



PUBLIC ACCOUNTS COMMITTEE

**REVIEW OF AUDITOR
GENERAL'S REPORTS
NOS 1-5 OF 1999**

Report No. 44

2000

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**REVIEW OF AUDITOR GENERAL'S
REPORTS NOS 1-5 OF 1999**

Report No. 44

Presented by:

Mr M.W. Trenorden, MLA (Chairman)

Laid on the Table of the Legislative Assembly
on 23 March 2000

ORDERED TO BE PRINTED

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COMMITTEE'S FUNCTIONS AND POWERS

The Committee obtains its powers and functions from the Standing Orders of the Legislative Assembly.¹ Standing Order 299 states that the functions of the Committee are -

... to inquire into and report to the Assembly on any proposal, matter or thing it considers necessary, connected with the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation bills and Loan Fund.

Moreover the Committee is empowered by Standing Order 300 to -

- (1) Examine the financial affairs and accounts of government agencies of the State which includes any statutory board, commission, authority, committee, or trust established or appointed pursuant to any rule, regulation, by-law, order, order in Council, proclamation, ministerial direction or any other like means.
- (2) Inquire into and report to the Assembly on any question which -
 - (a) it deems necessary to investigate;
 - (b) is referred to it by resolution of the Assembly;
 - (c) is referred to it by a Minister; or
 - (d) is referred to it by the Auditor General.
- (3) Consider any papers on public expenditure presented to the Assembly and such of the expenditure as it sees fit to examine.
- (4) Consider whether the objectives of public expenditure are being achieved, or may be achieved more economically.

The Committee is also empowered by Standing Order 264 which states that -

A committee has power to send for persons, papers and records.

¹

On 7 September 1999, the Legislative Assembly agreed to Trial Standing Orders which replaced the former Public Accounts and Expenditure Review Committee with the Public Accounts Committee and redefined the Committee's powers and functions. On 21 December 1999, the Trial Standing Orders were adopted as amended and became effective on 1 January 2000.

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CHAIRMAN'S PREFACE

Mr Speaker,

I have for tabling the Public Accounts Committee's Report No. 44, *Review of Auditor General's Reports Nos 1-5 of 1999*.

In the past, the Committee has taken an ad hoc approach to reviewing issues arising from reports of the Auditor General. Consequently, the Committee has decided to embark on a new system of review and follow-up which will be conducted approximately twice yearly and will result in a Report to Parliament. A description of this new process has been outlined on page 2 and has been adhered to in the composition of Report No. 44.

The Committee has examined and followed up a number of issues arising from five reports of the Auditor General tabled in the Legislative Assembly between January and June 1999 -

Report No. 1	<i>Report on the Western Australian Public Health Sector</i>
Report No. 2	<i>Performance Examination - Proposed Sale of the Central Park Office Tower by the Government Employees Superannuation Board</i>
Report No. 3	<i>Performance Examination - Lease Now - Pay Later? The Leasing of Office and Other Equipment</i>
Report No. 4	<i>Performance Examination - Getting Better All The Time: Health Sector Performance Indicators</i>
Report No. 5	<i>Report on the Western Australian Public Tertiary Education Sector - 1998 Annual Reporting Cycle</i>

In summary, the Committee makes six recommendations, four of which relate to the public health sector (Reports Nos 1 & 4), one relating to leasing (Report No. 3) and one relating to the public tertiary education sector (Report No. 5).

Finally, I would like to thank the Members of the Committee for their contribution to the report and the Committee's staff, in particular Research Officers Ms Amanda Millsom-May and Ms Stefanie Dobro and Mrs Patricia Roach for her secretarial assistance in the production of this report.

MAX TRENORDEN, MLA
CHAIRMAN

ACRONYMS

CAMS	Department of Contract and Management Services
CMIS	College Management Information System
DCF	Discounted Cash-Flow (Analysis)
GESB	Government Employees Superannuation Board
HDWA	Health Department of Western Australia
HMDS	Hospital Morbidity Data System
IT	Information Technology
MHSB	Metropolitan Health Service Board
WADOT	Western Australian Department of Training

PUBLIC ACCOUNTS COMMITTEE

SUMMARY OF RECOMMENDATIONS

Recommendation 1

That, whilst recognising conflicting time demands on agencies, the Health Department of Western Australia, and indeed all agencies, take statutory reporting deadlines more seriously and work more strenuously to prepare financial statements and performance indicators in advance of those deadlines.

Recommendation 2

That the Health Department of Western Australia and the Office of the Auditor General continue to work closely to find a mutually satisfactory resolution to the logistical problems related to the reporting of Hospital Morbidity Data.

Recommendation 3

That the Health Department of Western Australia, in conjunction with the State's health services, continues to develop and report meaningful outcome performance measures based on a variety of dimensions, such as region, health condition and population.

Recommendation 4

That the Health Department of Western Australia, where appropriate, include population-based sample sizes in performance reporting to assist parliamentarians and users in putting outcomes and performance into context, particularly where sample sizes may be small.

Recommendation 5

That the Treasury Department, through its current data collection and reporting process, routinely and systematically identify and analyse those agencies having substantial expenditures on leases.

Recommendation 6

Given that Year 2000 compliance for the College Management Information System (CMIS) was achieved in August 1999, the Western Australian Department of Training must decide to either continue to make improvements to the existing CMIS (including the reconciliation controls over fee revenue and debtors) or develop a new system.

MINISTERIAL RESPONSE

Standing Order 277 (1) of the Standing Orders of the Legislative Assembly states that -

A report may include a direction that a Minister in the Assembly is required within not more than three months, or at the earliest opportunity after that time if the Assembly is adjourned or in recess, to report to the Assembly as to the action, if any, proposed to be taken by the Government with respect to the recommendations of the committee.

Accordingly, the Public Accounts Committee directs that the Minister for Health, the Treasurer, and the Minister for Employment and Training respond to the Committee's recommendations.

CHAPTER ONE

INTRODUCTION

1.1 PAST PRACTICE

For some time the Public Accounts Committee (the Committee) has conducted an average of two meetings per annum with the Auditor General and his senior management. These informal meetings (proceedings are not recorded and transcribed as Committee evidence) have facilitated discussion and consideration of reports tabled by the Auditor General, together with other areas of common interest between both parties.

In some instances, the Committee has pursued issues raised in the reports by the Auditor General by writing to agencies to follow-up progress on corrective action taken on qualified audit opinions, recommendations or findings made by the Auditor General. On other occasions, the Committee has used the information obtained from this method of review to undertake a more formal inquiry or follow-up report which has been tabled in Parliament.

The effectiveness of this relationship has developed from a Statement of Understanding signed by Committee Chairman, Max Trenorden, MLA, and the Auditor General, Des Pearson in October 1996.² The Statement's aim was to enhance the accountability mechanisms of the Parliament by improving communication and coordination between the Auditor General and the Committee.

