

Public Sector Performance Report 2001

Report No. 4 June 2001



Auditor General for Western Australia



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THE SPEAKER
LEGISLATIVE ASSEMBLY

THE PRESIDENT
LEGISLATIVE COUNCIL

First Public Sector Performance Report 2001

I submit to Parliament my first Public Sector Performance Report for 2001 pursuant to section 95 of the *Financial Administration and Audit Act 1985* (FAAA). This Report contains six items that have arisen from work undertaken pursuant to section 80 of the FAAA.

A handwritten signature in blue ink, appearing to read 'D D R Pearson'.

D D R PEARSON
AUDITOR GENERAL
June 20, 2001

Contents

1	Auditor General's Overview	4
2	Administration of Legislation	5
	● Administration of the <i>Pawnbrokers and Second-hand Dealers Act 1994</i>	6
3	Financial and Management Control Issues	11
	● Administration of Deceased Estates and Trusts	12
	● Compliance with Purchasing and Disposal Requirements	16
	● Export of Government Skills and Services	20
	● Grants and Subsidies to Small Business Enterprises	28
4	Follow-up Examination	34
	● Listen and Learn – Using Computer Surveys to Report Performance in the Western Australian Public Sector	35

1 Auditor General's Overview

As a general observation, most government systems work well most of the time. Auditors report exceptions to provide independent information that can underpin the accountability process. The information can also assist agencies to improve their performance.

In my role as Auditor General I look for and report on the exceptions, where things are not working as they should. In terms of allocating the limited resources available for the audit function I do not see it as appropriate for me to commence projects which have the primary purpose of documenting success stories. However, where an examination team identifies examples of good practice and systems that are working well, I seek to include this material in my reports.

In the contemporary environment public sector managers need to understand the risks surrounding their decisions and actions and to make decisions on an informed basis. As Auditor General I understand that taking risks means that on occasions things will go wrong. What I would expect to see in documentation held by agencies is that initiatives are progressed within the framework of the relevant legislation and Government policy, that risks have been identified and assessed alongside the benefits and that once a decision has been made, effective measures to manage the risks are implemented. A single decision that goes wrong can have serious and sometimes catastrophic consequences for individuals and the community. In such circumstances public confidence in public services is undermined and this does a wider harm to our society.

The item in this report on the *Export of Government Skills and Services* is a case in point. Government policy has encouraged agencies to export their services where there are clear benefits to the State. However, operating in different legal, political and social environments to those found in Western Australia opens a range of additional risks that need to be managed. An examination of a sample of these export projects highlighted the importance of agencies undertaking and documenting thorough analyses of their international ventures.

In this report there is also an item on *Administration of the Pawnbrokers and Second-hand Dealers Act 1994*. This Act was introduced in a bid to reduce the trade in stolen goods through dealers and to assist in their recovery. The item reveals that the Act appears to have curtailed this trade but without any obvious effect on the incidence of burglary or stealing, suggesting that stolen property is now being sold through other less regulated avenues.

The remaining items in this report deal with some of the more traditional verities of good management in the public sector. The item on *Grants and Subsidies to Small Business Enterprises* highlights the need for the public sector to maintain processes that are and can be seen to be fair and impartial. *Compliance with Purchasing and Disposal Requirements* stresses the importance of purchasing and disposal processes that are and can be seen to be achieving value for money, and *Administration of Deceased Estates and Trusts* provides a timely reminder of the role management plays in the quality assurance process. The last item in the report is a follow-up review to a major study conducted in 1998 into the use of customer surveys by agencies to report performance, and highlights that in this area agencies still have a long way to go in developing and using sound performance information.

While the items included in this report arise from work at selected agencies, they convey lessons that warrant consideration by all public sector managers.

2 Administration of Legislation

Audit reports on the administration of legislation by agencies are intended to provide Parliament with information about how well specific pieces of legislation are being administered and where appropriate, the success of the legislation in achieving specific objectives. This report contains one item concerning the administration of legislation:

- Administration of the *Pawnbrokers and Second-hand Dealers Act 1994*.

Administration of Pawnbrokers and Second-hand Dealers Act 1994

Overview

- *Adequate procedures are in place for the administration of the Pawnbrokers and Second-hand Dealers Act 1994.*
- *Information received from pawn brokers and second-hand dealers is analysed and issued to police districts for actioning in a timely manner.*
- *Transactions through pawn brokers and second-hand dealers have declined by 20 per cent since the introduction of the Act, indicating (anecdotally) that the trade in stolen goods through these avenues has been curtailed.*
- *The Act has had no obvious effect on the incidence of burglary or stealing as other less regulated avenues remain available for handling the sale of stolen property.*

Background

The licensing and control of pawnbrokers and second-hand dealers (dealers) is regulated by the *Pawnbrokers and Second-hand Dealers Act 1994* (the Act). The Act, which took effect from April 1, 1996, seeks to reduce the trade in stolen goods through dealers and, to recover stolen goods.

Responsibility for administration of the Act rests with the Minister through the Commissioner of the Western Australian Police Service (WAPS). At December 31, 2000, 291 second-hand dealers and 67 pawnbrokers were licensed under the Act¹. The main features of the Act are:

- *licensing* – only persons of “good character” are granted licences.
- *verification of identity* – the identity of the person selling or pawning goods must be confirmed against multiple prescribed forms of identification.
- *dealings* – transactions cannot be conducted with persons under the age of eighteen or persons obviously affected by drugs or alcohol.
- *records* – transactions details must be transmitted to the WAPS within 24 hours.
- *minimum retention period* – dealers must retain transacted goods for 14 days.
- *access* – the WAPS have access to premises without a warrant during business hours and can inspect goods and records on request

What is the Potential Risk?

The Act was passed by the Parliament to curtail the trade in stolen property. Ineffective administration of the Act and associated regulations by the WAPS may result in:

- persons of dubious character becoming licensed dealers.
- stolen property being transacted by dealers without detection and/or offenders not being identified.

¹ Source: WAPS. Note – All pawnbrokers must also be licensed as second-hand dealers

What Did We Do?

The audit, conducted in December 2000, assessed the extent to which the Commissioner for Police (Commissioner) has fulfilled his responsibilities in administering the Act and whether the introduction of the Act has had any significant impact on the trade in stolen goods through pawnbrokers and second-hand dealers. This involved:

- assessing the procedures used for licensing of pawnbrokers and second-hand dealers;
- evaluating the monitoring and control procedures established to ensure pawnbrokers and second-hand dealers are complying with the Act; and
- assessing whether information supplied by pawnbrokers and second-hand dealers is used by the WAPS to detect transactions involving stolen property or known offenders.

What Did We Find?

Licensing of Dealers

Responsibility for the initial licensing and renewal of pawnbroker and second-hand dealers licences rests with the Commercial Agents section of the WAPS. Under the Act, two types of licences may be issued:

- a pawnbroker's licence is required by any person conducting the business of lending money on the security of pawned goods or receiving goods under a contract of sale where the seller has the right to buy back the goods.
- a second-hand dealer's licence is required by any person conducting the business of buying, selling or exchanging second-hand goods, whether the goods are bought, sold or exchanged on the person's own behalf or on behalf of another person.

The Act prescribes the conditions upon which the WAPS can issue a licence. These include:

- the applicant's identity is established;
- the applicant is "...a fit and proper person to hold a licence" and has no criminal charge pending that would render the person unsuitable to hold a licence; and
- the applicant has obtained all necessary approvals, consents and exemptions, such as local government approval in relation to the business premises.

A review of the application process found that the WAPS have appropriate procedures in place and that licensing is done in accordance with the Act. A standard checklist is used to ensure all requirements have been met prior to issuing a licence. Testing of approved applications and licensing documentation confirmed that appropriate identification and criminal records checks had been performed and that all relevant documentation had been submitted with the application form.

Dealer Information

The Act requires pawnbrokers and second-hand dealers to provide the Commissioner with information relating to buy or loan transactions in a prescribed form within twenty four hours of midnight of the

Administration of Pawnbrokers and Second-hand Dealers Act 1994 *(continued)*

day in which the transaction took place. Pawnbrokers must furnish this information via an electronic file transfer whilst second-hand dealers may fax such information. The required information includes:

- the contract number and the identity of the person with whom the transaction was made including the items of identification used to confirm identity;
- the type of transaction (buy or loan); and
- a description of the goods including make, model and serial number and the payment amount.

Dealers are also required by the Act to advise the WAPS if they suspect that goods that have come into their possession, may have been stolen or otherwise unlawfully obtained. At February 2001, no charges have been laid against dealers for failing to notify police in such circumstances.

