (publicly available)
- determining the materiality of compliance deficiencies
- applying 'real options' analysis to asset management.

Based on our findings, we consider there is benefit in DTF conducting an evidence-based evaluation of the effectiveness of the AMAF after a further period of implementation. This would identify whether the AMAF is driving stronger leadership, improving asset management and achieving its intended outcomes. It would also identify any need for changes to support effective implementation across public sector agencies. DTF will need to identify measures of success for the AMAF to evaluate its effectiveness.

Need for more support

There are inconsistencies and uncertainty in departments' understanding and application of the AMAF and their compliance obligations. While the onus is on departments to apply the AMAF, DTF can provide departments with more guidance, clarity and support for AMAF implementation, particularly related to:

- the purpose and value of the AMAF for improving asset management practices, such as specific examples of the benefits an agency can realise through applying the framework
- the number of mandatory AMAF requirements that must be assessed for compliance
- how agencies can apply a risk-based approach to their AMAF compliance assurance activities
- how to approach the 2020–21 maturity self-assessments—for example, how these relate to the AMAF's 41 mandatory requirements and 42 good practice guidance points.

The AMAF aims to drive improved asset management through increased accountability, but four of the seven departments focused on achieving levels of compliance rather than on what they needed to do to apply the AMAF and improve their asset management. While these departments have a clear responsibility to improve their asset management, there is an opportunity for DTF to reinforce the purpose and value of implementing the AMAF.

Departments have an inconsistent understanding of the number of mandatory requirements they need to meet. The AMAF names 41 specific requirements that agencies 'must meet to allow for full attestation of compliance with the framework' and lists them under 20 category headings. Some departments assessed compliance against the 20 headings and others against the 41 requirements. The AMAF should clarify whether compliance relates to the 20 category headings or the 41 requirements and clearly number the mandatory requirements.

Some departments also expressed uncertainty about when or whether DTF expects agencies to achieve full compliance with all mandatory requirements, and how full compliance relates to the separate maturity assessment.

The AMAF implementation guidance could better explain how agencies can apply a risk-based approach to both compliance and maturity assessments, the separate purposes of the two assessments and how they relate to the attestation.

The AMAF and its implementation guidance provide limited advice to agencies on how to approach the maturity self-assessments due from 2020–21. Given the inconsistencies and gaps we have identified with the use and approach for compliance assessments—an established practice—there is a risk that departments’ approaches to the new maturity assessment are inconsistent and inadequate. Benefit would result from DTF providing more guidance and potentially a common template for this well ahead of the 2020–21 deadline as departments that have already begun assessing maturity have identified it can take time to develop and embed the process.

4.3 DTF’s support for the standing directions

The standing directions commit DTF to establishing oversight arrangements over all the directions from 2016–17. DTF has some arrangements in place for this, for example, working with departments in a community of practice to improve compliance and support the attestation, and continuing its public reporting to summarise compliance across the state.

The oversight arrangements identify other ways DTF could monitor performance and identify improvements, including analysing relevant data to identify the need for any improvements and conducting an assurance program. DTF assessed agencies’ approaches to the new standing directions when the directions were first introduced in 2016, but has not yet analysed data or assured compliance. The gaps and inconsistencies we saw in the approaches departments take to compliance and assurance with the AMAF suggest there would be benefit in DTF evaluating the standing directions to determine whether agencies are effectively improving financial management practices and compliance.

The significant issues we found with how departments interpret and apply the standing directions to the AMAF included:

- not designing compliance assessment and assurance approaches based on the levels and criticality of assets
- not identifying, documenting and verifying appropriate evidence to substantiate compliance
- not documenting the rationale for key considerations and decisions, such as whether any compliance deficiencies are material
- inconsistently interpreting the concepts of compliance, compliance deficiency, material compliance deficiency and remedial action
- not valuing compliance assurance as an opportunity to assess progress, review priorities and drive continuous improvement.

The relationship between the AMAF compliance assessment and the attestation, and the different definitions of compliance applied through these two processes, is unclear. The departments' understanding and application of these processes would benefit from DTF clearly aligning and explaining:

- the purpose of the attestation
- the relationship between the attestation, the identification of material compliance deficiencies and the requirement to comply with all AMAF mandatory requirements.

Compliance reporting

The standing directions instructions require departments to report to DTF on their financial management compliance, in relation to:

- the levels of compliance achieved
- key areas of compliance deficiency, including planned and completed remedial actions and timeframes
- an assessment of the significant compliance risks and key strategies to mitigate these risks.

DTF uses this information to report to the Assistant Treasurer on compliance trends and risks.

All departments identified compliance deficiencies in their 2017–18 reports to DTF on financial management compliance, either with the AMAF overall or with one or more of the AMAF's mandatory requirements. Four departments identified compliance with the AMAF as a significant risk in these reports.

DTF's review of the departments' reports found gaps in the quality and detail of some of the AMAF compliance reporting data provided by departments. It is hard for DTF to identify compliance trends and risks because of wide differences in the way departments report. For example:

- some departments reported a single deficiency against the AMAF as a whole, some recorded deficiencies against the 41 mandatory requirements and others recorded deficiencies against a subset of these requirements
- some departments aggregated deficiencies across all asset classes, while others recorded deficiencies for individual asset classes
- the number of deficiencies that departments recorded in their compliance reports did not always tally with the number identified in departments' internal compliance assessments.

DTF updated its template for this reporting in 2017–18 following the trial attestation in 2016–17. The aim was to better support the AMAF compliance reporting, but these issues persist.

While Secretaries decide the content of these reports, DTF should review the compliance reporting requirements to ensure reporting is comparable across agencies and provides the value intended.

Clarity of the standing directions' requirements for audit committees

Our examination of how audit committees have addressed their responsibilities related to the AMAF found that two committees—DEDJTR's and DHHS's—had better practices than the other five. Their practices reflect their understanding of:

- committees' responsibilities under the standing directions
- the need to be accountable for their decisions.

Audit committees are responsible for understanding and fulfilling their responsibilities, but there would be benefit in DTF reinforcing audit committees' compliance and attestation responsibilities to ensure the critical role performed by committees is well understood.

Appendix A

Audit Act 1994 section 16— submissions and comments

We consulted with all departments and considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report to them their submissions or comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

DET	70
DELWP	72
DHHS	75
DJCS	77
DJPR	80
DPC	83
DoT	85
DTF	87

RESPONSE provided by the Secretary, DET



Department of
Education & Training

Office of the Secretary

2 Treasury Place
East Melbourne Victoria 3002
Telephone: +613 9637 2000
DX210083

BRI1925769

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE 3000

Dear Mr Greaves

Proposed report: Compliance with the Asset Management Accountability Framework

Thank you for your letter of 29 April 2019, and the opportunity to respond to the proposed report for the *Compliance with the Asset Management Accountability Framework* audit.

The Department is committed to improving the management of its asset base to better deliver services for Victorians that access education and training services.

The Department has reviewed the report and agrees with the findings, conclusions and recommendations. The Department's actions to address the recommendations are attached.

The issues raised in the proposed report will assist the Department in strengthening and improving asset management practices, assurance processes and compliance with the Asset Management Accountability Framework.

Should you wish to discuss the Department's response, please contact Jonathan Kaplan, Executive Director, Integrity and Assurance Division, Department of Education and Training, on 7022 0119 or by email: kaplan.jonathan.e@edumail.vic.gov.au.

Yours sincerely

Jenny Atta
Secretary
13/5/2019



RESPONSE provided by the Secretary, DET—continued

DET action plan: Compliance with the Asset Management Accountability Framework (AMAF)					
#	Recommendations for DET		#	Actions	End date
1	Assign responsibilities for applying the AMAF, improving asset management and assessing compliance to senior leaders in charge of assets.	Accept	1.1	DET has assigned responsibilities to senior leaders in applying the AMAF, improving asset management and assessing compliance. These responsibilities will be further reviewed and refined.	Dec 2019
2	Ensure that AMAF implementation plans focus on improving asset management practices in addition to delivering remedial actions and achieving compliance.	Accept	2.1	DET has established processes for implementing and complying with the AMAF but will develop a specific AMAF Implementation Plan and continue to strengthen asset management practices incorporated in its key asset management documents in addition to implementing remedial actions to help achieve compliance.	Jun 2020
3	Adopt and document a risk- and evidence-based approach to assuring compliance with the AMAF.	Accept	3.1	DET will continue to adopt a risk- and evidenced-based approach to assuring compliance with the AMAF and will strengthen its arrangements by documenting its approach.	Dec 2019
			3.2	DET will continue to adopt its risk- and evidenced-based approach to the governance of reporting compliance with the AMAF (as per the Standing Directions), and will strengthen its arrangements by documenting and communicating its approach.	Dec 2019
4	Improve the accuracy of compliance assessments by ensuring they have appropriate evidence to substantiate compliance and by documenting the rationale for whether or not material compliance deficiencies exist.	Accept	4.1	DET has documented its material compliance deficiencies and its pathway to compliance, and its compliance assessments are supported by evidence. DET will strengthen these approaches by further documenting the rationale for material compliance deficiencies, and reviewing attestations.	Oct 2019
6	Audit committees demonstrate that they are fulfilling their independent review responsibilities under the standing directions, by: <ul style="list-style-type: none"> adopting and recording a risk- and evidence-based approach to their AMAF review, and monitoring responsibilities recording the information they rely on to review compliance and how they satisfy themselves with the departmental AMAF compliance attestations. 	Accept	6.1	DET's Audit and Risk Committee already monitors AMAF compliance. It will strengthen its approach by documenting its risk- and evidence-based approach to its AMAF review and monitoring responsibilities.	Oct 2019
			6.2	DET's Audit and Risk Committee will record what informs its review of compliance and how it verifies the Department's AMAF compliance attestation.	Oct 2019