The advantages of this past practice were that -

- the informal meeting permitted the Auditor General to speak candidly about issues, including aspects of agency administration, not included in his tabled reports; and
- the Committee was able to write to agencies seeking information on action taken in response to findings, recommendations or qualified audit opinions made by the Auditor General, without the agencies being the subject of a formal public inquiry, which may not have been warranted.

The most important disadvantage of the past practice was that Parliament was neither informed of the Committee's discussion with the Auditor General nor the follow-up activity of the Committee, i.e. responses of agencies.

² Public Accounts and Expenditure Review Committee, Report No. 32, *Report on Statement of Understanding between the Auditor General and the Public Accounts and Expenditure Review Committee*, October 1996

1.2 NEW SYSTEM OF REVIEW

The Committee has now introduced a new system of review and follow-up which addresses this disadvantage whilst retaining the advantages of the previous practice. This new system is similar to the approach taken by Public Accounts Committees in other jurisdictions, e.g. Queensland and Victoria.

It is the intention of the Committee to continue to conduct approximately two review processes per annum.

The process that now will take place is as follows -

1. Committee staff will summarise the key points and issues raised by reports of the Auditor General, particularly where there is the potential for Committee follow-up activity.
2. The Committee will meet with the Auditor General informally to discuss the issues.
3. The Committee will conduct a formal evidence hearing with the Auditor General regarding the reports and issues raised.
4. The Committee will conduct its follow-up activity by firstly writing to agencies seeking information on action taken in response to either findings, recommendations or qualified audit opinions made by the Auditor General. Secondly, it will analyse agency responses and other documentary evidence where appropriate.
5. The Committee will table the transcript of the hearing with the Auditor General and the results of the Committee's follow-up activity as a Report to Parliament.

1.3 CURRENT REVIEW

This report examines five reports of the Auditor General tabled in the Legislative Assembly between January and June 1999. The reports examined were -

Report No. 1	<i>Report on the Western Australian Public Health Sector</i>
Report No. 2	<i>Performance Examination - Proposed Sale of the Central Park Office Tower by the Government Employees Superannuation Board</i>
Report No. 3	<i>Performance Examination - Lease Now - Pay Later? The Leasing of Office and Other Equipment</i>
Report No. 4	<i>Performance Examination - Getting Better All the Time: Health Sector Performance Indicators</i>

Report No. 5 *Report on the Western Australian Public Tertiary Education Sector - 1998 Annual Reporting Cycle*

In line with the new system of review and follow-up, on 18 August 1999 the Committee held an informal meeting followed by a formal hearing with the Auditor General and members of his staff in which the Committee was briefed on the key aspects of the five reports. This provided the Committee with an opportunity to clarify and discuss various issues contained in those reports.

Following the hearings, the Committee wrote to some of the agencies concerned seeking further information. The Committee is pleased to note that all agencies responded expeditiously to all of the Committee's requests for information.

CHAPTER TWO

**REPORT ON THE WESTERN AUSTRALIAN
PUBLIC HEALTH SECTOR
AND
PERFORMANCE EXAMINATION - HEALTH SECTOR
PERFORMANCE INDICATORS
(REPORTS NOS 1 & 4)**

2.1 BACKGROUND

The public health sector is the recipient of the single largest amount of government funding, receiving approximately \$1.8 billion per annum via appropriations from Parliament to fund its activities. The Health Department of Western Australia (HDWA) is the primary health agency which in turn funds most of the 78 public health sector agencies, including the Metropolitan Health Service Board (MHSB).

For some time, the Public Accounts Committee has had keen interest in the performance of the HDWA because of the significant allocations it receives.

Of the Auditor General's five reports tabled in the period January to June 1999, two reports dealt with the public health sector. Report No. 1, *Report on the Western Australian Public Health Sector* and Report No. 4, *Getting Better All The Time: Health Sector Performance Indicators* are examined below.

2.1.1 Report No. 1 - Report on the Western Australian Public Health Sector, April 1999

This report, tabled in April 1999, was the result of 85 financial statement and 81 performance indicator audits of public health sector agencies completed as part of the 1997-98 audit cycle. Audit opinions on financial statements and controls and performance indicators were issued on one department (the HDWA) and 80 statutory authorities. Audit opinions on financial statements only were issued on four incorporated bodies and four audits requested by the Treasurer. The audit opinion was qualified for two of the 85 agencies audited (reduced from five qualified audits in 1996-97).³

While this report noted that audit procedures identified the need for \$280 million of adjustments to financial statements (a significant increase over the \$54.9 million in 1996-97), it also noted that, of the \$280 million in adjustments, \$276.6 million related to four agencies and that 'the major portion of these related to the treatment of complex accounting issues in connection with

³ Auditor General Western Australia, Report No.1, Executive Summary, *Report on the Western Australian Public Health Sector*, April 1999

restructuring within the public health sector.’⁴ In evidence to the Committee, the Auditor General acknowledged that \$280 million in adjustments represented a significant sum, but that ‘a large proportion of that amount related to one-off matters’.⁵

Performance indicator audits revealed continued improvement in the development and reporting of performance indicators by agencies; however, 41 of the 81 agencies audited (51 per cent) had qualified opinions.

2.1.2 Auditor General’s Findings and Recommendations in Report No. 1

The Auditor General’s findings in relation to the financial statement and performance indicator audits were distributed over four categories -

- timeliness in reporting;
- the Year 2000 date change problem;
- performance indicators of hospitals and health services; and
- the Metropolitan Health Service Board.

The findings included noting significant improvements in the timeliness of reporting, but also the need for further improvement.

The Auditor General made a total of eight recommendations which included -

- putting structures in place, and acquiring the level of expertise necessary, to ensure timeliness in reporting;
- completing all Year 2000 date change problem work as a matter of priority, particularly for high risk areas; and
- the Metropolitan Health Service Board establishing the necessary standard procedures to ensure that financial statements are accurate and that performance indicator data is collected, recorded and reported.

While problems with the measurement of performance indicators were revealed, no recommendations were made on this issue as the Auditor General was in the process of conducting a health sector-wide detailed examination of performance indicators (Report No. 4).

2.1.3 Report No. 4 - Health Sector Performance Indicators, June 1999

The *Financial Administration and Audit Act 1985* requires departments (s.62) and statutory authorities (s.66) to submit performance indicators of their efficiency and effectiveness to their respective Minister. The information is reported to Parliament as part of the annual report tabled by the Minister.