Responsibility for ensuring that dealers submit all the required information and for then analyzing the information rests with the Dealer Information Unit (DIU) of the WAPS. The DIU compare the property details supplied by dealers against information from offence reports to detect potential stolen items. The DIU also uses the information to identify frequent sellers and to check identification details against offender and other records.

When the DIU identifies possible stolen items, an information report is prepared and forwarded to the relevant police district for investigation. This process must be done quickly as dealers are only required to retain purchased property for a period of 14 days ². In 2000, 596 advices were issued by the DIU to district offices, of which 60 per cent related to just three of the 15 police districts³ This rate correlates approximately to population size, number of dealers and burglary rates. The audit found that the information was issued by the DIU to the districts on a timely basis.

Once received by the Districts, the information can then be followed up with the dealers or incorporated into case investigations. Thereafter, procedures are in place for the districts to report back on action taken and for the DIU to periodically follow up where action has not been reported.

Auditing and Inspection

The Act provides Police with the authority to enter the premises of a licensed dealer and inspect goods and audit records without a warrant. Responsibility for coordinating and conducting inspections and audits rests with the Commercial Agents section of the WAPS, although a small number are also conducted by district offices as part of their ongoing monitoring and policing of local dealers. Dealers will usually be subject to at least one random inspection and audit per year with the frequency of inspections dependent upon assessed risk. The WAPS advised that approximately 350 inspections were conducted in 2000, with the vast majority undertaken by the Commercial Agents section.

The audits and inspections throughout the state are conducted in accordance with a standard audit program. The program enables a comprehensive assessment to be made as to whether the dealer is complying with legislative requirements. Where irregularities are found, the WAPS may, depending on

² However, pawned property must be kept by the dealer for a minimum of three months.

³ Cannington, Mirrabooka and Joondalup

the seriousness of the matter; issue a caution, issue an infringement notice, lay charges and/or suspend or revoke the dealers licence. The WAPS advised that cautions are used as part of an education campaign. The availability of infringement notices as an enforcement tool became available by amendment to the Act in October 2000, with fines ranging from \$100 to \$300. At the end of February 2001, only one infringement had been issued. No licences have been suspended or revoked.

Reduction in the Trade in Stolen Goods

Since the introduction of the Act in 1996, 28,000 items of stolen property have been located at dealers premises, most of which was identified as a result of the new transaction reporting requirements⁴. The WAPS advised that many more items could be identified if serial numbers were routinely recorded by owners.

The impact of the new controls can also be linked to a 20 per cent reduction in the number of transactions through pawnbrokers and second-hand dealers since 1998 (Table 1).

Year	1998	1999	2000
Transactions	503 625	398 214	401 495

Table 1: Reported transactions made through pawnbrokers and second-hand dealers since 1998.

The introduction of the Act appears to have resulted in a significant reduction in transactions through pawnbrokers and second-hand dealers.

Source: WAPS

However, the introduction of the Act has had no obvious impact on the incidence of burglary and stealing, with the number of reported offences increasing by approximately 11 per cent since 1995-96. Only a marginal improvement in the clearance rate has occurred in the same period (Table 2). The WAPS advised that, although the trade in stolen goods through the second-hand dealer and pawnbroking industry has reduced, other less regulated avenues remain. These include, weekend markets, swap-meets, car boot sales, auctions and internet auction sites. These avenues are not regulated in Western Australia, or elsewhere in Australia, though research conducted by the National Police Research Unit identified such legislation in the US state of California and concluded that it was “....an option worthy of examination”⁵.

	1995-96	1996-97	1997-98	1998-99	1999-00
Burglary and Stealing Offences (Number reported)	129 800	135 534	137 173	136 672	145 295
Clearance Rate (%)	18.21	18.27	18.15	20.75	19.72

Table 2: Number of reported burglary and stealing offences and clearance rates.

The introduction of the Act has had no obvious effect on the incidence of burglary and stealing.

Source: WAPS

⁴ Comparative figures are unavailable for the years prior to the introduction of the Act.

⁵ Report Series 131.1 – Approaches to Pawnbroker and Second-Hand Dealer Legislation (1997)

Administration of Pawnbrokers and Second-hand Dealers Act 1994 (*continued*)

What Does This Mean?

The WAPS have adequately administered the legislative requirements of the *Pawnbrokers and Second-hand Dealers Act 1994* and are using information obtained from dealers in a timely manner.

What Should Be Done?

The WAPS should look at options to further build on progress made in reducing the trade in stolen property, including through controls over currently unregulated avenues and by bringing about greater recording of serial numbers by property owners.

3 Financial Management and Control Issues

This section contains four items that focus on management and control issues:

- Administration of Deceased Estates and Trusts
- Compliance with Purchasing and Disposal Requirements
- Export of Government Skills and Services
- Grants and Subsidies to Small Business Enterprises

Administration of Deceased Estates and Trusts

Overview

- *Receipts into and payments from client accounts were properly made, however, manual and electronic records of client assets were not always accurately maintained.*
- *Fees charged for administration of deceased estates and most trusts were correct. However, time-based fees charged for reviewing the administration of trusts could not be substantiated to documentary records.*
- *Quality assurance reviews of trust and deceased estate files by management were not being properly undertaken.*

Background

The Public Trustee is responsible for providing a "...comprehensive range of affordable, quality, secure and impartial trustee and asset management services to Western Australians"⁶. The functions of the Public Trustee (PT) include deceased estate administration, will drawing services, trustee for infants and incapable persons, and appointment as attorney and agent.

Services provided by the PT when administering trusts and deceased estates include:

- ensuring receipt of all income and benefits to which the person is entitled;
- paying any accounts for which the client is liable (including accommodation expenses);
- managing taxation, retirement/government benefits and investment matters;
- maintaining the person, their spouse and dependents;
- selling and purchasing property;
- managing an existing business;
- providing security and the comforts of life; and
- distributing the assets of deceased estates to beneficiaries.

Administrative support to the PT is provided by the Public Trust Office (the Office) comprising approximately 126 staff. Expenditure by the Office in 1999-2000 totalled \$11.1 million⁷. The Office administers approximately 5 069 trusts and 3 135 deceased estates annually. Assets under administration totalled \$398 million at June 30, 2000.

What Is The Potential Risk?

The PT has both a statutory and fiduciary responsibility to safeguard the assets of its clients. As a consequence, internal procedures need to be effective to ensure that this responsibility is satisfactorily discharged.

⁶ From the Annual Report of the Public Trustee for the year ended June 30, 2000.

⁷ The budget estimate for 2000-2001 is \$10.8 million.

Ineffective procedures may result in:

- loss of trust moneys;
- unauthorised disbursement of trust moneys; and
- unnecessary financial and emotional hardship for clients.

The occurrence of any of these could cause considerable harm to the credibility of the Public Trustee, which is a cornerstone of its operations.

What Did We Do?

Samples of trust and deceased estate files were selected for audit to ascertain the extent to which the administration of trusts and deceased estates complied with PT policies and procedures.

The types of trust files audited included:

- persons placed under the administration of the PT by the Courts and the Guardianship or Administration Board including minors and persons who are incapable of managing their own affairs; and
- persons who do not wish to personally undertake investment, legal or administrative tasks.

Deceased estates of both types were audited. These were:

- estates of persons that died intestate and for whom the PT has been appointed administrator of their estate.
- estates of persons who selected the PT as executor of their estate prior to their death.

What Did We Find?

Accuracy of Client Records

Receipts and payments

Government financial assistance, taxation refunds and proceeds from sale of assets are the common source of moneys paid into client accounts. A majority of payments from client's trust accounts are generally for meeting cost of living expenses, while payments from deceased estates are payments made to beneficiaries. All payments made by the PT from client's accounts should be in accordance with Office guidelines.

Receipts and payments made into or from client trust and deceased estate accounts were tested on a sample basis to assess the completeness of receipts and the validity of payments. No discrepancies were found in client records with all receipts and payments evidenced and justified.

Asset records

Additions or disposals to client asset records are communicated to the Office by way of invoices, receipts and letters of advice. Internal procedures require that any significant change in trust assets be recorded on the computerised TACT (Trust Accounting System) Asset Register and that all source

Administration of Deceased Estates and Trusts *(continued)*

documents be kept on the individual trust files. Details of personal use assets costing less than \$500 are also required to be held on file but not in TACT.

For approximately half of the sample of trusts examined, source records on the trust files did not reconcile to the assets recorded on the TACT Asset Register whilst no details of personal use assets had been placed on the files. As a consequence, the validity of client records as recorded on TACT and of statements sent to clients cannot be guaranteed. However, reconciliation to other subsidiary records should enable accuracy to be re-established, and the PT has advised that such a reconciliation has commenced.