RESPONSE provided by the Secretary, DELWP



Department of Environment,
Land, Water and Planning

PO Box 500, East Melbourne,
Victoria 8002 Australia
delwp.vic.gov.au

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

Ref: SEC014151



Dear  Greaves

**PROPOSED PERFORMANCE AUDIT REPORT – COMPLIANCE WITH THE ASSET
MANAGEMENT ACCOUNTABILITY FRAMEWORK**

Thank you for your letter of 29 April 2019 providing the Department of Environment, Land, Water and Planning (DELWP) with an opportunity to provide comments to be included in the performance audit report on Compliance with the Asset Management Accountability Framework.

I acknowledge the importance of this audit and of sound asset management across the public sector.

The attached Management Action Plan addresses each of the audit recommendations and is submitted for inclusion with the final report.

If you would like more information about this matter, please contact Scott Bray, Manager, Financial Policy and Compliance, DELWP, on (03) 9194 1106 or email scott.bray@delwp.vic.gov.au.

Yours sincerely

John Bradley
Secretary

13/5/19

Encl.

Any personal information about you or a third party in your correspondence will be protected under the provisions of the *Privacy and Data Protection Act 2014*. It will only be used or disclosed to appropriate Ministerial, Statutory Authority, or departmental staff in regard to the purpose for which it was provided, unless required or authorized by law. Enquiries about access to information about you held by the Department should be directed to foi.unit@delwp.vic.gov.au or FOI Unit, Department of Environment, Land, Water and Planning, PO Box 500, East Melbourne, Victoria 8002.



Asset Management Accountability Framework

DELWP's Management Action Plan

Recommendations	Agreed Action	Completion Date
Recommendation #1 Assign responsibilities for applying the AMAF, improving asset management and assessing compliance to senior leaders in charge of assets.	Support: DELWP supports this recommendation. DELWP will strengthen leadership for asset management by ensuring there is greater executive oversight. This may include reporting further AMAF implementation to the Senior Executive Team through the relevant committee. For material asset classes, Deputy Secretaries will also be asked to have direct involvement in the attestation process from the 2018-19 compliance cycle.	31 October 2019
Recommendation #2 Ensure that their AMAF implementation plans focus on improving asset management practices in addition to delivering remedial actions and achieving compliance.	Support: DELWP supports this recommendation. In consultation with Asset Class Managers, DELWP's AMAF implementation plan for 2019-20 will be developed to include asset management improvement actions in addition to delivering remedial actions and achieving AMAF compliance. Completion of this action will be evidenced by the completion of an updated implementation plan which includes specific asset improvement actions.	31 October 2019
Recommendation #3 Adopt and document a risk and evidence-based approach to assuring compliance with the AMAF.	Support: DELWP supports this recommendation. DELWP will improve its documentation on the use of a risk and evidence-based approach to AMAF compliance attestation. This will include better documentation of the risk approach adopted by DELWP to AMAF implementation and compliance assurance. Completion of this action will be evidenced by the availability of a documented approach to compliance assurance.	31 October 2019
Recommendation #4 Improve the accuracy of their compliance assessments by ensuring they have appropriate evidence to substantiate compliance and by documenting their rationale for whether or not material compliance deficiencies exist.	Support: DELWP supports this recommendation. DELWP will ensure there is evidence to substantiate its compliance attestations, including its rationale for determining whether or not there are material compliance deficiencies. This will include the collation of documentation to support attestations against specific mandatory requirements of the AMAF. Completion of this action will be evidenced by the availability of documentation to support compliance assessments for 2018-19.	31 October 2019



Environment,
Land, Water
and Planning

Asset Management Accountability Framework

Recommendations	Agreed Action	Completion Date
<p>Recommendation #5</p> <p>Assess compliance with the AMAF's mandatory requirements separately for each asset class that they identify as having higher significance, criticality, risk or complexity.</p>	<p>Support: DELWP supports this recommendation.</p> <p>For high risk asset classes, DELWP will complete individual asset compliance checklists at asset class level from the 2018-19 attestation cycle, rather than only complete the compliance checklist centrally after consultation with asset class managers. These individual checklists will be used in formulating the consolidated checklist and be retained as evidence for audit purposes. Completion of this action will be evidenced by the completion of compliance checklists for higher risk asset classes and their linkage to forming a consolidated position.</p>	31 October 2019
<p>Recommendation #6</p> <p>The audit committee demonstrate that they are fulfilling their independent review responsibilities under the standing directions by:</p> <ul style="list-style-type: none"> adopting and recording a risk and evidence-based approach to their Asset Management Accountability Framework review and monitoring responsibilities recording the information they rely on to review compliance and how they satisfy themselves with the departmental AMAF compliance attestations. 	<p>Support: DELWP supports this recommendation.</p> <p>DELWP will provide a paper to its Risk and Audit Committee (RAC) sufficiently in advance of the attestation explaining the requirements under AMAF, DELWP's approach to implementing AMAF, best practices in other departments and the RAC's responsibility in relation to AMAF under the Standing Directions. RAC can use this information to determine their evidence requirements for the attestation process. The presentation of the compliance attestation to the RAC will then be supported by any additional evidence requested by the Committee.</p>	31 October 2019

RESPONSE provided by the Secretary, DHHS



Department of Health and Human Services

50 Lonsdale Street
Melbourne Victoria 3000
Telephone: 1300 650 172
GPO Box 4057
Melbourne Victoria 3001
www.dhhs.vic.gov.au
DX 210081
BAC-143

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000


Dear Mr Greaves

Thank you for your letter dated 29 April 2019 and the invitation to provide comments to be included in the report on Compliance with the Asset Management Accountability Framework.

The Department of Health and Human Services (the department) has reviewed the report and accepts the recommendations. Enclosed with this letter, I present the department's action plan addressing the report's recommendations.

The department currently has individual asset management plans in place for its significant asset classes and is in the process of developing the whole of department asset management plan. The plan will address the *Asset Management Accountability Framework* mandatory requirements and will guide consistent asset management across departmental asset classes (appropriate to size and complexity of its asset portfolio).

I would like to take this opportunity to thank your staff for their work, and the professional manner with which they engaged with departmental staff.

Yours sincerely


Kym Peake
Secretary

10 / 05 / 2019



RESPONSE provided by the Secretary, DHHS—continued

Department of Health and Human Services action plan to address recommendations from
Compliance with the Asset Management Accountability Framework audit

No	VAGO recommendation	Action	Completion date
We recommend that all departments:			
1	assign responsibilities for applying the <i>Asset Management Accountability Framework</i> , improving asset management and assessing compliance to senior leaders in charge of assets	<p>The department accepts this recommendation</p> <p>Senior DHHS leaders are already actively involved in driving the <i>Asset Management Accountability Framework</i> (AMAF) implementation and in overseeing progress and compliance at significant asset class level. Key staff across significant asset class level have undertaken training in asset management which has been reinforced in staff performance planning and development processes.</p> <p>The department will:</p> <ul style="list-style-type: none"> develop a capability framework based on skills and capabilities outlined in the AMAF. 	30 June 2020
2	ensure that their AMAF implementation plans focus on improving asset management practices in addition to delivering remedial actions and achieving compliance	<p>The department accepts this recommendation</p> <p>The department will:</p> <ul style="list-style-type: none"> strengthen its current continuous improvement approach of monitoring, reviewing and analysing its asset management processes to find new opportunities/improvements. 	30 June 2020
3	adopt and document a risk- and evidence-based approach to assuring compliance with the <i>Asset Management Accountability Framework</i>	<p>The department accepts this recommendation</p> <p>The department will:</p> <ul style="list-style-type: none"> develop and implement a risk based approach to determine the levels of evidence/frequency of compliance assessments needed across its asset classes. 	30 June 2020
4	improve the accuracy of their compliance assessments by ensuring they have appropriate evidence to substantiate compliance and by documenting their rationale for whether or not material compliance deficiencies exist	<p>The department accepts this recommendation</p> <p>The department will:</p> <ul style="list-style-type: none"> provide templates, training and guidance as needed to staff which will enable them to make accurate and consistent compliance assessments. develop guidelines to better support the determination of materiality and the rationale being used. 	30 June 2020
We recommend that the audit committees of all departments:			
6	demonstrate that they are fulfilling their independent review responsibilities under the standing directions by:	The department accepts this recommendation.	
	<ul style="list-style-type: none"> adopting and recording a risk- and evidence-based approach to their <i>Asset Management Accountability Framework</i> review and monitoring responsibilities 	The DHHS Audit & Risk Management (ARMC) Committee has previously and will continue to apply an assurance approach that is proportionate to the significance of the asset classes or to significant assets related risks	30 June 2020
	<ul style="list-style-type: none"> recording the information they rely on to review compliance and how they satisfy themselves with the departmental <i>Asset Management Accountability Framework</i> compliance attestations 	<p>The DHHS Audit & Risk Management Committee Secretariat will:</p> <ul style="list-style-type: none"> amend their record keeping practices to ensure that meeting minutes reflect the review undertaken by the ARMC. 	30 June 2020