⁴ ibid., p.3

⁵ Transcript of Evidence, 18/08/99, p.1

The Auditor General is responsible for issuing an opinion on whether the performance indicators reported are 'relevant and appropriate having regard to their purpose and fairly represent indicated performance'.⁶

The objectives of the *Performance Examination: Getting Better All the Time: Health Sector Performance Indicators* were to -

- assess progress in the development of performance indicators in the Western Australian health sector between 1991-92 and 1997-98;
- assess the coverage of health performance provided for 1997-98;
- identify examples of the effective use of performance indicators and related information; and
- review public access to health performance indicators.⁷

2.1.4 Auditor General's Findings and Recommendations in Report No. 4

The Auditor General's overall findings included the views that -

- there is a lack of high-level outcome indicators, particularly for Acute Care;
- health sector agencies have made significant progress in improving their performance indicators over the period 1991-92 to 1997-98;
- performance indicators compare favourably with those reported interstate and overseas and that they were the only broadly-based indicator set that was subject to comprehensive and regular independent external audit; and
- there is a need to raise awareness of the availability of performance indicator information for wider use by management and greater use by the public.

The Auditor General recommended that health agencies should -

- clarify the roles and responsibilities of agencies in relation to reporting of high-level outcomes;
- develop additional high-level outcome indicators, in particular for Acute Care;
- develop more efficiency indicators which can be used for comparative purposes;
- develop an explicit strategy to guide the future development of performance indicators;
- continue to expand the use of performance indicators for management, governance and accountability purposes;
- increase publicity of the existence of performance indicators and expand access to the performance indicators for users; and
- increase involvement of stakeholders in decisions regarding the information reported and how it is presented.⁸

⁶ *Financial Administration and Audit Act 1985*, s.93(1)(d)

⁷ Auditor General Western Australia, Report No. 4, *Health Sector Performance Indicators*, June 1999, p.7

⁸ *ibid.*, p.3

2.2 ISSUES IN REPORTS NOS 1 & 4

Of concern to the Committee were matters raised in the reports relating to -

- timeliness of reporting (Report No. 1);
- qualified audits (Report No. 1);
- performance indicators (Reports Nos 1 and 4); and
- the Metropolitan Health Service Board (Report No. 1).

In September 1999, the Committee wrote to the Commissioner for Health, Mr Alan Bansemer, and to the Executive Chairman of the Metropolitan Health Service Board (MHSB), the Hon. Ian W.P. McCall, seeking information and comment in relation to these issues.

2.2.1 Timeliness of Reporting - Report No. 1

The Committee was concerned that 69 percent of the agencies subject to statutory reporting deadlines did not fulfill their reporting deadlines and only one of three agencies granted an extension met the approved extension date.

The Committee also noted the audit finding that ‘urgent attention needs to be given by hospitals and health services to addressing the current unacceptably high level of non-compliance with statutory reporting deadlines’.⁹

The report cited the following factors as responsible for the delays -

- lack of adequate planning by hospitals and health services to ensure timely reporting;
- shortage of suitably qualified staff;
- competing demands on existing staff; and
- technical difficulties with equipment in remote areas.

The Auditor General recommended that -

- timetables and action plans to ensure financial statements and performance indicators are submitted within statutory reporting deadlines be established;
- early testing of year-end closing procedures be conducted; and
- the level of financial expertise be raised so that financial responsibilities and obligations can be met.¹⁰

In evidence to the Committee, the Auditor General and his Deputy both emphasised the need for having organised systems in place that allow for adequate oversight on an on-going basis (rather

⁹ op. cit., Report No. 1, p.6

¹⁰ ibid., p. 7

than simply at the end of the year), forward planning and adequate resources management throughout the year.¹¹

Commissioner for Health's Response

The Committee sought comment on this issue from the Commissioner for Health, Mr Alan Bansemmer, who stated that 'the Health Department has for the past six years made every endeavour to assist Health Services in preparing their annual financial statements within reporting time frames' including producing timetables, providing training, developing an annual reporting model and establishing an annual reporting help line.¹²

Mr Bansemmer also noted, however, that there were logistical difficulties in reporting performance indicators due to a 'major outstanding issue' which is 'the incompatibility between the current reporting deadline of end of August ... and the auditors' requirement for a complete Hospital Morbidity Data System (HMDS) file for the reporting period'.¹³

The HMDS is a major system for recording hospital inpatient activity in public and private hospitals. One of the purposes of the system is to provide performance information for public sector health agencies.¹⁴ Information required for HMDS is very detailed, requiring a high degree of coding skill and clinical judgement at the hospitals.

In his response to the Committee, Mr Bansemmer explained that most public hospitals complete the steps of compiling a hospital morbidity record that can be accepted on HMDS within four to six weeks after the patient's discharge. However, smaller rural hospitals are visited infrequently by morbidity coders and the process of completing a hospital morbidity record can take up to eight weeks after the patient's discharge.¹⁵

Mr Bansemmer further explained that there was a need for further discussion with the Auditor General and the HDWA in order to identify 'flexible processes which allow HDWA, smaller rural hospitals and the Auditor General to work together to overcome the unique constraints faced by these hospitals'.¹⁶

11 Transcript of Evidence, 18/08/99, p.4

12 Correspondence from the Commissioner for Health, Mr Alan Bansemmer, to the Chairman of the Public Accounts Committee, Mr Max Trenorden, 20/10/99, p.1

13 *ibid.*

14 HMDS is the source of performance information for some 'standard performance indicators' in the public health sector. Other indicators draw on alternative sources of performance information.

15 *op. cit.*, correspondence from the Commissioner for Health, p.1

16 *ibid.*, p.2

MHSB Response

Although the MHSB was not specifically referred under the heading ‘Timeliness in Reporting’, the Executive Chairman of the MHSB, the Hon. Ian McCall, took the opportunity to address the issue of timeliness in his correspondence to the Committee stating that ‘completion of the performance indicators continues to prove difficult’.¹⁷ However, Mr McCall stated that reporting performance indicators on a more regular basis, e.g. quarterly, would help address this problem. He also stated that early testing of year-end closing procedures was conducted ‘for the financial statements with draft consolidated financial statements being prepared on 31 March 1999 accounts’¹⁸ to identify any difficulties and for them to be resolved prior to completion of the year-end figures.

Committee Comment

The Committee recognises the HDWA’s awareness of the need for timeliness in reporting and the progress that the HDWA has made in meeting, and encouraging public health sector agencies to meet, reporting deadlines. The Committee also notes the action taken by the MHSB in addressing timeliness issues.

The Committee is, however, of the opinion that the HDWA must continue to improve its timeliness in reporting. Further, the HDWA, and indeed all agencies, should be striving to submit their reports as early as possible, not simply aiming to meet statutory reporting deadlines.¹⁹

Recommendation 1

That, whilst recognising conflicting time demands on agencies, the Health Department of Western Australia, and indeed all agencies, take statutory reporting deadlines more seriously and work more strenuously to prepare financial statements and performance indicators in advance of those deadlines.