Safeguarding important documents

Important documents, such as share certificates and duplicate title deeds belonging to trust clients are stored in security packets and recorded in a security register. Additions or removals from the security packets can only be made by authorised Trust Officers, details of which must be recorded in the security register and signed for by the Trust Officer. Security procedures for access to the security packets and the security register are established and monitored by a supervisory officer. However this monitoring lapses when this officer is at lunch or on sick leave. The Public Trustee has advised that this lapse in security has now been corrected.

A comparison of the contents of the security packets to the security register revealed frequent discrepancies. Twenty two per cent of the packets examined did not contain items that were recorded in the register whilst twenty six per cent of items contained in the packets were not recorded in the register. Discrepancies were found between the security register and the TACT asset register in approximately eighty per cent of the sample examined. Most of these documents were share certificates that had little or no value for the reason that the companies were insolvent or had been wound-up or because companies had adopted non-certificated share holdings. Nevertheless, the extent of the variance is a concern. The PT advised that a full reconciliation between the security packets and the security register will be undertaken, though a timeframe is yet to be determined.

Fees

Fees are charged for a variety of PT services and can range from zero to thousands of dollars depending upon the type of client and work performed. Fees charged by the PT were last reviewed and amended in 1997. Fees and the basis of charging are set by Regulation and published in the Government Gazette. Most fees are calculated on the value of the trust or estate under administration, with the remainder calculated either on the basis of hourly rate or a combination of value and hours.

The audit found that the majority of fees charged in respect of trust administration were correctly calculated and in accordance with approved schedules. However, opportunity was found to improve the basis of calculation of fees charged for taxation and review services.

Taxation fees for the preparation of annual taxation returns are charged at a rate of \$100 per hour. Review fees for the annual review of client accounts by the responsible Trust Officer are mostly charged at \$60 per hour⁸. The review covers the accuracy of records, entitlements and disbursements

⁸ This rate applies to Trust files valued at over \$20 000. The vast majority of trusts are in this category.

and the reasonableness of other fees. Good practice suggests that time-based fees for taxation and review services should be supported by a record of work performed and time incurred. This was found not to be the case. Rather, fees charged are based on an estimate of trust value, which may not be an accurate reflection of actual hours involved in reviewing the administration of the trust.

Fees charged for administration of deceased estates were found to be calculated correctly and in accordance with approved schedules.

Management Review

Regular quality assurance reviews need be undertaken to ensure correct procedures are followed and that there is proper management of client interests.

Office procedures for administration of trusts require management to conduct specific reviews of all trust files after the first six weeks and thereafter on a biannual and annual basis. However, these reviews are often not undertaken. Of the files sampled⁹, 33 per cent of the six weekly reviews and 87 per cent of the bi-annual reviews were not undertaken. Management are aware of the fact that current practice does not reflect existing policies for six weekly and bi-annual reviews, and are in the process of reviewing the appropriateness of those policies. All annual reviews were conducted though generally they were performed some months after the due date.

Office procedures for deceased estates require an initial six weekly review of new files and a yearly review of long-term files. However, the Office has no formal guidelines for these reviews. No evidence was found in any of the sampled files of the initial six weekly review, although evidence of yearly management reviews was found in 80 per cent of files examined.

Good practice suggests that results of reviews be reported to senior management and used for continuous improvement. However, no results of management reviews were reported to senior management.

What Does This Mean?

The PT is properly receipting and making payments into and from client accounts and has recently introduced more accurate costing of fees. Further improvements are still required to the maintenance of some client records and to quality assurance procedures.

What Should Be Done?

The Public Trustee should ensure that:

- records of client trust assets are reconciled to source documents and thereafter regularly reconciled for accuracy.
- all staff are fully informed of their responsibilities when administering trusts and deceased estates.
- appropriate records are maintained to substantiate all time-based fees.
- appropriate guidelines for management review of trusts and deceased estates are developed and provision made for recording of evidence that reviews have been undertaken.
- results of reviews are reported to senior management for continuous improvement purposes.

⁹ Period reviewed was from January 1998 to June 2000.

Compliance with Purchasing and Disposal Requirements

Overview

Government agencies should ensure their procedures for the sale of assets and the purchase of goods or services are open, fair and competitive so as to provide assurance that value for money is obtained. Audits at two smaller agencies found that such practices had not been followed:

- *by the Busselton Water Board in the sale of its business premises.*
- *by the Fremantle Cemetery Board in its purchase of architectural services and in the upgrade of its crematorium.*

Background

Western Australian Governments have long sought to embed fundamental competitive principles into public sector business practices. Since the early 1990's in particular, numerous revised competition related policies and requirements have been issued, often with considerable publicity within the public sector. As a consequence, all public sector agencies should be well versed in the general principles if not the details of achieving better value for money and greater procedural integrity through open and competitive selling and purchasing practices.

Knowledge of and compliance with competitive business practices as well as Acts, regulations, and other government policies represent a challenging task for government agencies, particularly small agencies. At June 2000, approximately 40 Western Australian public sector agencies employed fewer than 25 full time equivalent staff¹⁰.

Most commonly, these small agencies are statutory authorities whose responsibilities are prescribed in legislation. These authorities act at arms length from government, though there is still a responsible Minister who can formally direct the authority but must account to Parliament for doing so. Management direction and control is usually provided through a governing board which is the accountable authority under enabling legislation.

Government and the community place significant trust in the board members of statutory authorities¹¹. In giving boards authority to manage community assets, board members are required to act in the best interests of the agency and to operate with the high order of care and diligence appropriate to a publicly owned authority. These accepted principles of corporate governance are broadly enunciated in the *Public Sector Management Act 1994*, the *Western Australian Public Sector Code of Ethics*, the *Statutory Corporations (Liability of Directors) Act 1996*, in "*Guidelines For Corporate Governance For W.A. Public Sector Board Members*" issued by the Ministry of the Premier and Cabinet in 1999 as well as in the 1998 Auditor General's report titled "*Public Sector Boards*".

¹⁰ Source: Ministry of Premier and the Cabinet – "Employment in WA State Government Bodies at June 30, 2000".

¹¹ Most board members are paid, though some, such as the members of the Busselton Water Board serve on a non-remunerated basis.

What Is The Potential Risk?

Lack of knowledge of or compliance with legislation, policies or good practice can result in:

- agencies not obtaining value for money.
- unfair or inappropriate business practices with consequent disputes and real and lost opportunity costs.

What Did We Do?

Several significant transactions entered into by the Busselton Water Board and the Fremantle Cemetery Board, identified during routine audits, were examined for compliance with relevant legislation, government policy and accepted good practice. These were:

- the sale by the Busselton Water Board (BWB) of its business premises in March 2000.
- the Fremantle Cemetery Board's (FCB) engagement of architects over the last 10 years and the upgrade of its cremators.

What Did We Find?

Sale of Government Property – Busselton Water Board

In 1996, the Treasury issued agencies with recommended procedures for managing and disposing of government real estate. Titled, *“Guidelines for Managing Government Real Estate”*, the guidelines outlined key elements of selling real estate to maximise sale price whilst complying with government policy of an open selling approach. Audit of the process followed by the Busselton Water Board in the sale of its business premises found that elements of these guidelines were not observed, although the BWB advised that *“...it had never been provided with a copy...”* of the guidelines. Treasury was unable to confirm that the BWB was issued with a copy of the guidelines.

Formal valuation

The Treasury guidelines suggest a market valuation be undertaken prior to sale to enable informed consideration of bids, tenders or offers. This is to be established by *“...formal valuation principles with the valuer independent of the selling agent. The valuation is not to be confused with an appraisal which is an informal opinion of value and not part of the formal selling process”*.

The BWB did not obtain a formal valuation from an independent valuer. Rather, the BWB advised that it obtained verbal advice from several members of the local business community as well as a board member who is a real estate agent and to whom the BWB assigned exclusive selling rights. The member recommended a selling price of \$260 000 and the property was sold for this price.

Marketing

Appropriate marketing of property is needed to maximise market interest and thereby the potential sale price. The Treasury guidelines recommend appropriate newspaper advertising with a four week lead time prior to auction or tender.

Compliance with Purchasing and Disposal Requirements *(continued)*

By comparison, the BWB undertook very limited marketing. The board member given exclusive selling rights to the premises advised that once it became likely that the premises would be sold and prior to his being appointed the selling agent, he “...took it upon himself to quietly endeavor to locate a potential buyer”. The sale by private treaty sale occurred just four days after the BWB formally decided to sell the premises. In accordance with the BWB’s instructions, other real estate firms were advised of the sale, although this occurred just one day prior to the sale. Such a reserved and confidential approach gave the broad market little time to generate competitive interest in the sale.