RESPONSE provided by the Secretary, DJCS



Department of Justice and Community Safety

Secretary

Level 26
121 Exhibition Street
Melbourne Victoria 3000
Telephone: (03) 8684 0501
justice.vic.gov.au
DX: 210077

Our ref: CD/19/309508

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Greaves

Thank you for your letter of 29 April 2019 providing me with the opportunity to formally respond to your *Compliance with the Asset Management Compliance Framework* proposed draft report.

The Department of Justice and Community Safety (the department) supports the report's recommendations, including those for all government departments, departmental audit committees and the recommendation directed at the department (recommendation five).

The department accepts the recommendations directed towards it and its Audit and Risk Management Committee. I have attached a detailed action plan that comprehensively addresses each of your recommendations and will significantly enhance the department's management of assets and reporting against the Asset Management Compliance Framework.

If you have any further questions about the department's response, please contact Mr Kris Waring, Chief Risk and Audit Officer, on 8684 8280 or via email Kris.Waring@justice.vic.gov.au.

Yours sincerely

Rebecca Falkingham
Secretary

14 / 5 / 19.

Encl. *Compliance with the Asset Management Compliance Framework - Action Plan*

Personal and health information received by the Department of Justice and Community Safety is managed in accordance with the Victorian privacy legislation. A copy of the Department's privacy policy is available at www.justice.vic.gov.au. For Privacy enquiries, please telephone (03) 8684 0071.

Page 1 of 1



Compliance with the Asset Management Accountability Framework

Department of Justice and Community Safety response to Victorian Auditor-General's Office recommendations

Recommendation	Proposed Action	Completion Date
Recommendation 1 All departments assign responsibilities for applying the <i>Asset Management Accountability Framework</i> , improving asset management and assessing compliance to senior leaders in charge of assets.	The Department of Justice and Community Safety accepts this recommendation and will assign responsibilities for applying the Asset Management Accountability Framework, improving asset management and assessing compliance to senior leaders in charge of assets by: <ul style="list-style-type: none"> a) defining AMAF roles and responsibilities (from asset managers to senior executives) and assigning them to individuals b) regularly providing the Secretary (Accountable Officer) with comprehensive briefings on compliance with the AMAF and asset related issues c) ensuring Asset Management Plans include defined roles and responsibilities. 	30 June 2019 30 June 2019 30 June 2020
Recommendation 2 All departments ensure that their AMAF implementation plans focus on improving asset management practices in addition to delivering remedial actions and achieving compliance.	The Department of Justice and Community Safety accepts this recommendation and will ensure its AMAF implementation plans focus on improving asset management practice and deliver remedial actions to achieve AMAF compliance by: <ul style="list-style-type: none"> a) developing a consistent departmental AMAF implementation plan based on best practice b) engaging the Secretary to approve the AMAF implementation plan c) actioning of AMAF implementation plan d) comprehensively assessing compliance against the AMAF framework. 	30 August 2019 30 September 2019 31 March 2020 and ongoing 31 July 2020 and ongoing
Recommendation 3 All departments adopt and document a risk-and evidence-based approach to assuring compliance with the <i>Asset Management Accountability Framework</i> .	The Department of Justice and Community Safety accepts this recommendation and will adopt a risk and evidence based approach to assuring compliance against the AMAF by: <ul style="list-style-type: none"> a) categorising departmental assets using a risk based approach b) stipulating minimum evidentiary standards for asset managers to retain in support of attestation c) developing a comprehensive assurance model to monitor the AMAF d) working with the Audit, Risk and Management Committee (ARMC) to ensure that they are fully informed of the attestation and related evidence. 	30 June 2019 31 March 2020 and ongoing 31 July 2020 and ongoing 31 July 2020 and ongoing

RESPONSE provided by the Secretary, DJCS—continued

Recommendation	Proposed Action	Completion Date
<p>Recommendation 4 All departments improve the accuracy of their compliance assessments by ensuring they have appropriate evidence to substantiate compliance and by documenting their rationale for whether or not material compliance deficiencies.</p>	<p>The Department of Justice and Community Safety accepts this recommendation and will ensure it has appropriate evidence to substantiate compliance and will document its rationale for determining whether or not material compliance deficiencies exist by:</p> <ul style="list-style-type: none"> a) reviewing site-based asset attestations annually to ensure high quality responses b) developing a comprehensive assurance model to monitor the AMAF and working with the ARMC to ensure they are fully informed of attestation and related evidence. 	<p>30 June 2020 (critical assets) and 30 June 2022 (non-critical assets)</p> <p>31 July 2020 (critical assets) and ongoing (non-critical assets)</p>
<p>Recommendation 5 The Department of Justice and Community Safety and Department of Environment, Land, Water and Planning assess compliance with the <i>Asset Management Accountability Framework's</i> mandatory requirements separately for each asset class that they identify as having higher significance, criticality, risk or complexity exist.</p>	<p>The Department of Justice and Community Safety accepts this recommendation and will separately assess compliance against AMAF for each asset class identified as higher significance, criticality, risk or complexity by:</p> <ul style="list-style-type: none"> a) stipulating minimum evidentiary standards for asset managers to retain in support of attestation b) developing a new AMAF attestation processes that will ensure the evidence covers AMAF requirements for each asset class identified as having higher significance, criticality, risk or complexity including: provision of guidance material; training; and quality review by the asset team of evidence provided by each site c) developing a comprehensive assurance model to monitor the AMAF. 	<p>31 March 2020</p> <p>30 June 2020</p> <p>31 July 2020</p>
<p>Recommendation 6 All department audit committees demonstrate that they are fulfilling their independent review responsibilities under the standing directions by:</p> <ul style="list-style-type: none"> • Adopting and recording a risk- and evidence-based approach to their <i>Asset Management Accountability Framework</i> review and monitoring responsibilities • Recording the information they rely on to review compliance and how they satisfy themselves with the departmental <i>Asset Management Accountability Framework</i> compliance attestations. 	<p>The Department of Justice and Community Safety accepts the recommendation and will work with its audit committee to review its process for monitoring and assessing compliance with the AMAF. This includes:</p> <ul style="list-style-type: none"> a) developing and approving a risk and evidence based approach to the monitoring of standing directions compliance b) recording the information relied upon when determining compliance. 	<p>31 December 2019</p> <p>31 December 2019</p>

RESPONSE provided by the Secretary, DJPR



Department of Jobs, Precincts and Regions

GPO Box 4509
Melbourne,
Victoria 3001 Australia
Telephone: +61 3 9651 9999
DX 210074

Andrew Greaves
Auditor General
Victorian Auditor - General's Office
Level 31/35 Collins Street
Melbourne Vic 3000

Dear Mr Greaves

**PROPOSED PERFORMANCE AUDIT REPORT: COMPLIANCE WITH THE ASSET
MANAGEMENT ACCOUNTABILITY FRAMEWORK**

Thank you for your letter dated 29 April 2019, providing the department with an opportunity to review and comment on VAGO's proposed performance audit report on the Asset Management Accountability Framework (AMAF) for 2017-18.

The department continues to undertake work to implement the AMAF and welcomes best practice guidance from this performance audit. The department accepts the five recommendations that VAGO has identified.

Feedback on the proposed performance audit report including the proposed actions against the audit recommendations will be provided via VAGO's secure electronic document system.

The department is committed to working collaboratively with your team and should you require further information, please contact Jessica Lambous, Executive Director, Finance and Procurement, on 8392 7085 or jessica.lambous@ecodev.vic.gov.au.