¹⁷ Correspondence from the Executive Chairman, Metropolitan Health Service Board, Hon. Ian W.P. McCall, to the Chairman of the Public Accounts Committee, Mr Max Trenorden, MLA, 5/10/99, p.4

¹⁸ *ibid.*

¹⁹ The Committee also notes the follow-up action taken by the Auditor General, which formed part of his Report No. 7, *Public Sector Performance Report 1999*, tabled in November 1999. This report included a ‘Control, Compliance and Accountability Audit’ of health services and hospitals’ reporting of morbidity data in performance indicators. The Auditor General made recommendations to improve the relevance, accuracy and completeness of HMDS data and reported the steps already taken by the HDWA to improve reporting. The Committee will formally review Report No. 7 in its next follow-up report of Reports of the Auditor General.

Recommendation 2

That the Health Department of Western Australia and the Office of the Auditor General continue to work closely to find a mutually satisfactory resolution to the logistical problems related to the reporting of Hospital Morbidity Data.

2.2.2 Qualified Audits for the Kalgoorlie-Boulder Health Service and Laverton and Leonora Health Service

For the second consecutive year, the Kalgoorlie-Boulder Health Service and Laverton and Leonora Health Service received qualified audit opinions.

Commissioner for Health's Response

Mr Bansemer explained that this had resulted from 'a lack of experienced financial staff, extended difficulties in the recruitment of a Manager of Financial Services at a time coinciding with the end of the 1997/98 financial year and the fragmentation of financial asset records among a number of different computerised manual systems.'²⁰ Mr Bansemer also advised that 'the annual audit inspection by the Auditor General's contracted auditors was carried out in September [1999] and favourable comment was made on the improvements achieved over the previous year.'²¹

Committee Comment

The Committee is satisfied with the HDWA's explanation for the qualified audit opinions and with the steps undertaken to address issues responsible for the qualifications. However, the Committee will continue to monitor both health services through future reports of the Auditor General.

2.2.3 Performance Indicators (Reports Nos 1 & 4)

The audit opinions on performance indicators for 40 of the 73 hospitals and health services audited in 1997-98 (55 per cent) were qualified. This was a reduction of 25 percent over 1996-97 figures. The reduction in the number of qualified audit opinions for hospitals and health services was, in part, a reflection of the work of the joint Health Department and Hospitals' Key Performance Indicators Working Party.²²

The Auditor General's performance examination on the progress of performance indicators across the health portfolio identified reasons for the qualified performance indicator audits as including -

²⁰ op. cit, Report No. 1, p.3

²¹ ibid.

²² ibid., Executive Summary

- reliable measures not being reported for patient satisfaction (using either small samples or low response rates);
- measures not being reported; and
- measures being incorrectly calculated.²³

The Auditor General may qualify an opinion on performance indicators for an agency if one of the indicators is not reported. For instance, the Chairman of the MHSB, the Hon. Mr McCall, responded to the Committee that the MHSB's indicators were qualified because one of a package of 42 indicators was not reported. The MHSB accepted the Auditor General's qualification but took the view 'that this did not reduce the effectiveness of the information provided in the performance indicators.'²⁴

The Auditor General's overall findings revealed that there has been significant progress made over the period 1991-92 to 1997-98 in the area of performance indicators. However, the Committee was concerned by the Auditor General's finding that there was a 'lack of high-level outcomes indicators, particularly for Acute Care which accounts for about 85 per cent of the health sector's total expenditure' and the statement -

There are differing views on the respective roles and responsibilities within the health system, including whether health services should be accountable for high-level health outcomes or whether this is the sole responsibility of the HDWA. At present health services and hospitals have not in general reported high-level outcomes.²⁵

The Committee sought comment from the Commissioner for Health on this issue.

Commissioner for Health's Response

In relation to responsibility for reporting high-level outcomes, Mr Bansemer advised the Committee that 'a three year program of reform commenced in 1997-98 to clarify the roles and responsibilities of agencies in relation to reporting high-level outcomes and other performance measures'.²⁶

Mr Bansemer also stated that -

As the principal health authority in Western Australia, the Health Department of WA has responsibility for whole-of-State reporting of high-level indicators to provide information on population health in order to assess the overall impact of the three intervention strategies; prevention and promotion; diagnosis and treatment; and continuing care ... Individual rural

²³ ibid, p.11

²⁴ op. cit., correspondence from the Hon. Ian W.P. McCall, p.4

²⁵ op. cit., Report No. 4, *Health Sector Performance Indicators*, June 1999, p.2

²⁶ op. cit., correspondence from the Commissioner for Health, p.4

Health Services and the Metropolitan Health Service Board retain responsibility for reporting more specific health service performance indicators for defined populations.²⁷

Mr Bansemer also commented on the need to develop high-level outcome indicators that ‘reflect regional rather than statewide performance’.²⁸ This would help health sector agencies provide more meaningful outcomes reporting.

Committee Comment

The Committee accepts the advice provided by Mr Bansemer relating to clarifying the roles and responsibilities in relation to the reporting of high-level outcomes and will continue to monitor this area through future reports of the Auditor General.

On the issue of the development of high-level outcome indicators, the HDWA is aiming to improve performance indicators by targeting measures of outcomes to more meaningful dimensions, such as population groups. Many health services are targeted at particular populations, such as Aboriginal people and the aged.

The Committee notes the Commissioner’s assessment that ‘factors such as small sample sizes in some rural and remote areas may determine whether a health service can report meaningful population-based health outcomes.’²⁹ In some instances, for example where population sizes are small in rural or remote health service areas, Parliament may still find value in the reporting of a population-based health outcomes provided the sample size is documented in addition to the percentages for outcomes. With the benefit of sample size information, parliamentarians and the public would be better able to put outcome performance into context.

At a more general level, the Committee notes the Auditor General’s final two recommendations in Report No. 4 (see section 2.1.4) and encourages the HDWA to increase public awareness of the availability of performance indicators and to ensure that such information is presented in an easy to understand format to increase its usefulness to users, i.e. the public and the Parliament.

Recommendation 3

That the Health Department of Western Australia, in conjunction with the State’s health services, continues to develop and report meaningful outcome performance measures based on a variety of dimensions, such as region, health condition and population.

Recommendation 4

²⁷ ibid., p.5

²⁸ ibid., p.4

²⁹ ibid.

That the Health Department of Western Australia, where appropriate, include population-based sample sizes in performance reporting to assist parliamentarians and users in putting outcomes and performance into context, particularly where sample sizes may be small.

2.2.4 The Metropolitan Health Service Board (MHSB)

The MHSB was established in 1997, with 1997-98 being its first full year operating as a statutory authority.

In relation to the review of financial statements and controls in Report No. 1, the Auditor General found that -

- the Board's financial statements submitted for audit required a number of changes due to inadequate quality review procedures; and
- limited direction was provided by the MHSB's Audit Committee on the nature and extent of the internal audit function at the various hospitals and services, although the plan determined by those hospitals and services was approved by the Committee.