Method of sale

The Treasury guidelines state that the main sale methods are auction, tender or private treaty, with private treaty sale to be generally avoided as it is difficult to regard this as open and fair. Exceptions include where there is no perceived demand or the property has limited value. The guidelines suggest that before the private treaty method is used, the market be tested by auction or tender to confirm the limited demand status. If private treaty is then used, competition should be maintained through a fixed period of advertising before offers are considered.

The method of sale used by the BWB was private treaty and no substantive evidence was available to show that alternative options were considered. Moreover, competition was not maintained for a fixed period before all offers were considered. In response to audit enquiries, the BWB however, advised that it had considered all sale options and “...based on local knowledge ... (concluded) ... that a tender or an auction may not result in the best outcome”.

Perception of a conflict of interest

Exclusive rights to sell the premises were assigned by the BWB to a real estate firm that is controlled by a company of which a board member is a director and shareholder. Board minutes indicate that this decision was taken in the absence of the member who, having declared an interest in the outcome, left the room. However, by directly assigning exclusive selling rights to the member without considering alternative proposals, the perception of a conflict of interest situation has emerged between the member’s obligations to the BWB and his commercial real estate interests.

In addition, payment of the sale commission may have resulted in the member not complying with the *Water Boards Act 1904* which limits to \$1 000 the earnings that can be derived by a board member in dealings with the board in one financial year. Advice from the Crown Solicitor’s Office is that if a member exceeded the \$1 000 earnings and unless the Minister had determined in writing that the \$1 000 could be exceeded, then there would be a contravention of the Act, “...the effect of which is to disqualify the member from continuing to be a member of the Board”. No authority to exceed the limit was granted by the Minister and available evidence suggests the member did exceed the limit.

The board chairman advised that “...it is my belief that (exceeding the \$1 000 limit) was not a deliberate action,... that the \$1 000 (limit) is severely restrictive and outdated ...(and that) ... members have been successful in gaining the Ministers determination in the past for the \$1 000 to be exceeded”.

Procurement Practices – Fremantle Cemetery Board

The objective of government purchasing activities is to achieve value for money through open and effective competition by suppliers for government business. These requirements are outlined in the

State Supply Commission's (SSC) purchasing policy statement, *"Buying Wisely"* issued in 1996. Supporting guidelines to the policy statement stipulate escalating requirements as the monetary value of the procurement increases:

- three verbal quotations are required for supply of goods or services estimated to be valued at up to \$5 000.
- three written quotations are required for supply of goods or services estimated to be valued at between \$5 000 – \$50 000.
- public tenders be called for goods or services valued at in excess of \$50 000.

Fair and open competition

The Fremantle Cemetery Board (FCB) makes extensive use of architectural services to ensure that the cemetery's structure, form, acoustics and space are appropriate to their purpose. The cost of these services has been considerable. For instance, in the three years from 1997-98, the FCB has expended \$270 000 on architectural services.

Since 1989, the FCB has not sought quotes or conducted tenders for any architectural services, instead choosing to employ the one firm. The FCB advised that this arrangement provided continuity of service with consequent administrative and design benefits. Nevertheless, audit considers that continued use of one supplier for such a long period for this reason is not sufficient justification for waiving competition requirements. Encouragingly, the FCB has since advised that in its next stage *"...of development, other architectural submissions will be sought"*.

A similar situation occurred in relation to the FCB's repair and replacement of its cremators. In January 1998 the FCB approved a proposal and quote from its long standing crematorium repairer for the upgrade of three cremators at a cost of \$599 000. This was some eight months after the need for an upgrade was first identified. The work was not put to tender, nor were quotes sought from other suppliers. State Supply Commission purchasing guidelines require work of this value to be put to public tender, though this requirement can be waived under certain circumstances including, if an emergency situation exists or if there is a bona fide sole source of supply. The FCB advised that the work was not put to tender as it considered that the exemption criteria had been met. However, the SSC advised Audit that the criteria was not met for reason that a true emergency situation did not exist and because the SSC was not approached for a sole source of supply exemption.

What does this mean?

Open, fair and competitive business practices were not applied in these instances and as a result, assurance cannot be given that optimum value for money was obtained.

Recommendations

- the Minister and the Busselton Water Board should seek legal advice in regard to the board member's membership status and assess, with a view to change if necessary, the continued appropriateness of the \$1 000 income limit in the *Water Boards Act 1904*.
- the Busselton Water Board and the Fremantle Cemetery Board should review their policies and operational procedures to ensure ongoing compliance with government purchasing and disposal guidelines.

Export of Government Skills and Services

Overview

- *The Health Department's Australia Clinic (TAC) has undertaken export activities since 1995 without proper authority. However, its operations cease after June 30, 2001.*
- *Agencies generally can improve the financial analysis and/or risk management undertaken in respect to their international ventures. Evidence was lacking of key analysis undertaken in respect of a project to establish a Technical and Further Education College in China. The timeframe for recovery of over \$600 000 in set up costs for this project is unclear though some spin off benefits from the project have emerged.*
- *The Department of Land Administration has addressed the concerns from the 1996 audit of their international operations and are now adequately managing these operations.*

Background

The exporting of services by government agencies has the potential to return significant financial benefits to the State. In 1995-96, the Australian Productivity Commission estimated the value of exported Australian government services at approximately \$2.1 billion, with most value derived from transport and communications (\$870 million) and education services (\$850 million). However, increased Government revenue from the export of Government services is not the only potential benefit. Other benefits can include enhanced public sector skills and flow-on opportunities for the private sector.

Although the benefits can be significant, risks do exist. To help agencies manage these risks and to clarify the circumstances of Government support, the Western Australian Government through the Department of Commerce and Trade (C&T) issued guidelines in 1997 titled *"Exporting Western Australian Public Sector Skills and Expertise"*. Key elements include:

- priority should not be given to international projects at the expense of domestic obligations;
- need for agencies to have the appropriate power and approvals;
- need for risk analysis and risk coverage acceptable to the Government; and
- the types of projects that should generally be avoided.

To date, four Western Australian Government agencies have established specialist commercial units to manage their export projects (Table 3). These agencies represent the focus of this review.

Agency/Unit	Date Established	Services Exported	Legal Authority
Department of Land Administration (DOLA) – DOLA International	1992	<ul style="list-style-type: none"> • Project management • Land administration systems • Technical expertise 	Land Administration Act (1997)
Department of Agriculture – AGWEST International	1998	<ul style="list-style-type: none"> • Agricultural project mgt (aid projects) • Technical expertise • Technology (Intellectual property) 	Agriculture Act 1988
Health Department – The Australia Clinic (TAC)	1995	<ul style="list-style-type: none"> • Training and development • Health Services management • Consultancy services • Technical and clinical services • Infrastructure development 	State Trading Concerns Act (1916)
Western Australian Department of Training & Employment (DTE) - TAFE International WA	1997	On behalf of WA TAFE sector: <ul style="list-style-type: none"> • International students • Vocational education and training services 	Vocational Education and Training Act 1996

Table 3: Agencies with established international business units.

Source: OAG

One agency; DOLA, was previously reviewed by audit in 1996. The main findings were:

- improvements were needed to accounting policies and records to facilitate improved measurement of profitability;
- overheads needed to be allocated more accurately to reflect the true cost of operations; and
- key performance indicators were needed of the efficiency and effectiveness.

What is the Potential Risk?

Unless international operations are properly managed:

- agencies may incur financial losses.
- the reputation and future earning capacities of government agencies and Western Australian businesses may be harmed.
- staff may be exposed to danger from operating in unstable foreign environments.

What Did We Do?

Export operations at the four agencies shown in Table 3 above, along with a sample of three colleges of TAFE that are linked to the export operations of TAFE International WA, were audited to assess whether the agencies:

- were acting within authority.
- had adequately identified and addressed the risks associated with their overseas operations.
- had systems in place to ensure services were reliably costed.
- were receiving export revenues that covered their costs.
- were monitoring and measuring their performance.

Export of Government Skills and Services (*continued*)

What Did We Find?

Legal Authority

Western Australian Government agencies that seek to become involved in export activities must be authorised either by their own enabling legislation or by the authority of the Treasurer through regulations of the *State Trading Concerns Act 1916* (the Act)¹². To carry out trading activities under the Act, an agency must be authorised as a “prescribed entity” and each trading activity must be authorised as a “prescribed activity”. Fees charged for these “prescribed activities” must be approved by the Minister responsible for the agency.

Three of the four agencies audited; Agriculture (AGWEST International), DTE (TAFE International WA) and DOLA (DOLA International) conduct export activities under the authority of their own enabling legislation. All three agencies were operating within their authorised mandate. DOLA separately accounts for moneys generated by DOLA International within its operating trust account. However, while not a legal requirement, the Crown Solicitor’s Office (CSO) has a view that the intention of DOLA’s enabling legislation was that the DOLA International moneys should be recorded in a separate trust account. DOLA has agreed to discuss this matter further with Treasury and the CSO.