Yours sincerely

Simon Phemister
Secretary

131 5119



RESPONSE provided by the Secretary, DJPR—continued

Department of Jobs, Precincts and Regions (DJPR) action plan to address recommendations from *Compliance with the Asset Management Accountability Framework* audit

	VAGO Recommendations	DJPR Audit Action Plan	Completion date
VAGO recommends that all departments:			
1	Assign responsibilities for applying the Asset Management Accountability Framework, improving asset management and assessing compliance to senior leaders in charge of assets	DJPR's AMAF implementation is well advanced as it continues to utilise frameworks, policies and process established in DEDJTR acknowledged in the proposed audit report. DJPR is currently reviewing its Strategic Asset Management documentation and will ensure updated documents continue to specify the roles and accountabilities of Senior Leaders in whole -of -life cycle asset management.	Review of Strategic Asset Management documentation by September 2019
2	Ensure that AMAF implementation plans focus on improving asset management practices in addition to delivering remedial actions and achieving compliance	DJPR will continue to ensure that AMAF implementation plans focus on improving asset management practices in addition to delivering remedial actions and achieving compliance. DJPR has prioritised development, review of improvement/remedial action plans and implementation of priority themes to improve both asset management and AMAF compliance. Improvement plans/ remedial action plans will continue to be monitored on a quarterly basis.	Ongoing- as some remedial action plans are expected to be in place for 2-3 years
3	Adopt and document a risk- and evidence-based approach to assuring compliance with the Asset Management Accountability Framework	DJPR will continue to adopt and document a risk- and evidence-based approach to assuring compliance with the Asset Management Accountability Framework. DJPR's Strategic Internal Audit Plan (2018-19 to 2021-22) details that an annual AMAF compliance audit will be undertaken by DJPR Internal Audit to provide assurance. DJPR is currently reviewing its Strategic Asset Management	Review of Strategic Asset Management documentation by September 2019

RESPONSE provided by the Secretary, DJPR—continued

	VAGO Recommendations	DJPR Audit Action Plan	Completion date
		documentation and will ensure updated documents continue to provide appropriate guidance.	
4	Improve the accuracy of their compliance assessments by ensuring they have appropriate evidence to substantiate compliance and by documenting their rationale for whether or not material compliance deficiencies exist	DJPR's compliance assessment tool requires a rationale for and evidence of compliance. The DJPR Asset Management Reference Group is working to build a common understanding of what constitutes robust evidence as part of the 2018-19 attestations process.	September 2019
VAGO recommends that the <u>audit committees of all departments</u>:			
5	Demonstrate that they are fulfilling their independent review responsibilities under the standing directions by: <ul style="list-style-type: none"> adopting and recording a risk- and evidence-based approach to their <i>Asset Management Accountability Framework</i> review and monitoring responsibilities recording the information, they rely on to review compliance and how they satisfy themselves with the departmental <i>Asset Management Accountability Framework</i> compliance attestations. 	DJPR audit committee will continue to demonstrate that they are fulfilling their independent review responsibilities under the standing directions. The audit committee will record how it satisfies itself that there are no material compliance deficiencies with the Asset Management Compliance Framework.	30 August 2019

RESPONSE provided by the Secretary, DPC



Department of
Premier and Cabinet

1 Treasury Place
Melbourne, Victoria 3002 Australia
Telephone: 03 9651 5111
dpc.vic.gov.au

D19/177598

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31
35 Collins Street
MELBOURNE VIC 3000

Dear Auditor-General ^{Andrew}

Thank you for your letter dated 29 April 2019 and for providing the proposed report on Compliance with the Asset Management Accountability Framework (AMAF).

The department has reviewed the report and agrees with the recommendations.

Enclosed with this letter are the department's responses to each of the recommendations directed to us, outlining the actions that we will take and projected implementation timelines. Over the relevant period, we will work with your staff to provide periodic updates as requested.

I recognise the importance that AMAF holds in relation to the department's asset management and the benefits in implementing VAGO recommendations.

Should your officers have any questions in relation to our implementation plan, please contact Sujee Silva, Acting Chief Financial Officer, on (03) 7017 3251.

Yours sincerely


Chris Eccles AO
Secretary

Encl.

Your details will be dealt with in accordance with the *Public Records Act 1973* and the *Privacy and Data Protection Act 2014*. Should you have any queries or wish to gain access to your personal information held by this department please contact our Privacy Officer at the above address.



RESPONSE provided by the Secretary, DPC—continued

Department of Premier and Cabinet (DPC) action plan to address recommendations from *Compliance with the Asset Management Accountability Framework* audit

No	VAGO recommendation	Action	Completion date
1	Assign responsibilities for applying the Asset Management Accountability Framework, improving asset management and assessing compliance to senior leaders in charge of assets.	Departments responsibility for applying the Asset Management Accountability Framework is assigned to the Chief Financial Officer with oversight by the Deputy Secretary Governance Policy and Coordination. This was done through the Secretaries' instrument of delegation for Standing Directions to senior leaders of the department. DPC is in the process of formalising the allocation of asset management accountability responsibilities to senior leaders in functional areas of the department. This work will be completed prior to 2018-19 AMAF compliance assessment.	July 2018 July 2019
2	Ensure that their AMAF implementation plans focus on improving asset management practices in addition to delivering remedial actions and achieving compliance.	Improvements to asset management practices, remediation plans, and compliance will be considered when developing the Asset Management Plans.	December 2019
3	Adopt and document a risk- and evidence-based approach to assuring compliance with the Asset Management Accountability Framework.	DPC will document our risk- and evidence-based approach to assuring compliance with the Asset Management Accountability Framework during 2019 attestation.	August 2019
4	Improve the accuracy of their compliance assessments by ensuring they have appropriate evidence to substantiate compliance and by documenting their rationale for whether or not material compliance deficiencies exist.	DPC will improve our compliance process to provide more evidence to substantiate our assessments. We note that DPC have provided rationale for our materiality assessment in 2018 attestation. We will continue to do so in future compliance assessments.	August 2019
5	Demonstrate that they are fulfilling their independent review responsibilities under the standing directions by: <ul style="list-style-type: none"> adopting and recording a risk- and evidence-based approach to their <i>Asset Management Accountability Framework</i> review and monitoring responsibilities recording the information, they rely on to review compliance and how they satisfy themselves with the departmental <i>Asset Management Accountability Framework</i> compliance attestations. 	DPC will work with our Audit Committee on implementing recommendation no 5.	August 2019

RESPONSE provided by the Secretary, DoT



Department of Transport

GPO Box 2392
Melbourne, VIC 3001 Australia
Telephone: +61 3 9651 9999
www.transport.vic.gov.au
DX 201292

Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31/35 Collins Street
MELBOURNE VICTORIA 3000

Dear Mr Greaves

Proposed report: Compliance with the Asset Management Accountability Framework


Thank you for your letter dated 29 April 2019, providing the Department of Transport (the Department) with an opportunity to respond to recommendations outlined in VAGO's proposed draft report on Compliance with the Asset Management Accountability Framework.

The Department has invested significant effort in uplifting asset management practices which has been acknowledged by VAGO as better practice across the Departments. The Department continues to undertake a significant work in improving asset management practices and welcomes best practice guidance from this performance audit.

VAGO has identified five recommendations that are relevant to the Department and the Department accepts these recommendations, which largely reflect actions already in place. We have provided formal responses to each of the recommendations applicable to the Department in the table attached to this letter.

The Department is committed to working collaboratively with your team and should you require any further information, please contact Sara McIvor, Director, Audit, Risk and Integrity on 8392 6916 or sara.mcivor@ecodev.vic.gov.au.

Yours sincerely



Paul Younis
Secretary

15 / 5 / 2019



RESPONSE provided by the Secretary, DoT—continued

Department of Transport

Action plan to address recommendations from *Compliance with the Asset Management Accountability Framework* audit

No	VAGO recommendation	Action	Completion date
VAGO recommends that all departments:			
1	Assign responsibilities for applying the <i>Asset Management Accountability Framework</i> , improving asset management and assessing compliance to senior leaders in charge of assets	We accept the recommendation. DoT has previously assigned responsibility to senior leaders in charge of assets for the application of and for ongoing assessment of compliance with the AMAF. However, we will review these to confirm they are current and appropriate.	30 Sept 2019
2	Ensure that their AMAF implementation plans focus on improving asset management practices in addition to delivering remedial actions and achieving compliance	We accept the recommendation. DoT has focussed the implementation of the AMAF on improving asset management practices. This continues to be an area of focus for DoT.	30 Sept 2019
3	Adopt and document a risk- and evidence-based approach to assuring compliance with the <i>Asset Management Accountability Framework</i>	We accept the recommendation. DoT has adopted and documented a risk- and evidence-based approach for ensuring compliance with the AMAF. The approach will be refined as required given the Department's asset risks and DoT will ensure the Audit, Risk and Integrity Committee have confirmed the approach to compliance.	30 Sept 2019
4	Improve the accuracy of their compliance assessments by ensuring they have appropriate evidence to substantiate compliance and by documenting their rationale for whether or not material compliance deficiencies exist	We accept the recommendation. DoT has implemented processes to ensure that appropriate evidence exists to substantiate compliance with the AMAF, and to document the rationale for material compliance deficiencies. This was reviewed post the 2017-18 attestation and will be reconfirmed as part of the 2018-19 year end attestation process.	30 Sept 2019
VAGO recommends that the audit committees of all departments:			
6	Demonstrate that they are fulfilling their independent review responsibilities under the standing directions by: <ul style="list-style-type: none"> Adopting and recording a risk- and evidence-based approach to their <i>Asset Management Accountability Framework</i> review and monitoring responsibilities Recording the information, they rely on to review compliance and how they satisfy themselves with the departmental <i>Asset Management Accountability Framework</i> compliance attestations. 	We accept the recommendation. DoT has the appropriate processes to ensure that the Audit, Risk & Integrity Committee is fulfilling their responsibilities under the Standing Directions in relation to the AMAF. We will ensure there is appropriate supporting information to demonstrate that the Committee is fulfilling their responsibilities.	30 Sept 2019