The Auditor General subsequently recommended that the MHSB -

- apply more stringent quality control procedures to ensure that financial statements are compiled accurately; and
- the Audit Committee take a more active role in setting the overall direction on the nature and extent of internal audit coverage at hospitals and services.

MHSB Response

The Executive Chairman of the MHSB, the Hon. Ian W.P. McCall described the Auditor General's first recommendation as 'disappointing'. Mr McCall stated that -

Very detailed quality control procedures were initiated by the Board in connection with the finalisation of what was the first set of Financial Statements prepared by the Board at June 30, 1998. Whilst it is acknowledged that some adjustments were made as a result of the audit, these were not due to inadequate quality control procedures.³⁰

Mr McCall then raised a number of factors to place the Board's performance into context. In summary these factors were that -

- this was the first set of financial statements prepared by the Board;

³⁰ op. cit., correspondence from the Hon. Ian W.P. McCall, p.1

- it was the first time for some years that any of the hospitals had met the statutory requirement of completing, on time, financial statements for submission to the Minister for Health and the Auditor General; and
- most of the adjustments that were initiated by the Auditor General's staff were associated with complex accounting matters, which had been brought to the attention of the auditors prior to the audit commencing. These issues were raised as part of 'the very detailed quality control procedures initiated by this Board'.

Mr McCall then detailed the procedures that were followed in preparing the financial statements of the Board for the year ending 30 June 1999. The procedures were the result of the comments of the Auditor General, but also consistent with the repeated practices applied by the Board. As part of the preparation of the 1999 statements the Board's Director of Finance reviewed the financial statements with both the HDWA and with staff of the Office of the Auditor General, prior to their completion.

With regard to the Auditor General's recommendation on the role of the Audit Committee, Mr McCall responded that advice was being sought from interested parties on the best way in which an entity of the size and complexity of the MHSB should manage its internal audit activities. The Audit Committee also now approves the audit plans of each of the hospitals and health services on a six-monthly basis.

Committee Comment

The MHSB response to the Committee was forthright and detailed. Notwithstanding the Board's disappointment with the Auditor General's finding and recommendation regarding quality control of financial statements, the Committee commends the co-operative approach taken by the MHSB and the Auditor General's office to reviewing the preparation of the financial statements.

The Committee will continue to monitor with interest the performance of the MHSB, and particularly the work of the Audit Committee.

CHAPTER THREE

**PERFORMANCE EXAMINATION -
PROPOSED SALE OF THE CENTRAL PARK OFFICE
TOWER BY THE GOVERNMENT EMPLOYEES
SUPERANNUATION BOARD
(REPORT NO. 2)**

3.1 BACKGROUND

The objective and approach taken in the performance examination was to ‘evaluate the proposed sale of Central Park against best practice, including corporate governance, propriety and compliance with government guidelines’.³¹ The sale, proposed by AMP, involved the following principles -

- selling Central Park to AMP for an agreed price based on two independent market valuations;
- creation of an unlisted property Unit Trust by AMP;
- investment of part of the sale proceeds into the Trust; and
- the Government Employees Superannuation Board (GESB) acquiring about 48 per cent ownership of the Trust.³²

The Auditor General noted in his report that -

In mid March 1999, the Board decided not to proceed with the sale because of implications for the unit trust arrangement from proposed changes to Commonwealth business tax laws and valuation issues. As at the end of March, the Board was reviewing its options for the sale of Central Park.³³

The examination entailed a review of the following issues associated with the proposed sale -

- the Board’s need to diversify and reduce its property portfolio of the Fund;
- the appointment by GESB of AMP Property Management Ltd as property advisers to the Board and its ensuing advice;
- the proposed sale process;
- legal compliance in relation to investment activities; and
- management of the transaction by the Board.

³¹ Auditor General Western Australia, Report No. 2, *Performance Examination on the Proposed Sale of the Central Park Office Tower*, April 1999, p.4

³² *ibid.*, p.3

³³ *ibid.*

3.1.1 Auditor General's Key Findings in Report No. 2

- ▶ The Board prudently decided to sell Central Park in order to diversify and reduce its exposure to property.
- ▶ The method of sale selected by the Board -
 - did not give a high level of assurance as to the adequacy of the price; and
 - is practiced in the private sector though is rarely used in the public sector.
- ▶ The Board had not obtained the Treasurer's approval for that part of the proposed sale transaction involving investment in the Unit Trust.
- ▶ The sale process was not managed with a view to ensuring transparency and a high level of public confidence. In particular the Board did not -
 - Engage a replacement independent expert to assist in evaluating the proposals once the AMP elected to put forward a proposal, instead relying solely on internal expertise.
 - Clearly put AMP at 'arms length' throughout the transaction. AMP's role on the advisory committee which included some matters associated with the sale put at risk public confidence in the openness of the process.
 - Appoint a probity auditor to oversee the process and provide assurance as to its integrity.

3.1.2 Auditor General's Recommendation

- ▶ The Auditor General recommended that for future significant investment transactions, the Board as a matter of course should use a public and transparent process and ensure evaluation of proposals is demonstrably independent.

3.2 ISSUES

The Committee was particularly interested in pursuing further the following matters and related issues raised in the report -

- ▶ Funds paid by the GESB for diversification advice.
- ▶ The Auditor General's findings regarding the role of AMP in the proposed sale process and his subsequent recommendation.
- ▶ Possible consequences had the sale proceeded as planned.

On 22 September 1999, the Committee wrote to the Chairman of the Government Employees Superannuation Board, Mr Peter Williamson, seeking information relating to some of the above issues. The Committee also considered the evidence given by the Auditor General, Mr Des Pearson.

3.2.1 Diversification Advice

The Committee noted that the Board had obtained diversification advice between 1993 and 1997 from various sources and had been approached by a number of property groups expressing interest in Central Park. As a consequence, the Committee sought information from the Chairman of the Board regarding the amount of funds outlaid by the Board for this diversification advice and whether the Board had received advice by way of reports or any other formal documentation.

In response to the Committee's enquiries, Mr Williamson responded that the Board had paid \$64,696.98 to one company for specific advice on the composition of the Board's property portfolio by way of a report consisting of four bound volumes of background data and findings. It had also received other advice during the period, 'although no specific fees were outlaid for the information'.³⁴

3.2.2 Role of AMP

The Committee was concerned by the Auditor General's finding that the Board had not put AMP at 'arms length' throughout the process and his subsequent recommendation for more transparent and independent evaluation of proposals involving significant investment transactions. The Committee asked Mr Williamson whether the Board had concurred with the Auditor General's key finding and recommendation in this regard.