The Health Department’s Australia Clinic (TAC) was established in 1995. Although the Health Department is a “prescribed entity” under the Act, the activities of TAC have not been authorised as “prescribed activities”. The failure to obtain proper authority for its operations raises potentially serious consequences in terms of enforcing contractual obligations and defending actions at law.

To gain authority for its activities, the Health Department in December 2000 obtained Cabinet approval for TAC to be established as an agency under the *Hospital and Health Services Act 1927*. At April 2001, procedures required to give effect to this change, including the Gazettal of the new agency had not occurred. The Health Department has advised that the changes were delayed as a result of the ‘Caretaker Conventions’ that came into effect with the announcement of the then forthcoming February 2001 State election. Subsequent to the election, the new Government has undertaken a review of commercial type activities by public hospitals, the outcome of which has been a decision to terminate the activities of TAC from June 30, 2001.

Risk Analysis

Export activities can expose an agency to different risks to those encountered through its core activities. The C&T guidelines require agencies to identify, assess and quantify all commercial risks and to design and implement strategies to offset those risks. Agencies are advised to consider Treasurer’s Instruction 109 on risk management and the Australian/New Zealand standard on risk management (AS/NZS 4360: *1999 Risk Management*). Risks in the export arena include:

- the credit worthiness and bona fides of the prospective client;
- the scale and complexity of the project;

¹² The prime intent of the Act is to regulate the activities of government owned business as distinct from government export activities.

- operating in different legal jurisdictions;
- currency fluctuations;
- political or social instability of the client country and safety concerns for agency staff; and
- need for the protection of intellectual property.

Audit found that risk analysis was undertaken at all the agencies reviewed, but none adopted a comprehensive risk management framework of the type outlined by Australian/New Zealand Standard AS/NZS 4360. DOLA International undertook risk analysis as part of its overall business planning process in 1998 and identified strategies for addressing these risks. One such strategy to ensure payment and reduce other 'in country' risks involves only tendering for projects funded by aid agencies such as The World Bank, AUSAid or the Asian Development Bank. A similar strategy is also employed by AGWEST International for the majority of its projects. The Australia Clinic has, subsequent to this audit, performed a risk analysis for each of its operations.

Proposed international projects managed by TAFE colleges generally involve providing a specific service for a known cost service. Legal opinion on contracts is generally obtained and the proposed client is evaluated. Project proposals must also be submitted to TAFE International for due diligence checks and approval. This approach has ensured that most significant risks were identified and strategies to address the risks implemented. All three sampled colleges have advised that a more formal approach to identifying and addressing significant risk factors will be adopted.

Financial Costs and Returns

The outcome of a carefully planned and managed export project should be a financial gain for the government and/or flow through financial benefits to the business sector within the State, though this benefit may not be immediate. The C&T guidelines suggest that when costing a project, agencies should identify and incorporate the full direct and indirect costs and where appropriate, incorporate a profit margin. Assistance to agencies when costing their projects is available from Treasury through its 1995 Guidelines "*Costing Government Activities*". The audit found opportunities for improvements to agency costing.

The Australia Clinic

The formal role of TAC, until December 2000 had not been well documented, though the focus of activities has been on overseas promotion of patient services in Western Australian Hospitals and of the State's medical training, consultancy and advisory services. In the three years from 1997-98, the net cost of TAC operations to the Health Department has been \$1 016 000, made up of operational costs \$1 486 000, offset by revenue of \$470 000 from commissions and management fees.

Little substantive evidence was found of the costing of TAC's services. The Health Department acknowledged this but advised audit prior to notification of the Government's intention to terminate the operations of TAC, that a review in 2000 of TAC's fee structure and adoption of more clearly established program lines would enable TAC to establish sustainability. The Health Department also advised that TAC's operations "...can only be substantiated by a return to the bottom line ..." (though) TAC

Export of Government Skills and Services *(continued)*

does provide considerable value added services to both the public and private sectors that cannot be measured by way of financial return to its budget”.

Western Australia’s teaching hospitals advised that the profit from treatment of overseas patients totalled \$105 000 from 197 patients in the three years from 1997-98¹³. However, these returns are limited by the *Hospital (Service Charges) Regulations 1984* which restricts hospital charges for overseas patients to that determined under the regulations. Currently, these charges do not provide for cost recovery of complex cases¹⁴. In December 2000, Cabinet endorsed changes to amend the regulations, though as yet the change has not occurred. Returns are also restricted by available bed space and the need to give priority to Western Australian residents.

DOLA International

Since 1992, DOLA International has either managed or provided technical assistance for Land Administration projects in ten different countries including Bangladesh, the Philippines, Vietnam, the Solomon Islands and Sri Lanka. The total value of these projects is in excess of \$15 million.

In the three years from 1997-98, DOLA International has reported a total net profit of \$231 000. In August 1999, the financial profitability of DOLA International led Cabinet to endorse the continuation of DOLA’s international program.

The 1996 audit of DOLA International found that agency resources used in the international program were not properly costed. However, this has changed, with DOLA now having a costing system that reliably allocates costs associated with all services used in international projects.

AGWEST International

Since establishment in 1998, AGWEST International has been involved in 20 projects in nine different countries, with total project value in excess of \$1 million.

In 1998 AGWEST International prepared a five year business plan that detailed the expected cash flows and bottom line results for each year. Review of the plan indicated that resource requirements had been satisfactorily identified and costed. The business plan forecasts operating losses of \$130 000, \$33 000 and \$20 000 for the first three years of operation and profits of \$360 000 and \$775 000 in the fourth and fifth years. Results for 1998-99 and 1999-2000 have been operating losses of \$176 000 and \$88 000 respectively.

TAFE International WA and TAFE Colleges

International education is Western Australia’s seventh biggest export. By 2005, it is estimated that 27 000 students will be studying in Western Australia (across secondary, vocational and higher education sectors) with a total contribution to the economy of close to \$600 million. Of this amount, student fees make up less than half, with most involving expenditure on accommodation, food, travel and other goods and services.

¹³ Figures are un-audited

¹⁴ Source – Health Department’s submission to Cabinet – December 2000.

The promotion and coordination of the State's public vocational training sector (TAFE) to international students is a function of TAFE International WA (TIWA). TIWA is a body corporate and a self-funding commercial operation under the direction of the Chief Executive of DTE¹⁵. TIWA markets TAFE college courses overseas, collects all international student fees, pays overseas agents commissions and pays the colleges an agreed fee for educating each international student. However, promotion and development of off-shore international projects is the responsibility of individual Colleges.

International Students

The market for international students has grown steadily over recent years. Currently, approximately 2 700 international students are studying in Western Australia's TAFE colleges, an increase of approximately 44 per cent since 1996¹⁶.

In 1999-2000, TIWA made a net profit of \$0.94 million from the approximately \$9 million in international student fees¹⁷. TIWA's share component of the total fees is based on a 1998 funding model that established the percentage disbursement ratios to the colleges and TIWA as 71 per cent and 29 per cent respectively, with disbursement to colleges gradually increasing to 75 per cent from 2000. Annual service level agreements between the colleges and TIWA endorse the disbursement ratios.

International student fees are set in accordance with legislative provisions. Fees are based on costings done in 1997, budget considerations and by market forces with market forces being the dominant factor¹⁸. Fees vary according to the type of course but do not vary across individual colleges, and as a consequence do not account for potential cost or service quality differentials between colleges. DTE advised that a complicated costing model that recognised differentials in service cost or quality would preclude successful marketing of TAFE WA as a single entity in the international market place. DTE also advised that differential pricing is not a requirement for reason of standard course formats, accreditation and quality assurance processes. The TAFE colleges have no direct input into the level of fees although they liaise with TIWA prior to fees being recommended to TIWA's Advisory Board. Individual colleges can also make representations to TIWA to vary disbursements to reflect changed circumstances or increased costs to deliver a service.

Offshore Service Delivery

The TAFE sector has recognised that significant benefits can be gained from offshore service delivery and many agreements have been made with mostly Asian educational institutions for the provision of curriculum materials or fee for service vocational training. Most Colleges have established international business units to actively pursue such opportunities, though the Colleges are required to submit any proposals to TIWA for approval.

To date, most of the projects amongst the sampled colleges have been small in size. All three colleges were able to demonstrate that they had procedures in place to indicatively cost their overseas projects.

One overseas project that is of significant size is the 1998 establishment of the AnHui China-Australia Technology and Further Education College (ACATAFE) in the AnHui province of China. The project is a

¹⁵ An Advisory Committee assists the Chief Executive.

¹⁶ The overall increase in Australia has been 58 per cent since 1996.