RESPONSE provided by the Secretary, DTF



Department of Treasury and Finance

1 Treasury Place
Melbourne Victoria 3002 Australia
Telephone: +61 3 9651 5111
dtf.vic.gov.au
DX210759

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31 / 35 Collins Street
MELBOURNE VIC 3000

Andrew

Dear Mr Greaves,

PROPOSED PERFORMANCE AUDIT REPORT: COMPLIANCE WITH THE ASSET MANAGEMENT ACCOUNTABILITY FRAMEWORK

Thank you for your letter of 29 April 2019 inviting a response to the proposed performance audit report: *Compliance with the Asset Management Accountability Framework*.

The Asset Management Accountability Framework (AMAF) is an important government initiative that is strengthening accountability for managing the State's significant asset base. The AMAF is improving asset management practices across Government and helping agencies:

- better understand the assets they hold and the purpose they serve;
- improve asset governance and risk management;
- get the best value from asset investments by understanding where to direct available funding; and
- optimise the use and lifespan of existing assets.

In 2017-18, more than 200 Government entities publicly attested in their annual reports that they had applied the AMAF. However, successful implementation of a sophisticated framework is challenging in the initial period, and for some agencies, may take several years to fully achieve.

To keep the momentum going and to support the dual goals of increasing transparency and working towards best practice in asset management, departments and agencies will need to complete a self-assessment of their asset management maturity and present this in their 2020-21 annual report.

The report identifies several improvement opportunities, and my department looks forward to working with portfolio departments to effectively embed the AMAF into their 'business as usual' asset management processes.



RESPONSE provided by the Secretary, DTF—continued

I note the findings of the report and accept the recommendations. A proposed action plan for implementation of the recommendations is attached to this letter.

Thank you for the opportunity to comment on the report.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'D. Martine', is written over the typed name.

David Martine
Secretary

9 / 5 / 2019

RESPONSE provided by the Secretary, DTF—continued

Department of Treasury and Finance action plan to address recommendations from *Compliance with the Asset Management Accountability Framework* audit

No	VAGO recommendation	Action	Completion date
All Departments – including DTF as an agency implementing the AMAF			
1	Assign responsibilities for applying the <i>Asset Management Accountability Framework</i> , improving asset management and assessing compliance to senior leaders in charge of assets	<p>DTF accepts this recommendation.</p> <p>DTF is proposing that the senior executive group (SEG) is better engaged in approving the whole of department asset management framework and other asset planning and risk management materials. Deputy secretaries with asset responsibilities will provide input into whole of department asset management plans, as part of the annual corporate planning process.</p> <p>DTF plans to update its asset management governance structure to better involve the Deputy Secretary, Commercial, in the review of the compliance assessments prior to Audit and Risk Committee (ARC) review and Secretary's attestation. This is on the basis that the Deputy Secretary Commercial is responsible for DTF's significant asset class, land and property.</p>	<p>September 2019</p> <p>August 2019</p>
2	Ensure that their AMAF implementation plans focus on improving asset management practices in addition to delivering remedial actions and achieving compliance	<p>DTF accepts this recommendation, noting it has already been implemented.</p> <p>DTF has introduced a longer- term whole of department implementation plan. The plan covers July 2019 to June 2022 and includes action steps to improve asset management practices.</p>	Completed February 2019
3	Adopt and document a risk- and evidence-based approach to assuring compliance with the <i>Asset Management Accountability Framework</i>	<p>DTF accepts this recommendation.</p> <p>DTF will document its risk-and evidence-based approach adopted in its planning phase, and in its final assessment documentation of the AMAF prepared for the Secretary and ARC on an annual basis.</p>	August 2019
4	Improve the accuracy of their compliance assessments by ensuring they have appropriate evidence to substantiate compliance and by documenting their rationale for whether or not material compliance deficiencies exist.	<p>DTF accepts this recommendation.</p> <p>VAGO has acknowledged that DTF established a reliable approach to assure compliance and support for the 2017-2018 attestation. To further improve the accuracy of compliance assessments, DTF will revise its annual reporting to the Secretary and ARC to:</p> <ul style="list-style-type: none"> improve how it documents its assessment of materiality; and progressively improve compliance assessments to collect further evidence by asset class. 	August 2019

RESPONSE provided by the Secretary, DTF—continued

6	<p>We recommend that the audit committees of all departments demonstrate that they are fulfilling their independent review responsibilities under the standing directions by:</p> <ul style="list-style-type: none"> • adopting and recording a risk- and evidence-based approach to their <i>Asset Management Accountability Framework</i> review and monitoring responsibilities 	<p>DTF accepts this recommendation.</p> <p>DTF has informed ARC of this recommendation and ARC has agreed to:</p> <ul style="list-style-type: none"> • record in meeting papers or minutes the risk-based approach to their compliance and attestation related actions and the method for satisfying themselves of the level of compliance. • request internal audit to review evidence collected. 	<p>August 2019</p> <p>August 2020</p>
	<ul style="list-style-type: none"> • recording the information they rely on to review compliance and how they satisfy themselves with the departmental <i>Asset Management Accountability Framework</i> compliance attestations. 	<ul style="list-style-type: none"> • DTF notes that ARC was commended for identifying what information it expects DTF to provide to support the compliance attestation. • ARC agrees to record in the minutes what information they relied on to satisfy itself on the levels of compliance and existence of any material compliance deficiencies. 	<p>August 2019</p>
DTF as the policy owner of the AMAF and Standing Directions			
7	<p>Review and communicate the purpose of the attestation and ensure any reference to compliance in the wording it requires agencies to use for their attestations aligns with the definition of compliance under the standing directions</p>	<p>DTF accepts this recommendation.</p> <p>Public attestation in annual reports has been an important step toward improving public sector financial management. It provides assurance that agencies have sound financial practices in place and that significant issues (material compliance deficiencies) are disclosed.</p> <p>DTF will review, and where necessary revise, the mandatory attestation instructions and associated guidance for clarity and to support agency reporting with consideration of the findings of this report.</p>	<p>December 2019</p>
8	<p>Improve consistent interpretation of the <i>Asset Management Accountability Framework</i> and its requirements by revising the <i>Asset Management Accountability Framework</i> and its implementation guidance and the standing directions guidance to clarify interpretation issues, including those related to:</p> <ul style="list-style-type: none"> • the purpose and value of the AMAF for improving asset management practices 	<p>DTF accepts this recommendation.</p> <p>DTF will continue to explore new ways to reinforce the purpose and value of improving asset management practices in line with the AMAF, including revising its AMAF communications materials.</p>	<p>December 2019</p>
	<ul style="list-style-type: none"> • the number of mandatory AMAF requirements that must be assessed for compliance 	<p>DTF will update the AMAF to more clearly articulate the number of mandatory requirements.</p>	<p>August 2019</p>
	<ul style="list-style-type: none"> • expectations about achieving full compliance and how compliance relates to asset management maturity 	<p>The AMAF sets a high bar for improving asset management practices as it is aligned to the <i>International Standard for Asset Management, ISO5500</i>.</p>	<p>August 2019</p>