In response, Mr Williamson advised that the Board had conducted its affairs in an appropriate manner and that the Auditor General had not identified any instance of improper practice. However, it did accept 'that some changes to the process would have improved public perception of the transaction ...'.³⁵

Mr Williamson added, that the Board believed that it had kept AMP sufficiently separate from the evaluation of proposals and that the involvement of the Valuer General had 'added to the validity of the process'.³⁶ He also conceded that the appointment of a probity auditor, as suggested by the Auditor General, would have assisted in this respect. As a result, the Board had moved to improve the perception of any sale in light of the Central Park proposal 'by more clearly defining the role of its advisers in the process'.³⁷ For example, it had engaged a probity auditor to oversee the sale of the Bullcreek Shopping Centre and review the presentation of advice given to the Board.

The Committee was also told that the Board intended to await the expiry of AMP's current advisory role before contemplating any further transactions with regard to its property portfolio.

³⁴ Correspondence from Mr Peter Williamson, Chairman, Government Employees Superannuation Board, to the Chairman of the Public Accounts Committee, Mr Max Trenorden, 6/10/99, p.1

³⁵ *ibid.*

³⁶ *ibid.*

³⁷ *ibid.*, p.2

3.2.3 Possible Consequences of the Proposed Sale

On the issue of legal compliance, the Auditor General's report noted that the Treasurer had issued the Board with investment guidelines which also permitted the Board to invest in 'other asset classes' if the Treasurer approved such an investment arrangement. The report also observed that the proposed sale arrangement included investment by the Fund in a property unit trust. Such an investment would be an investment in 'other asset classes' and would therefore have required the approval of the Treasurer'.³⁸ As a consequence, the Auditor General found that 'the Board had not obtained the Treasurer's approval for that part of the proposed sale transaction involving investment in the Unit Trust'.³⁹

The Committee asked the Auditor General how he would have viewed the situation had the sale gone ahead. In evidence to the Committee, the Auditor General stated -

... the proposed transaction did not accord with the board's delegation from Treasury to do the transaction. It would have needed approval to do the deal outside the guidelines. That does not mean that anything was untoward with the deal. My feeling is that at the time the investment guidelines were drawn up, such a deal had not been contemplated ... The obligation is on the GESB to ensure that its transactions accord with the approved parameters.⁴⁰

Committee Comment

The Committee is satisfied with the corrective action taken by the Board to improve the transparency and evaluation of proposals involving significant transactions. Notwithstanding this, the Committee considers that the Board should ensure that any proposed future transaction accords with the appropriate investment guidelines and processes.

³⁸ op. cit., Report No. 2, p.7

³⁹ ibid., p.8

⁴⁰ Transcript of Evidence, 18/8/99, p.8

CHAPTER FOUR

PERFORMANCE EXAMINATION - LEASE NOW - PAY LATER? THE LEASING OF OFFICE AND OTHER EQUIPMENT (REPORT NO. 3)

4.1 BACKGROUND

This performance examination reviewed 39 leases selected from 'non-commercial' agencies involving predominantly personal computers and photocopiers. More specifically, the examination -

- compared the costs of equipment lease and purchase; and
- reviewed lease tendering procedures, and lease contract terms and conditions, to identify contracting risks and exposures.

The public sector currently purchases most of its office and other equipment; however, the Auditor General identified an accelerating trend towards leasing equipment, typically using 'operating lease' finance (where the lessor is considered to retain the risk and benefits of ownership but sells the right to utilise the equipment to the lessee). In Australia, equipment leasing is widely used in the private sector.

The main reasons for this trend, cited by the Auditor General, were -

- the inability to finance equipment purchases due to budgetary restraint;
- the pace of technological change and the need to maintain service levels and adjust at short notice;
- the growing support costs of equipment ownership;
- the belief that the private sector is better placed to handle asset management and disposal; and
- operating leases are 'off balance sheet' - future year lease payments are not recorded as a liability in the balance sheet. Their value is disclosed by way of a Note to the financial statements.

4.1.1 Auditor General's Findings and Conclusions in Report No. 3

Financial Evaluation

Very few of the 39 leases were subjected to a thorough financial evaluation prior to execution. As a result, agencies did not know the full cost differential between equipment leases and purchase alternatives, nor the cost implications of selecting between various lease options.

A reliable financial evaluation of leases and purchase alternatives could only be undertaken for the 17 leases that had supporting competitive purchase price data. The Auditor General undertook

a financial evaluation of these leases by using discounted cash-flow (DCF) analysis. The analysis found that ten had incurred additional costs when compared to the purchase alternative.

Contract and Tender Procedures

A review of the 39 leases disclosed that -

- of the 23 lessor standard form contracts, 19 contained terms and conditions that unduly favoured the lessor and/or exposed the lessee to unnecessary risk; and
- in 12 cases agencies directly negotiated lease finance with just one lessor, rather than seeking competitive bids.

The Auditor General concluded that leasing was a valid equipment procurement option but required an improved awareness by managers of the costs and risks involved. In evidence to the Committee, he stated that -

[Leasing] is an area that I find somewhat disturbing. It is probably a window on what might be happening ... The public sector has its strength in certain areas with a traditional approach and culture ... Interaction with the private sector has a different feel. This review showed me some of the risks in which a conscientious public servant may be too trusting. When public servants work across agencies, they rely on goodwill, but when they deal across the fence with the private sector that level of trust is not justified.⁴¹

4.1.2 Auditor General's Recommendations

The Auditor General made several recommendations in relation to agencies, the Treasury Department and the Department of Contract and Management Services.

Agencies should -

- improve the planning for, and coordination of, equipment procurement;
- undertake a rigorous financial evaluation of procurement options;
- obtain competitive prices for equipment and finance when leasing;
- seek commercially balanced lease contracts and not automatically accept the lessor's proposed terms and conditions;
- arrange for managers to have access to appropriate financial and legal advice when entering into lease contracts; and
- monitor the budgetary impacts of increasing levels of equipment leasing.

The Treasury Department should -

- obtain more comprehensive data regarding equipment leasing in order to monitor potential budgetary impacts; and

⁴¹ ibid., pp.8-9

- expedite development of practical financial evaluation guidelines that are appropriate to an environment of ongoing budgetary restraint.

The Department of Contract and Management Services, in consultation with the Treasury and the State Supply Commission, should put in place arrangements for agencies to have access to -

- standard form equipment lease contracts with commercially balanced terms and conditions; and
- competitively priced lease finance.

4.2 ISSUES

The Committee was particularly interested in establishing whether Treasury and the Department of Contract and Management Services (CAMS) had acted on the Auditor General's recommendations.

On 22 September 1999, the Committee wrote to the Under Treasurer, Mr John Langoulant, and the Executive Director of CAMS, Dr Paul Schapper, requesting details on the action taken to implement the Auditor General's recommendations and other issues of concern.