¹⁷ After payment of expenses including overseas agents commission and payments to colleges for delivering the courses.

¹⁸ Advice from DTE.

Export of Government Skills and Services *(continued)*

joint venture with the AnHui Science and Technology Academy. Development of this project was initially undertaken by TIWA, though project control has since transferred to the Central College of TAFE (Central TAFE).

Under the contract, the DTE and Central TAFE agreed to contribute \$1.2 million¹⁹ over three years towards office equipment, teaching aids, teaching wages, curriculum set up and teaching materials²⁰. Expenditure to December 2000 has been \$655 000 whilst the revenue return to Central TAFE has been \$17 000. Initial predictions were for 150 full-time students in 1999 and 300 full-time and 450 part-time students in 2001 rising to 650 full-time students and 1150 part-time students by 2004. Recovery of outgoings under a best case scenario was predicted for 2002. Break even analysis conducted by Central TAFE upon takeover of the project²¹ concluded that 409 full-time students would be required to cover annual operating costs in 1999 and 427 in 2001 (exclusive of set up costs). Full-time student enrolments in 2001 were 146.

At late April 2001, Central TAFE advised that it was close to reaching agreement on a new contract that incorporates a fee for service arrangement and continuation of the current revenue sharing arrangement. This more favourable arrangement is predicted to result in positive cash flows by 2004, though this will be dependent upon ACATAFE obtaining accreditation from the AnHui Province Education Commission as an independent and autonomous college. Central TAFE advised that delays in obtaining accreditation has been as a consequence of a range of provincial factors, but that it was optimistic about the future given that the project is underpinned by a government to government arrangement and the AnHui Provincial Government is contributing the equivalent of two million Australian dollars to the project.

Involvement in the ACATAFE arrangement was not seen as providing immediate short-term financial benefits, rather it was part of a long term strategy for establishing a foothold in China's growing vocational training market. DTE and Central TAFE have advised that although the project to date has not reached expectations in terms of revenue returns or student numbers, significant and ongoing spin-off benefits are occurring. Nevertheless, audit considers that analysis undertaken in respect of the ACATAFE project was incomplete in regard to a number of issues. Whilst DTE have advised that such analysis did take place, substantive documentary evidence was not available, particularly in relation to:

- the capacity of the AnHui Province to supply the needed number of students to make the project viable. The province of AnHui has approximately 62 million people, though the average annual income is significantly less than the full-time course fees of approximately \$2 200 AUD.
- the effect of exchange rate fluctuations on project viability (the value of the AUD has declined 27 per cent against the Chinese RMB since the initial assessments²²).
- the ability to transfer revenue from China to Australia. (At the time, Chinese regulations restricted transfer, although restrictions have since eased).
- the ability of the College to obtain appropriate accreditation in China.

¹⁹ Funded from their commercial operations.

²⁰ The AnHui Science and Technology Academy agreed to contribute two million dollars.

²¹ Central TAFE took control just prior to the signing of the contract in October 1998

²² Rate of 5.56 AUD to one Chinese RMB compared to a rate of 4.05 as at April 10, 2001.

Initial legal arrangements in regard to the ACATAFE agreement were also not ideal. General legal advice was obtained from an international law firm operating in China as to Chinese requirements for establishing an educational institution. The advice did not extend to the proposed contract. The contract was signed by the then Managing Director of TIWA without explicit legal authority and without having been reviewed by the DTE's solicitors²³. DTE advised that the signing of the contract was an unfortunate situation arising from a misunderstanding between the two cultures and that action was taken immediately afterwards to transfer responsibility to Central TAFE through a Deed of Novation. Advice given by the Crown Solicitor to audit in regard to the adequacy of the contract was that "...the terms of the agreement are far from clear and the obligations of TAFE cannot be assessed without recourse to the relevant Chinese law ...". DTE advised that in most circumstances, they would expect contracts to recognise the laws of the country in which the services were provided. The proposed new ACATAFE contract that is expected to come into operation in mid 2001 has been reviewed by DTE's Legal Officer and the Crown Solicitor's Office.

Performance Measurement

Performance measurement is an important tool when assessing whether projects are meeting objectives and achieving desired outcomes. Whilst all agencies had measures of project performance, only DOLA International had developed, and is reporting against, a comprehensive suite of performance measures. These included:

- revenue gains to Government;
- success rate in winning overseas projects;
- enhancement of public sector skills – number of public sector staff participating in overseas projects; and
- downstream economic benefits – measured by percentage of total project expenditure spent within Australia.

What Does This Mean?

Agencies are not always applying good business practice in the export of their skills and services:

- proper legal authority is not always obtained.
- appropriate risk analysis, financial analysis and project costing is not always undertaken and/or documented.

What Should Be Done?

Agencies that are considering entering into export arrangements should:

- ensure that they have proper authority.
- assess and document significant risks associated with proposed export projects and develop strategies to address such risks.
- ensure that all relevant costs have been considered in establishing prices for their services.
- develop appropriate performance measures as a basis for providing assurance that projects are achieving specified outcomes.

²³ Signing occurred several weeks after a Government to Government Heads of Agreement was signed by the then Minister for Employment and Training.

Grants and Subsidies to Small Business Enterprises

Overview

- *Small grant and subsidy schemes are generally adequately managed, though some improvements were found to be needed to assessment and acquittal procedures of four schemes run by Agriculture Western Australia (AGWEST) and the Rural Business Development Corporation.*
- *Eligibility for approximately \$400 000 in grant and subsidy assistance provided by AGWEST was determined by AGWEST staff working from the Minister's office. This arrangement did not provide the usual arm's length separation of functions between the roles of the department and the Minister.*

Background

The State Government provides a range of financial assistance and investment incentives to business and industry with the broad aims of encouraging the establishment of competitive new business, enhancing export development and/or promoting employment. Although the majority of this assistance is provided through the Department of Commerce and Trade²⁴, other agencies also provide assistance, though the amounts provided are usually much less and the focus of assistance is on smaller business enterprises. Three of these agencies were the focus of this review:

- Agriculture Western Australia (AGWEST);
- Rural Business Development Corporation (RBDC)²⁵; and
- Small Business Development Corporation (SBDC).

In 1999-2000, these three agencies administered 13 separate, formal grants schemes²⁶ with total available funds in excess of \$100 million over the life of the schemes. Five of the schemes were jointly funded by the State and Commonwealth governments. An overview of these schemes is presented on page 33 (Figure 1).

Of the 13 schemes, AGWEST administers five including one joint scheme with RBDC. Financial assistance to rural business enterprises is an important element of AGWEST's strategies aimed at sustainable agriculture and increased exports. Total expenditure from AGWEST schemes in 1999-2000 amounted to \$28 million.

RBDC is charged under the *Rural Business Development Corporation Act 2000* with administering schemes of assistance to rural industry. RBDC is managed by a Board, but has no permanent staff. Administrative assistance to the Board is provided by a small number of contracted employees and by staff of AGWEST. RBDC manages six schemes with total expenditure in 1999-2000 of \$6.19 million.

The SBDC provides grants and assistance through three schemes with the overall aim of assisting small business. The SBDC has defined small business as those that employ less than 20 persons. In 1999-2000, funds expended under these ongoing schemes totalled \$2.8 million.

²⁴ Audits of financial assistance provided by Commerce & Trade were reported to Parliament in 1994 and 1997.

²⁵ Previously the Rural Adjustment and Finance Corporation of Western Australia (RAFCOR).

²⁶ Publicly promoted as grant schemes.

In administering the schemes, agencies need to ensure that the assistance is provided efficiently and effectively. Funds should only be made available for purposes consistent with the specific purposes of the individual schemes, the funds should be spent in accordance with the conditions of assistance and the programs should achieve their stated objectives.

What is the Potential Risk?

Effective management of the financial assistance schemes will serve to prevent:

- moneys being allocated to ineligible recipients or for purposes that will fail to target priority areas.
- moneys being used for purposes contrary to the terms and conditions of the funding arrangement.
- inadequate accountability for the success of the schemes.

What Did We Do?

The audit assessed 24 different assistance programs available under 13 schemes at AGWEST, RBDC and the SBDC. The focus of the audit was on whether:

- eligibility guidelines are clearly established and applied so that funds are only provided to eligible recipients for activities that are consistent with the scheme's objectives.
- funded projects and activities are appropriately monitored and acquitted to provide assurance that moneys are only used in accordance with the terms and conditions of the funding arrangement.
- the success of the schemes are assessed and reported.

What Did We Find?