RESPONSE provided by the Secretary, DTF—continued

		DTF considers that departments and agencies should take a risk-based approach to implementation which considers the size, criticality and service delivery objectives of assets held. This should inform timeframes for full compliance. DTF will update its guidance material to reinforce its expectations around full compliance.	
	• how agencies can apply a risk-based approach to their AMAF compliance assurance activities	DTF will update its guidance material to provide greater clarity on the application of a 'risk-based' approach to compliance. The degree of compliance and evidentiary requirements should be proportionate to the relative nature and value of an asset portfolio, risks and service delivery objectives.	June 2020
	• clarifying and reinforcing audit committees' responsibilities under the <i>Asset Management Accountability Framework</i> and the standing directions to review the annual compliance assessment, the materiality of any compliance deficiencies and the compliance attestation	The standing directions outline mandatory expectations of audit committees. As the standing directions are primarily principle based, each audit committee determines how best to implement these requirements to suit their individual agency circumstances. DTF will ensure the clarity of audit committee guidance.	December 2019
	• providing additional guidance on the maturity assessment well ahead of the 2020–21 deadline, including an optional template for the assessment	DTF will provide additional guidance on the maturity assessment well ahead of the release of 2020-21 annual reports	December 2019
9	Work with senior leaders across public sector agencies to reinforce the intent, benefits and accountability requirements of the <i>Asset Management Accountability Framework</i> and target the sharing of good practices with individual agencies to build their understanding of ways to improve asset management and apply risk- and evidence-based approaches to fulfilling their responsibilities	DTF accepts this recommendation. DTF will continue to work with senior leaders across the public sector to reinforce the intent of the AMAF. This could include communications to public sector executives highlighting the next stage of AMAF implementation, which includes recording maturity assessments in annual reports.	December 2019
10	Identify measures of success for the <i>Asset Management Accountability Framework</i> and, after the 2020–21 attestation, using these to evaluate the framework's effectiveness across the public sector, including the use of compliance and maturity assessments	DTF accepts this recommendation. Following the publication of AMAF maturity assessments in 2020-21, DTF plans to conduct an evaluation of the effectiveness of the policy at improving asset management practices and accountability. This will consider the extent to which compliance reporting and the publication of maturity assessments is contributing positively to this objective. DTF does not intend to regularly assess the reliability or accuracy of compliance reporting or maturity models as this is the accountability of agencies under the devolved accountability model.	December 2021

RESPONSE provided by the Secretary, DTF—continued

11	Evaluate the effectiveness of the standing directions in improving financial management practices and compliance and ensure the whole-of-government information it collates on compliance with the standing directions for reporting to the Assistant Treasurer on <i>Asset Management Accountability Framework</i> compliance risks and improvement needs is comparable across agencies and provides the value intended.	<p>DTF accepts this recommendation.</p> <p>Achieving full compliance across all agencies is an ongoing task. DTF will review the AMAF and the standing directions when agencies achieve an appropriate standard of maturity.</p> <p>DTF will evaluate the effectiveness of the AMAF after 2020-21 and the standing directions by June 2022.</p> <p>DTF seeks consistency in reporting through mandatory requirements and supporting guidance and templates.</p> <p>DTF will incorporate better practice examples in documents supporting attestation and compliance reporting requirements.</p>	<p>AMAF after 2020-21</p> <p>Standing Directions by June 2022</p> <p>Ongoing</p>
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Appendix B

The Asset Management Accountability Framework's mandatory requirements

Figure B1 is a copy of the table from DTF's 2016 AMAF, which details the mandatory requirements that responsible bodies and accountable officers must meet to allow for full attestation of compliance with the framework.

Figure B1
The AMAF's mandatory requirements

Chapter	Area	Requirement	✓/✗
Leadership and accountability			
3.1	Overview and key requirements	<ul style="list-style-type: none"> Accountable Officers must apply the mandatory requirements of the AMAF consistent with their organisation's asset threshold. 	<input type="checkbox"/>
3.1.1	Resourcing and skills	<ul style="list-style-type: none"> Accountable Officers must ensure that asset management functions are established and that they are appropriately resourced with qualified and/or skilled staff. Where asset management activities are devolved or outsourced including to entities excluded from the Standing Directions, Accountable Officers must ensure that contracted service providers or entities excluded from the Standing Directions have arrangements in place to ensure their staff are appropriately skilled and trained. 	<input type="checkbox"/>
3.1.2	Governance	<ul style="list-style-type: none"> Accountable Officers must establish appropriate governance frameworks to support the management of assets in their direct control, as well as being considerate of the governance frameworks that other organisations within their portfolio have to support management of assets in their control. Accountable Officers must comply with all mandatory requirements under other government policies when carrying out asset management planning and activities. 	<input type="checkbox"/>
3.1.2	Allocating asset management responsibility	<ul style="list-style-type: none"> Responsibility, authority and accountability for all stages of the asset lifecycle must be clearly defined and allocated within an Accountable Officer's operating frameworks. This includes allocating, documenting and clearly communicating relevant asset management responsibilities. All asset management activities must only be carried out under proper authorisation, including appropriate financial and other delegations. Accountable Officers must document who is responsible for monitoring compliance with the AMAF and ensuring that systems and processes to support the AMAF are in place. Accountable Officers must document who is responsible and accountable for decision making in relation to varying stages of an asset's lifecycle Where asset management functions are devolved or outsourced including to entities excluded from the Standing Directions, Accountable Officers must have appropriate internal management processes established to ensure that they and their outsourced providers or entities excluded from the Standing Directions are maintaining and managing assets to the required standard(s) (e.g. regular performance reporting). 	<input type="checkbox"/>

Figure B1
The AMAF's mandatory requirements—*continued*

Chapter	Area	Requirement	✓/✗
3.1.3	Attestation requirements	<ul style="list-style-type: none"> The Responsible Body's audit committee, or an alternative review mechanism when there is no audit committee¹, must be satisfied with the Responsible Body's attestation of compliance with requirements of the Standing Direction on asset management prior to finalising the attestation in the annual report. Agencies are also subject to any other requirements under the Directions to ensure compliance and support the attestation. 	<input type="checkbox"/>
3.1.4	Monitoring asset performance	<ul style="list-style-type: none"> Accountable Officers must establish performance standards and targets for their assets, considerate of available resources that form part of their broader service planning goals. Accountable Officers must also establish and maintain management processes to regularly record, monitor and assess performance, and use those results to improve performance. The performance and utilisation of assets must be reviewed periodically. Asset performance monitoring must also be incorporated into the overall corporate and strategic planning framework. 	<input type="checkbox"/>
3.1.4	Asset management system performance	<ul style="list-style-type: none"> Accountable Officers must establish systems and processes for monitoring the performance of both: <ul style="list-style-type: none"> their assets; and the overall asset management systems themselves; to ensure that the systems have been implemented and maintained, and are effective in meeting asset management requirements and responsibilities. From 2020–21 Responsible Bodies must, at least every three years, conduct a self-assessment of the level of asset management maturity within their organisation, and other organisations within their annual report, and state this in their annual report. As part of this self-assessment, Responsible Bodies must evaluate: <ul style="list-style-type: none"> the maturity of their asset management systems and practices; the maturity of their systems and practices against their aspirational target; and their path towards achieving their aspirational target. 	<input type="checkbox"/>

¹ Refer to provisions in the Standing Directions on the role of the Responsible Body when the agency has been exempt from audit committee requirements.

Figure B1

The AMAF's mandatory requirements—*continued*

Chapter	Area	Requirement	✓/✗
3.1.4	Reporting to Government	<ul style="list-style-type: none"> Through its asset information management system (AIMS), an Accountable Officer must also ensure that the organisation can provide relevant asset information and performance data to government/central agencies as required, and is flexible enough to respond to reasonable information reporting requests by the Government. 	<input type="checkbox"/>
3.1.4	Evaluation of asset performance	<ul style="list-style-type: none"> As part of the performance management process, an Accountable Officer must regularly review the performance of its organisation's assets. They must also make any necessary changes to their organisation's asset management and risk management processes and systems. This will allow the organisation's asset base to continue to achieve the organisation's service delivery objectives, within available resources. 	<input type="checkbox"/>
3.1.5	Other Requirements	<ul style="list-style-type: none"> Accountable Officers must ensure there are appropriate risk management strategies and processes to support asset management established, including processes to identify and maintain assets that are at risk of critical service failure. 	<input type="checkbox"/>
Planning			
3.2.2	Asset management strategy	<ul style="list-style-type: none"> A key requirement of the AMAF is for Accountable Officers to develop an asset management strategy for their organisation's entire asset base over the whole asset lifecycle on a portfolio basis. The strategy must outline how the Accountable Officer will use the organisation's assets to support its service delivery objectives and incorporate planning for assets (including proposed upgrades, acquisitions and disposals) over different periods of time (e.g. short term: one to three years, medium term: four to nine years, and long term: 10 or more years). The strategy must be evaluated by senior management, and updated where applicable. 	<input type="checkbox"/>
3.2.2	Risk management and contingency planning	<ul style="list-style-type: none"> As part of their asset management strategies, Accountable Officers must incorporate asset risk management planning, which describes the risk management strategies and actions (e.g. treatment plans) to be implemented for assets under their control. Accountable Officers must continue to monitor and evaluate the effectiveness of their risk management measures on a regular basis and, if necessary, redefine them. 	<input type="checkbox"/>