4.2.1 Improved Data Collection and Monitoring of Budgetary Impacts

Mr Langoulant advised the Committee that -

Treasury currently obtains data from agencies, aggregated at agency level, on expenditure on non-cancellable operating leases via the current monthly whole of government data collection process. This information is reported in aggregate on the face of the Consolidated Financial Statements for finance leases and in the notes for operating leases.⁴²

On the issue of whether Treasury used this data to monitor potential budgetary impacts, Mr Langoulant stressed that the cost of delivering outputs had been the focus of budget management as a result of Output Based Management, 'rather than assessing the potential budgetary impacts of specific contracts entered into by agencies'.⁴³ However, he did acknowledge that the data could be used to identify and analyse further if necessary, those agencies with substantial expenditure on leases.⁴⁴

⁴² Correspondence from Mr John Langoulant, Under Treasurer, to the Chairman of the Public Accounts Committee, Mr Max Trenorden, MLA, 11/10/99, p.1

⁴³ *ibid.*

⁴⁴ *ibid.*, p.2

Recommendation 5

That the Treasury Department, through its current data collection and reporting process, routinely and systematically identify and analyse those agencies having substantial expenditures on leases.

4.2.2 Review of Project Evaluation Guidelines

In his review, the Auditor General stressed the importance of agencies undertaking a thorough financial evaluation of leasing options in order to compare costs with other procurement options. Discounted cash-flow (DCF) analysis was cited by the Auditor General as the most common method used to enable reliable cost comparisons. He also stated that Treasury was developing new project evaluation guidelines that were to include the use of DCF analysis.

The Committee asked Mr Langouant when the new project evaluation guidelines were due for release. In response, he advised that a review of the current guidelines was due for completion at the end of 1999 and that 'while the changes resulting from this review will not be material the project evaluation guidelines is a substantial document that outlines in considerable detail the techniques and issues in the financial evaluation of equipment procurement. Included is also a section devoted to evaluation of leases'.⁴⁵

Subsequent enquiries were made by Committee staff in February 2000 as to the status of the revised project evaluation guidelines. Treasury told the Committee that the review process was nearing completion and that the final deadline for release had been extended until early March 2000.⁴⁶ The Committee was also provided with a draft copy of the guidelines which included sections devoted to the following -

- ▶ DCF analysis and other financial evaluation measures.
- ▶ Financial mathematics encompassing DCF analysis at an introductory level.
- ▶ Analysis of leases.
- ▶ Business Case for IT central lease facility.

The Committee noted in the section on the Business Case for IT central lease facility, that Treasury had acknowledged the recommendations made by the Auditor General in his performance examination on leasing and other office equipment (Report No. 3) and that the central leasing facility was intended to address these recommendations (also refer to 4.2.3.)

⁴⁵ ibid.

⁴⁶ Correspondence from Mr Andrew Chuk for the Under Treasurer to the Chairman of the Public Accounts Committee, Mr Max Trenorden, MLA, 14/2/00

4.2.3 Standard Form Equipment Lease Contracts and Competitively Priced Lease Finance

The Committee was particularly pleased with the action taken by both CAMS and Treasury to progress the issue of the agencies having access to standard form equipment lease contracts and competitively priced lease finance.

A review of the 39 leases by the Auditor General disclosed 23 lessor standard form contracts of which 19 contained terms and conditions that unduly favoured the lessor and/or exposed the lessee to unnecessary risk. Some shortcomings were also found in lease tender procedures.

The performance examination noted that CAMS was looking to establish 'whole of government' lease contract arrangements for the public sector. In response to the Committee's enquiries, CAMS provided a detailed summary of the action taken by the Department to address several concerns raised in the report.

CAMS' Chief Executive Officer, Dr Paul Schapper, informed the Committee that there had been wide consultation in the development of a lease finance facility for the whole of government. Discussions had taken place in early 1999 with Treasury and the Office of Information and Communications when CAMS was developing a business plan for a whole of government leasing facility for IT equipment. CAMS had also conferred with other States about similar leasing facilities and their experiences. As a result, a 'whole of government' reference group was formed in 1999 comprising State government agencies including the Treasury Department, Office of the Auditor General and the Education Department, to ensure that the facility was able to meet the needs of agencies. CAMS also held discussions with a number of specialists in the lease financing industry during the development of the Business Case.⁴⁷

The objective of the lease finance facility would be to provide all agencies with ready access to -

- operating lease finance under a standard Master Rental Agreement approved by the Crown Solicitor;
- a minimum documentation requirement to complete draw downs under the facility; and
- an ongoing reduced cost of funding, based on the competition between financiers and the leverage obtained from the aggregated volume of finance as opposed to smaller individually priced transactions.⁴⁸

The Committee understands that the facility, also referred to as the 'common use rental facility', will enable agencies to procure operating lease finance from a panel of financiers for a range of categories of equipment e.g. personal computers and other IT equipment, photocopiers and other

⁴⁷ Correspondence from Dr Paul Schapper, Executive Director, Department of Contract and Management Services, to the Chairman of the Public Accounts Committee, Mr Max Trenorden, MLA, 7/10/99

⁴⁸ *ibid.*, p.2

electronic office equipment. Dr Schapper told the Committee that originally the intention was to focus on IT equipment. However, the scope was subsequently broadened.

Dr Schapper also provided details on the development of a standard form lease contract in the form of a Master Rental Agreement. The Agreement was being produced by the Crown Solicitor's Office with the specifications drafted by external solicitors. The draft agreement was intended to consider the key areas of concern when contracting with external financiers and would be used as part of the central lease facility.⁴⁹

The proposed operating lease facility would comprise amongst other things: a panel of financiers, an administration unit, and specialist advisers. The Committee was informed that it was envisaged that specialist financial advice would be provided by Treasury or a panel of specialist advisers.⁵⁰

Subsequent to the response by Dr Schapper, the Committee noted that on 8 January 2000, CAMS advertised for public comment a draft request for tender (including a draft Master Rental Agreement). The draft tender documentation explained that, at a later date, CAMS would be also tendering for specialist financial advisers and would be establishing a lease contract administration unit.

Committee Comment

The Committee commends the progress made by both the Department of Contract and Management Services and Treasury in the development of a lease finance facility for whole of government in line with the Auditor General's recommendations. The Committee will take an active interest in further developments; however, it intends to take no further action at this time.

⁴⁹ *ibid.*, p.3

⁵⁰ *ibid.*

CHAPTER FIVE

REPORT ON THE WESTERN AUSTRALIAN PUBLIC TERTIARY EDUCATION SECTOR - 1998 ANNUAL REPORTING CYCLE (REPORT NO. 5)

5.1 BACKGROUND

This report summarised the results of 18 financial statement and 14 performance indicator audits completed at Western Australian public universities, their subsidiaries and vocational education and training colleges, for the year ended 31 December 1998.⁵¹ In evidence to the Committee, the Auditor General speculated that universities and colleges had a 31 December balance date because it was 'linked to their operational year which is a calendar-academic year, and they have been funded accordingly and report in that period'.⁵²

5.1.1 Audit Results

The Committee noted that all financial statement and performance indicator opinions were unqualified with the exception of Curtin University which received a qualified opinion on the basis of financial control problems. General improvements at colleges meant better timeliness of reporting, with eight of the ten colleges being able to receive an audit opinion by 30 April 1999.