Assessment and Approval Process

Effective, impartial and consistent assessment of applicants for assistance requires documented eligibility guidelines and appraisal procedures. The assessment and approval process should include:

- use of pro-forma application forms as the primary source of determining eligibility and for assessing relative funding priority;
- adequately documented assessment of applications against eligibility criteria including reasons for decisions;
- segregation of responsibility between persons assessing and making funding recommendations and those that make the funding decisions; and
- successful applicants should be made an offer requiring acceptance in a legally binding form that recognises conditions, requirements and obligations of each party.

The audit found that 12 of the 13 grant schemes had adequate assessment and approval procedures in place. For the larger value grants (approximately \$10 000 and above), the application process involved competitive assessment and detailed review of the technical and financial feasibility of the project. Information requirements for assessing applications to the small schemes often varied considerably, though it was noted that schemes with the least information and assessment requirements generally involved greater monitoring and acquittal of funded applicants. Legal acceptance of scheme conditions

Grants and Subsidies to Small Business Enterprises (continued)

was obtained either by way of agreements signed by applicants or through the agency writing and advising the applicants of their success and confirming conditions of funding.

One scheme, the *Dairy Farm Business Implementation Program* run by AGWEST was found to have just one person assessing eligibility and approving funding. This is contrary to normal probity requirements of involving at least two persons in any expenditure authorisation decision, thereby maintaining integrity of the assessment process as it creates the risk of public funds being expended without reasonable assurance of the reliability of the funding decisions. In response to this concern, AGWEST have advised that a second person has been introduced to the process to review funding assessments.

In addition to the 13 grant schemes, AGWEST in 1999-2000 also provided at least \$400 000²⁷ in grants and subsidies as part of \$2.2 million it expended supporting a range of initiatives under the banner *Progress Rural Western Australia*. These initiatives were jointly run by AGWEST and RBDC, with RBDC being the primary supplier of grant assistance under its own specific *Progress Rural Western Australia* grant scheme.

Applicants for grant or subsidy assistance that were farm business enterprises were assessed against the RBDC scheme. Other rural applicants were assessed for funding by AGWEST. Unlike the fully documented RBDC scheme, grant and subsidy funding by AGWEST was generally based on assessment against broad funding objectives rather than against detailed eligibility criteria. Without assessment against documented eligibility criteria, assurance cannot be provided that funds are directed at priority objectives. However, AGWEST advised that at April 2001, all initiatives under the banner of *Progress Rural Western Australia* were under review and new funding applications were not being processed.

Eligibility for grant and subsidy assistance provided by AGWEST for this scheme was determined by AGWEST staff working from the Minister's office. The arrangement of having these officers evaluate and approve the applications whilst based in the Minister's office, particularly without reference to detailed eligibility criteria, was not consistent with the usual arm's length separation of functions between the roles of the department and the Minister. AGWEST have advised that its staff ceased working from the Minister's office in mid-February 2001.

Monitoring and Acquittal of Grants

Individual grants should be effectively monitored and acquitted to ensure that funds are used and results achieved in accordance with the terms and conditions of the funding arrangement. The extent of monitoring should be dependent upon the duration of the project and the size of the grant. However, a sound approach, where appropriate is for ongoing monitoring through sequential grant payments with final payment of the grant to be made on completion of the activity. Processes should ensure that grants are only acquitted after the terms and conditions of the grant are met.

²⁷ The exact amount expended could not be readily established for reasons of accounting practices used by AGWEST during 1999-2000.

Monitoring and acquittal processes in the majority of schemes examined were adequate though opportunity for improved procedures were found in two schemes:

- *South Coast Productivity Grant Scheme* (RBDC) – recipients of this scheme receive up to \$10 000 upon completion of a comprehensive assessment process. Acquittal requires completion of a telephone conducted questionnaire to assess project results. At December 2000, approximately 40 per cent have not had this questionnaire conducted some six to 15 months after the due date. RBDC advised that most evaluations have been scheduled for evaluation after September 2001 in conjunction with the evaluation of the overall scheme. Whilst it is understood that these delays are due to resource constraints, it is considered that such delays could adversely affect the reliable acquittal of grants.
- *Gascoyne Murchison Strategy – Business and Industry Development Grants* (RBDC/AGWEST) – Under this scheme, grant recipients can receive between 50 and 80 per cent of the cost of materials used in land improvements. In 1999-2000, amounts provided ranged from \$60 000 to \$100 000. Recipients are required to incur the cost of making the improvements and can recoup from the scheme after providing proof of cost of supplies and a declaration that the work is completed. However, in 75 per cent of grants sampled, payments were made on supply of invoices but without declaration that the work had been completed. Consequent to this audit finding, procedures have been changed to ensure that payments are not made until work is completed.

Evaluation and Review

Evaluation is an important part of managing grant schemes. Evaluations contribute to improved management procedures, greater accountability, better use of resources and refined scheme objectives. The effectiveness of all schemes should be assessed to some degree, though the extent of evaluation should be dependent upon scheme size and duration. Large value schemes that are planned to run for several years should have a predetermined timeframe for review and a strategy for what should be reviewed. Evaluations should include assessment of outcomes in terms of achieving the scheme objectives and the relative cost of administering the schemes.

Three of the five large, long running schemes²⁸ reviewed are joint Commonwealth/State schemes. These schemes; *FarmbiS* (RBDC), *Gascoyne-Murchison Strategy* (RBDC/AGWEST) and the Natural Heritage Trust (AGWEST) all have formal evaluation frameworks with established performance indicators covering both efficiency and effectiveness, though some effectiveness indicators were not measured for reason of time needed to achieve results. Results under the agreements are reported annually to the Commonwealth Government and are publicly available.

The other large schemes, *Progress Rural WA* and *Dairy Farm Business Implementation* do not have formal evaluation frameworks. However, RBDC have advised that Edith Cowan University have been commissioned to evaluate the *Progress Rural WA* scheme and that a revised direction for the scheme is being developed. AGWEST advised that information is currently being collected to enable evaluation of its *Dairy Farm Business Implementation Grant Scheme*.

²⁸ Assessed for the purpose of this audit as schemes of five million dollars and above.

Grants and Subsidies to Small Business Enterprises (*continued*)

Of the smaller schemes, the *South Coast Productivity* scheme, which is also a joint Commonwealth/State scheme, has a formal evaluation framework, including efficiency and effectiveness performance indicators and reporting requirements. The Small Business Development Corporation evaluated its largest scheme; the provision of grant assistance to local community *Business Enterprise Centres*²⁹ in 1995. SBDC advised that a subsequent evaluation was scheduled for 2000 as part of a review of the *Small Business Development Corporation Act 1983* but was deferred as a result of the impending 2001 State election. The review is now planned for completion by the end of 2001. SBDC undertakes ongoing monitoring of the effectiveness of its other two schemes.

Agency evaluations of the other schemes have not been undertaken, though these schemes have either just commenced or are of small value.

What Does This Mean?

Grant programs are generally adequately managed by agencies though improvements to assessment and acquittal procedures were found to be necessary for a small number of schemes within RBDC and AGWEST.

What Should Be Done?

- AGWEST should ensure that all financial assistance it provides follows a process involving documented assessment and endorsement of funding applications against eligibility criteria.
- RBDC should adjust its procedures to ensure that acquittal is obtained from all recipients of funding by the required date.
- Agencies considering establishing grant schemes should ensure that the scheme framework incorporates appropriate eligibility and assessment processes and evaluation mechanisms for assessing the success of the scheme.

²⁹ Funding of BECs represented approximately 85 per cent of total SBDC grant funding in 1999-2000.

Figure 1 – Overview Of Grant Schemes Reviewed

Agency	RBDC						AGWEST				SBDC		
Grant Scheme	South Coast Productivity Grant Scheme	Natural Resources Adjust Scheme	Rural Adjust Scheme	Farmbi\$	Progress Rural WA	Gascoyne Murchison Strategy	Natural Heritage Trust	Remnant Vegetation Protection	State Vegetation Scheme	Dairy Farm Business Implemtn.	Business Enterprise Centres	Small Business Improvem't Program	Business Innovation Developm't Scheme
Total Scheme Funds Available	\$3m	(a)	(b)	\$10.7m	\$7.2m (d)	\$45m	\$30m pa	Approx \$900k pa	Approx \$700k-\$1m pa	\$27m	\$2.2m pa	\$550k pa	\$120k pa
Total Expenditure 1999-2000	\$335k	\$110k	\$1.5m	\$2.4m	\$1.3m (d)	\$690k (e)	\$30m	\$243m	\$1.05m	\$2.5m (1/7/00 – 30/10/00)	\$2.25m	\$510k	\$100k
Average value of grant	\$10k	Range \$10k – \$60	\$30k	Range \$2.5k – 3k (c)	Range \$3 – 108k	\$60 – 100k (e)	Range \$1k – 1.2m	Range \$2 – 22k	Range \$5 – 100k	\$21k	\$65k	Range \$3 – 5k	Up to \$5000
Number of recipients	39	3	(b)	427 Planning & 3627 Training	120	76 in first 4 funding rounds (e)	500	36	21	111	37	157	44

(a) Information not available.