Figure B1

The AMAF's mandatory requirements—*continued*

Chapter	Area	Requirement	✓/✗
Acquisition			
3.3.1	Overview	<ul style="list-style-type: none"> During the acquisition phases Accountable Officers must adequately consider, on behalf of their organisation: <ul style="list-style-type: none"> solutions to support service delivery that do not involve asset acquisitions; risks in acquiring assets or delivering services; the appropriate procurement method; and the appropriate approval mechanism prior to acquisition. 	<input type="checkbox"/>
3.3.2	Acquisition process	<ul style="list-style-type: none"> As part of the acquisition process, an Accountable Officer must consider the: <ul style="list-style-type: none"> organisation's asset management strategy; nature of the organisation's assets to be acquired or created; market conditions and the implications for the organisation's asset cost (is it a buyers' or sellers' market?); industry capacity (i.e. the number of potential contractors or suppliers capable of supplying the assets); industry standard (how the assets are normally procured in the industry); suitability of contractors or suppliers; available resources to manage procurement of the organisation's asset; and relevant internal/external approval processes (e.g. Government approval processes as part of the annual State Budget). 	<input type="checkbox"/>

Figure B1**The AMAF's mandatory requirements—*continued***

Chapter	Area	Requirement	✓/✗
Operation			
3.4.2	Monitoring and preventive action	<ul style="list-style-type: none"> Accountable Officers must establish processes to identify, monitor and record the condition of their organisation's assets. Accountable Officers must establish processes to proactively identify potential asset performance failures and identify options for preventive action. If a critical asset service failure incident occurs, Accountable Officers must take action to control and address it, and make any necessary changes to asset management practices to minimise the possibility of the incident reoccurring. Accountable Officers must also review and assess the effectiveness of any corrective actions they implement and make further adjustments as required. Accountable Officers must also establish policies and procedures that securely protect their assets against fraudulent activity or improper use. 	<input type="checkbox"/>
3.4.3	Maintenance of assets	<ul style="list-style-type: none"> Accountable Officers must establish systems and processes for undertaking their maintenance activities. The maintenance program must be regularly reviewed by the Accountable Officer to determine whether the maintenance effort is being allocated to the appropriate assets and is providing the desired outcomes. As part of this review, the available resources for maintenance must be examined to ensure that assets are maintained to the standard established by the Accountable Officer with consideration for the impacts of service delivery. 	<input type="checkbox"/>

Figure B1
The AMAF's mandatory requirements—*continued*

Chapter	Area	Requirement	✓/✗
3.4.3	Information management	<ul style="list-style-type: none"> Accurate recording, identification, valuation and reporting procedures must be established. Accountable Officers are required to establish an asset information management system (AIMS), which includes asset registers. information in the AIMS must be readily accessible to individuals who are accountable for the control and management of a nominated asset or group of assets. An AIMS must maintain up-to-date asset information as well as an historical record of both financial and non-financial information over each asset's lifecycle. Accountable Officers must define their minimum information requirements, based on what is outlined in section 3.4.3. They must also implement effective processes to generate the required information and establish necessary controls. The information in the AIMS must be regularly reviewed, to ensure that all of the Accountable Officer's organisation's asset-related information is up to date. 	<input type="checkbox"/>
3.4.3	Record keeping	<ul style="list-style-type: none"> As part of the AIMS, Accountable Officers must establish appropriate record-keeping processes, to meet operational needs and to satisfy relevant accounting standards and disclosure requirements, including for their organisation's contingent and intangible assets. 	<input type="checkbox"/>
3.4.4	Asset valuation	<ul style="list-style-type: none"> As part of asset valuation, Accountable Officers must document policies and procedures for the revaluation of assets. 	<input type="checkbox"/>
Disposal			
3.5		<ul style="list-style-type: none"> Accountable Officers must comply with relevant approval processes and, where possible, select a disposal method including retirement, replacement, renewal or redeployment, that maximises the financial benefits associated with the disposal. 	<input type="checkbox"/>

Source: AMAF, DTF, 2016.

Appendix C

Good practices in whole-of-department asset management plans

Figure C1 provides examples of good practices and weaknesses we observed across departments in the content of their whole-of-department asset management plans.

Figure C1

Good practices and common weaknesses in whole-of-department asset management plans

Plan element	Good practices	Common weaknesses
Whole-of-department asset management plan	Overarching policy and framework elements are specific to the department, clearly identify any portfolio agencies they also apply to and focus department efforts in particular areas.	Policy elements are generic, e.g. requiring all asset classes to develop asset management plans but not providing any expectations or guidance on what these need to address.
Policy	Articulates asset management values or principles and decision-making criteria that should influence asset-related activities in a consistent way across all asset classes.	There is a lack of clarity in identifying the values, principles and/or decision-making criteria that direct how a department wants to manage all asset classes and asset-related activities.
Integrated decision-making	Demonstrates alignment with corporate objectives and decision-making.	No information provided on asset management objectives or how these link to corporate objectives. No information on how asset management decisions are integrated into the department's corporate planning and budget decisions.
Portfolio agencies	Identifies all portfolio agencies and their asset classes. Identifies that oversight of portfolio agencies' asset management will be provided through existing whole-of-department oversight arrangements or describes separate arrangements needed for some/all portfolio agencies.	Most plans did not identify the departments' portfolio entities, the assets they hold and any role the department may have in the lifecycles of those assets. They also did not specify any assurance processes that the department needed to follow to oversee their portfolio management responsibilities.

Figure C1

Good practices and common weaknesses in whole-of-department asset management plans—*continued*

Plan element	Good practices	Common weaknesses
Complexity	Maps asset classes in the department and portfolio agencies and responsibilities for managing them over the asset lifecycle. For example, departments have responsibilities related to assets such as transport, water, hospitals and information technology, even though the assets are owned by a separate entity with its own board.	<p>Most departments identified the complexity rating for their assets and some documented their rationale for this based on the AMAF guidance on assessing complexity.</p> <p>Departments usually did not include all portfolio agencies with assets in this assessment or use it as an opportunity to check for or clarify their roles in the asset lifecycle.</p>
Risk and criticality	<p>Identifies risk and criticality for all relevant asset classes related to service delivery needs, and uses this information to focus strategies and efforts on the asset classes and aspects of asset management with highest risk exposure.</p> <p>Describes how asset risks should be identified and managed, but leaves specific risk management planning to the asset class plans.</p>	<p>Departments did not refer to any risk management requirements or the need to use risk and criticality to:</p> <ul style="list-style-type: none"> • design the scope and content of the plan • focus efforts and resources on high-risk exposures • guide the standards required for different asset classes • design the assurance processes needed to oversee their asset portfolio responsibilities.
Asset management strategy	The strategy specifies that it covers the entire asset base and asset lifecycle and identifies the strategy for managing assets over time to achieve service delivery objectives.	Most department plans have limited or no content on this, e.g. the plan does not outline expectations for all asset owners, including what long-, medium- and short-term planning they need to do to inform overall department planning, prioritising and budgeting processes.
Capability	<p>Includes evidence of how the department considers capacity and capability, and what this showed at a whole-of-department level, or identifies a process to do this, e.g. as a focus of the improvement plan.</p> <p>Identifies actions to addresses skill gaps, such as training, support guides, recruitment or using external expertise where needed.</p>	<p>Most plans do not provide any information to indicate how the department assesses current capacity and capability of the asset management function and its future needs in these areas and plans to address any gaps.</p> <p>This should be done in the context of the department's asset complexity, risk and the level of work required to reach a suitable level of maturity or achieve the asset management improvement plan.</p>

Figure C1
Good practices and common weaknesses in whole-of-department asset management plans—
continued

Plan element	Good practices	Common weaknesses
Asset information management systems	Outlines requirements for all asset owners related to having appropriate systems and using these to inform asset management.	Few plans provide guidance for asset owners on having an appropriate system for managing asset information, identifying minimum asset information requirements, and demonstrating that asset information is adequately informing asset management and planning decisions.
Performance monitoring, evaluation and review	Specifies performance monitoring, evaluation and review requirements, and how these are integrated into the overall corporate and strategic planning framework.	Most plans referred to the need for asset performance monitoring but provide limited guidance on expectations for how the asset classes should deliver those requirements, or how the department would evaluate and review them for effectiveness.
Arrangements for devolved/outsourced asset management	Requires contract management processes to include processes to drive adequate resourcing, training and assessment relating to AMAF compliance. Procurement policies specify the need to include AMAF requirements in contracts.	Most plans do not provide any guidance for applying the AMAF requirements to outsourced arrangements.
Integration with relevant department-wide policies and procedures	Other department-wide policies and procedures/controls that need to be considered in managing assets are referenced in the asset plan, e.g. those related to procurement.	Departments do not signpost the additional policies and controls well in the plans, particularly those considered routine practice across the organisation, such as procurement policies. Referencing them sets a clear expectation that staff will apply them to asset-related activities.
Asset management improvement plan	The plan includes an asset management improvement plan (e.g. as an attachment) or provides a link to a separate improvement plan	Many plans did not clearly link the asset management strategy to the opportunities and actions to improve asset management that were identified through the gap analyses. Sometimes these were in separate plans, but the whole-of-department asset plan documents did not refer to them.