5.1.2 Audit Findings in Report No. 5

As a result of the audit on the public tertiary education sector, the Auditor General found several matters requiring management attention including the following -

- ▶ In 1998, two universities implemented new Human Resource/Payroll systems which resulted in key control problems during and after implementation.
- ▶ The College Management Information System (CMIS) used by colleges to manage enrolments and student information results was not Year 2000 compliant nor fully satisfied the operational requirements of colleges, including the need for reconciliation controls over fee revenue and debtors.
- ▶ Although universities, colleges and the Western Australian Department of Training (WADOT) had progressed key testing and compliance of core systems associated with Year 2000 risks, this should be completed well in advance of December 1999.

⁵¹ Auditor General Western Australia, Executive Summary, Report No. 5, *Report on the Western Australian Public Tertiary Education Sector, 1998 Annual Reporting Cycle*, June 1999

⁵² Transcript of Evidence, 18/8/99, p.14

- ▶ Most colleges had not tested recovery of key systems at an alternate site in the advent of main system servers being unavailable, which could impact on the delivery of key services.

5.2 ISSUES

Of particular concern to the Committee were the issues raised by the Auditor General relating to the CMIS, Year 2000 date problem and the disaster recovery of college computer systems.

In October 1999, the Committee wrote to the Chief Executive of WADOT, Mr Ian Hill, regarding the action taken by the Department in response to recommendations made by the Auditor General. The Committee did not seek feedback from individual colleges or universities.

Mr Hill informed the Committee that the Department's comments related to its 'responsibilities for common corporate information systems rather than commenting on the systems and processes used internally by Colleges'.⁵³ The Auditor General's report noted that WADOT had been assisting with Year 2000 compliance in key areas including disaster recovery, despite the governing councils being ultimately responsible for the risks posed by the Year 2000 problem.

5.2.1 College Management Information System (CMIS)

As previously stated, the Auditor General found that CMIS was not Year 2000 compliant nor fully satisfied the operational requirements of colleges, including the need for reconciliation controls over fee revenue and debtors. WADOT had commenced a project in 1997 to provide an improved system but this was suspended in October 1998.

The Committee understands that the Department had commissioned two separate independent reports as part of its move to improve the existing system. However, as a result of conflicting professional opinion in the reports and the need to be Year 2000 compliant, new development was suspended.⁵⁴

As a consequence, resources had been redirected to the Year 2000 compliance of the existing CMIS. A budget of \$5.1 million had been forecast in 1997-98 and 1998-99 for the ongoing operations of the existing CMIS, in addition to the new development. This forecast had been reduced as a result of the project's suspension.

⁵³ Correspondence from Mr Ian Hill, Chief Executive, Western Australian Department of Training, to the Chairman of the Public Accounts Committee, Mr Max Trenorden, MLA, 14/10/99

⁵⁴ Facsimile from the Western Australian Department of Training to the Public Accounts Committee, 4/11/99

The Auditor General recommended that -

- once the existing CMIS is Year 2000 compliant, WADOT and colleges address the business and control shortcomings of the system; and
- when the project is recommenced, adequate costing records be maintained for all activities associated with the project, including internal staff costs, to maintain appropriate accountability for funds expended.

In response to the Committee's requests for information, Mr Hill emphasised that WADOT had addressed the Auditor General's recommendation with respect to the CMIS. However, it was still addressing an outstanding issue related to the reconciliation controls over fee revenue and debtors.⁵⁵

Mr Hill further explained that a tactical group had been established to address issues associated with the CMIS and had met regularly since April 1999. The group oversaw system enhancements and testing which led to Year 2000 compliance for the CMIS in August 1999.⁵⁶

The Committee was pleased that WADOT had acted upon the second part of the Auditor General's recommendation with respect to the maintenance of adequate costing records, particularly as it had accountability implications. Mr Hill informed the Committee that in March 1999, the Department had implemented a process that included accounting for internal resource usage.⁵⁷

On the outstanding issue related to reconciliation controls, Mr Hill stated that -

A solution to achieve reconciliation control over fee revenue and debtors is being pursued but is difficult because of the complexity of the fees process and the existing CMIS and financial management information (Multisoft) systems structures. A solution is being sought as part of the Department's Strategic Business Systems Plan and Information Technology Plan and a current Request for Proposal to replace the existing Multisoft financial management information system. Fee processes are also being considered as part of the Department's preparation for the introduction of the Goods and Services Tax.⁵⁸

⁵⁵ op. cit., correspondence from Mr Hill, p.2

⁵⁶ ibid.

⁵⁷ ibid.

⁵⁸ ibid.

Recommendation 6

Given that Year 2000 compliance for the College Management Information System (CMIS) was achieved in August 1999, the Western Australian Department of Training must decide to either continue to make improvements to the existing CMIS (including the reconciliation controls over fee revenue and debtors) or develop a new system.

5.2.2 Year 2000 Date Problem

The Auditor General recommended that -

...universities, colleges and WADOT continue to afford a high priority to addressing Year 2000 risks and aim for achieving compliance well in advance of December 1999 to allow for potential resourcing or other problems. Contingency plans for key services should be developed as soon as possible.⁵⁹

Mr Hill advised the Committee that as a result of the high priority placed on addressing Year 2000 risks, WADOT had achieved compliance for all of its corporate information systems in advance of the 31 December deadline and was well advanced in the completion of contingency plans.⁶⁰

Committee Comment

The Committee considers that the matter has been satisfactorily addressed and makes no further comment.

5.2.3 Disaster Recovery of College Computer Systems

The Auditor General in his report recommended that -

Recovery of key systems at an alternate site be tested, to confirm that recovery is possible in the event that the main system servers are unavailable. Also, system and data backups for key systems should be periodically transferred to appropriate offsite locations at a frequency commensurate with the business risk.⁶¹

⁵⁹ op. cit., Report No. 5, p.10

⁶⁰ op. cit., correspondence from Mr Hill, p.3

⁶¹ op. cit., Report No. 5, p.11

In response to the Auditor General's recommendation, Mr Hill confirmed that the issues raised in the recommendation were being addressed and that further analysis of WADOT's and college disaster recovery procedures is continuing. More specifically, disaster recovery testing for CMIS had been completed and signed-off by a representative college and testing of disaster recovery for other corporate systems had been scheduled for October and November 1999.⁶²

Committee Comment

The Committee considers that the matter has been satisfactorily addressed and makes no further comment.

⁶² op. cit., correspondence from Mr Hill, p.3