Source: VAGO, from analysis of whole-of-department asset management plans.

The following sections provide good practice examples for two important but often weak areas of the plans—asset information management and performance monitoring, evaluation and review. The AMAF requires departments to understand and report on ‘asset management and performance across their portfolios to assist government in making informed resource allocation decisions’. To do this, departments need useful information and data on the performance of their assets and their asset management systems.

This information is valuable for demonstrating that a department is:

- efficiently providing services to the community
- supporting service delivery by providing the right assets at the right time
- enhancing services through better management of existing assets
- identifying and managing asset-related risks
- maximising value for money by accounting for the full costs of ownership and lifecycle management of assets
- driving continuous improvement.

The following examples are based on the AMAF implementation guidance and good practices we observed in departments.

Asset information management

An AIMS should record assets owned by the department, under its direct control and under portfolio agency management, and identify where legislative requirements compel the collection of asset data.

Depending on the department's responsibilities for managing the assets and associated reporting and legislative requirements, the AIMS will need to record details of asset attributes, such as age, locality, function, condition and maintenance costs.

The information included in the AIMS should match identified reporting needs to support asset performance assessment, risk assessment, asset management strategy delivery and assessment. Common types of information include asset replacement values, asset condition and trends, expenditure trends and forecast liabilities.

This requires departments to carefully consider and communicate their AIMS data requirements and reporting needs.

Performance monitoring, evaluation and review

The AMAF requires agencies to have performance monitoring, evaluation and review processes. These processes are part of an agency's asset management system.

The design of a department's performance monitoring and reporting activities should align with its service delivery objectives and assurance requirements and influence the asset information it collects and manages.

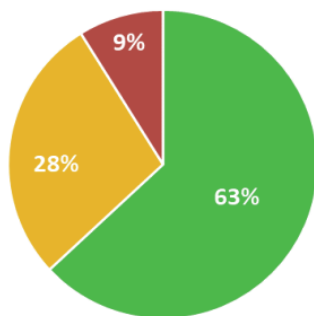
The monitoring, assessment, evaluation and review elements commonly provide the following asset-related information:

- compliance levels
- program delivery
- the effectiveness of the department's asset management strategy
- asset condition and function
- results against key performance indicators.

At the whole-of-department level, it is good practice to have visibility over the overall asset portfolio in the form of reporting, for example, in the form of 'state of the assets' reports, asset portfolio dashboards or asset risk profiles. An example of this is an asset condition report, as seen in Figure C2.

Figure C2
Example of an asset condition report

All Infrastructure Asset Condition - 2017

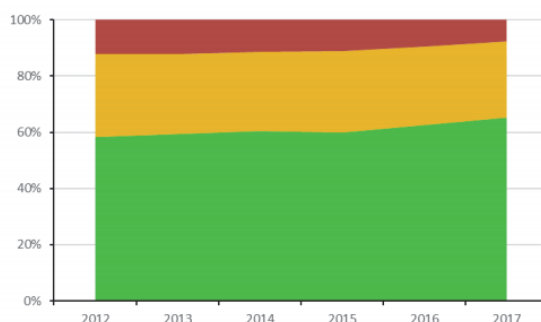


75% (408) local governments indicate the condition of All Infrastructure Asset are:

- Good to very good 63%.
- Fair 28%.
- Poor to very poor 9%.

52% report a high degree of confidence in the data.

All Infrastructure Asset Condition - Trend



Poor to Very Poor Condition

Desired Trend



Poor to Very Poor Condition

Actual Trend



Source: *National State of the Assets*, Australian Local Government Association, November 2018.

Appendix D

Audit committee responsibilities for reviewing compliance and the attestation

Figure D1

AMAF and standing directions requirements for audit committees on reviewing compliance and attestation

Reference to the standing directions (SD) or the AMAF	Audit committee responsibilities related to compliance with the AMAF
AMAF requirement 3.1.3 Application and Attestation	The Responsible Body's audit committee, or an alternative review mechanism when there is no audit committee, must be satisfied with the Responsible Body's attestation of compliance with requirements of the Standing Direction on asset management prior to finalising the attestation in the annual report. Agencies are also subject to any other requirements under the Directions to ensure compliance and support the attestation.
AMAF Implementation Guidance—Section 2.3 Guidance for Secretaries or Boards and Audit Committees	On an annual basis from 2017–18, attest to your organisation compliance with Standing Direction 4.2.3. Ensure your organisation is able to provide you with the nature and degree of evidence required to support attestation and compliance with Standing Direction 4.2.3. Ensure attestation occurs for all material assets within the departmental portfolio either by the department or portfolio agencies. Ensure continual process improvements with a view to considering future self-assessments of asset management maturity (commencing in 2020–21).
SD 3.2.1.1(e), (f) Audit Committee responsibilities	(e) review and monitor compliance with the FMA [<i>Financial Management Act 1994</i>], these Directions and the Instructions, and advise the Responsible Body on the level of compliance attained; (f) review and monitor remedial actions taken to address Compliance Deficiencies.
SD 5.1.2(a), (b) Annual assessment of financial management compliance	(a) The Responsible Body must conduct an annual assessment of compliance with all applicable requirements in the FMA, these Directions and the Instructions. (b) The Audit Committee must review the assessment made under Direction 5.1.2(a).
SD 5.1.4(a), (c) Financial management compliance attestation	(a) The Responsible Body, or a member of the Responsible Body, must, in the Agencies' Annual Report, in relation to the relevant financial year, attest to compliance with applicable requirements in the FMA, these Directions and the Instructions, and disclose all Material Compliance Deficiencies. (c) The Audit Committee must review the attestation under Direction 5.1.4 (a).

Figure D1

AMAF and standing directions requirements for audit committees on reviewing compliance and attestation—*continued*

Reference to the standing directions (SD) or the AMAF	Audit committee responsibilities related to compliance with the AMAF
SD 5.1.6 Reporting Material Compliance Deficiencies	The Audit Committee has a role to review and monitor remedial actions taken to address Compliance Deficiencies.
SD Guidance 3.2.1 Audit Committee Review and monitor compliance	<p>A key responsibility of an Agency's Audit committee is to review and monitor compliance with relevant risk and financial management laws and standards and the Directions. This will enable the Committee to provide assurance and make recommendations to the Responsible Body on the level of compliance attained, issues to be resolved and proposed mitigation plans.</p> <p>Agencies must comply with a considerable volume and complexity of legislation and policy, including the Directions. Therefore, it would be expected the Audit Committee will focus on those aspects that pose the highest risk to the Agency, and on how the Agency manages its compliance responsibilities.</p> <p>Similarly, in reviewing an Agency's compliance with the FMA, Directions and Instructions, it is expected that Audit Committees will take a practical, risk-based approach to the evidence required to demonstrate compliance. This is particularly relevant to those Directions that require Agencies to achieve broad principles of good financial management.</p>

Source: The 2016 standing directions, DTF's related 2016 instructions and guidance, and the AMAF, DTF, 2016.

Auditor-General's reports tabled during 2018–19

Report title	Date tabled
Local Government Insurance Risks (2018–19:1)	July 2018
Managing the Municipal and Industrial Landfill Levy (2018–19:2)	July 2018
School Councils in Government Schools (2018–19:3)	July 2018
Managing Rehabilitation Services in Youth Detention (2018–19:4)	August 2018
Police Management of Property and Exhibits (2018–19:5)	September 2018
Crime Data (2018–19:6)	September 2018
Follow up of Oversight and Accountability of Committees of Management (2018–19:7)	September 2018
Delivering Local Government Services (2018–19:8)	September 2018
Security and Privacy of Surveillance Technologies in Public Places (2018–19:9)	September 2018
Managing the Environmental Impacts of Domestic Wastewater (2018–19:10)	September 2018
Contract Management Capability in DHHS: Service Agreements (2018–19:11)	September 2018
State Purchase Contracts (2018–19:12)	September 2018
Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2017–18 (2018–19:13)	October 2018
Results of 2017–18 Audits: Local Government (2018–19:14)	December 2018
Professional Learning for School Teachers (2018–19:15)	February 2019
Access to Mental Health Services (2018–19:16)	March 2019
Outcomes of Investing in Regional Victoria (2018–19:17)	May 2019
Reporting on Local Government Performance (2018–19:18)	May 2019
Local Government Assets: Asset Management and Compliance (2018–19:19)	May 2019



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Victorian Auditor-General's Office
Level 31, 35 Collins Street
Melbourne Vic 3000
AUSTRALIA

Phone +61 3 8601 7000
Email enquiries@audit.vic.gov.au