(b) This scheme is now closed.

(c) The scheme provided Planning grants and Training grants.

(d) Progress Rural is the name of a joint AGWEST and RBDC banner program aimed at rural advancement. RBDC is the primary provider of grant funding, with \$7.2 million available over three years under its own specific scheme by the same name (\$1.3 million provided in 1999-2000). AGWEST provided grants of approximately \$400 000 in 1999-2000, though the exact amount is unknown for reason of the accounting practices used during this period.

(e) \$6.8 million was committed in 1999-2000 for GMS – Business and Industry Development Grants.

4

Follow-Up Examination

Follow-up examinations are undertaken where it is appropriate to provide Parliament with an assessment of any changes that may have occurred as a result of an initial performance examination. It is not a general practice to make specific recommendations in a follow-up report.

This section reports the results of one follow-up examination undertaken of a 1998 examination:

- “Listen and Learn – Using Customer Surveys to Report Performance in the Western Australian Public Sector”.

Listen and Learn – Using Customer Surveys to Report Performance in the Western Australian Public Sector

(Initial Report Tabled June 24, 1998, No 5)

Overview

- *Many of the 72 customer surveys examined contained excessive amounts of methodological error.*
- *A majority of agencies have presented some supporting information (such as trend data) to help readers interpret their survey based performance indicators. Most agencies, however, are still failing to disclose the technical limitations of their surveys.*
- *A limited number of agencies were able to demonstrate that their customer surveys had contributed to improved public services.*
- *Public sector agencies that are currently reporting an effectiveness indicators based upon an annual one-off generic survey of their Minister will need to adopt a more rigorous approach if they are to receive an unqualified audit opinion in the future.*

Background

Within the WA public sector, departments and statutory authorities are required to report key performance indicators in their annual report to Parliament. Excluding hospitals and other health services, the number of agencies reporting customer satisfaction as an indicator of their effectiveness has increased from around 40 to over 70 in the past five years.

The 1998 performance examination recommended, among other things, that agencies should:

- ensure that their surveys are conducted in a scientifically rigorous manner so as to minimise all types of survey error;
- present their performance indicators in conjunction with relevant supporting information such as comparative benchmarks and the survey's technical limitations; and
- use their survey findings as a tool to assist in service improvements and as a means of demonstrating accountability.

In response to the Auditor General's 1998 report, the then Premier issued a circular to Ministers (No 11/98). This circular reiterated the importance of customer surveys as a tool for improving services and demonstrating accountability and urged agencies to have regard to the recommendations in the Auditor General's report.

Western Australia continues to be a national leader in the development and auditing of public sector performance indicators. The Auditor General last reported on customer satisfaction surveys being used for performance indicators in December 2000³⁰. This present follow-up examination studies in greater detail, 72 customer surveys conducted by 50 agencies during 2000 and subsequently reported as indicators of agency performance. The primary questions addressed in the follow-up were:

- are public sector agencies conducting their surveys in a scientifically rigorous manner so as to minimise all types of methodological error?

³⁰ Report on Ministerial Portfolios at December 1, 2000, Report No. 10, December 2000.

Listen and Learn – Using Customer Surveys to Report Performance in the Western Australian Public Sector *(continued)*

- are agencies presenting their performance indicators in conjunction with relevant supporting information?
- are agencies using their survey findings as a tool to assist in making service improvements?

Findings

Minimising Survey Error

The utility of any customer survey depends on the extent to which the survey results can be interpreted as accurately representing customer views. Measures of the representativeness of a survey include the survey’s response rate, the survey’s standard error, and the survey’s reliability and validity.

Response rate

The response rate is the percentage of people who answer a survey. For example, if 100 questionnaires are mailed out and 80 completed questionnaires are returned, the survey’s response rate is 80 per cent. Response rates are important because the people who do not respond to a survey often have different views compared to those who do. This difference is called ‘response bias’ and, if present, it affects the accuracy of the survey results.

Figure 2 shows that agencies were unable to specify the response rate for more than one quarter (26 per cent) of the 72 surveys examined. This is of concern as these agencies are unable to determine the extent to which the survey results accurately represent the views of their clients. Figure 2 also shows the response rates for the surveys where the response rates could be identified. Seventeen of these surveys (32 per cent) had response rates less than 50 per cent, which raises concerns regarding the potential for response bias in these surveys.

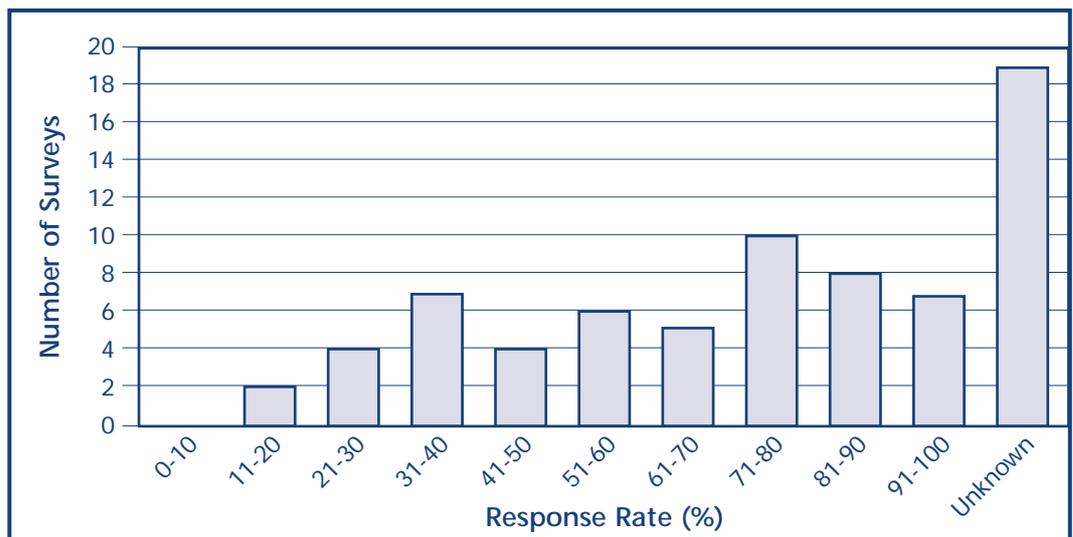


Figure 2: Percentage response rate for agency survey.

The response rates were unknown for more than one quarter of the surveys examined. Where the response rate was known, almost one-third had response rates of less than 50 per cent.

Source: OAG

4 FOLLOW-UP EXAMINATION

Agencies should aim to achieve response rates of at least 50 per cent in order to help minimise the effects of non-response bias. There are various strategies for improving response rates, including:

- selecting a survey sample from an up-to-date contact database;
- forwarding pre-notice letters to the targeted survey sample;
- using succinct questionnaires or interview schedules;
- asking short, easy to understand questions;
- ensuring that questions are relevant to respondents' experiences of the agency's services;
- asking simple and interesting questions at the start of the questionnaire and demographic or personal questions at the end of the questionnaire;
- minimising the effort and cost involved in returning a written questionnaire (e.g. by including a stamped, self-addressed envelope);
- offering response incentives, such as entry into a draw for a prize; and
- making several follow-up contacts with non-respondents to encourage them to complete the survey (e.g. via reminder cards, additional survey forms, or by telephone).

Agencies are encouraged to examine the amount of response bias present in their customer surveys. This could include, for example, conducting follow-up studies with non-respondents and comparing the demographic profiles of survey respondents to the wider customer base. This type of demographic comparison was conducted by agencies for nine of the 72 surveys examined.

Standard error

Survey findings obtained from a random sample of agency customers always include a degree of sampling variability or error. This variability is measured by a statistic known as the 'standard error'. The standard error influences how we interpret survey results. For example, if a survey found that 60 per cent of people surveyed were satisfied with a government service and the standard error was 20 per cent with a 95 per cent confidence level, we could then be 95 per cent certain that somewhere between 40 and 80 per cent of all agency customers were satisfied. A standard error of ± 5 per cent at the 95 per cent confidence level is generally considered to be acceptable for analysing trends in data over time and making comparisons. The best way to decrease the size of a survey's standard error is to increase the number of survey respondents.

Figure 3 shows the standard errors for the 72 surveys examined. Just over half of these surveys (51 per cent) reported standard errors less than five per cent at the 95 per cent confidence level. The standard error was not known for 16 of the surveys examined.

Listen and Learn – Using Customer Surveys to Report Performance in the Western Australian Public Sector (continued)

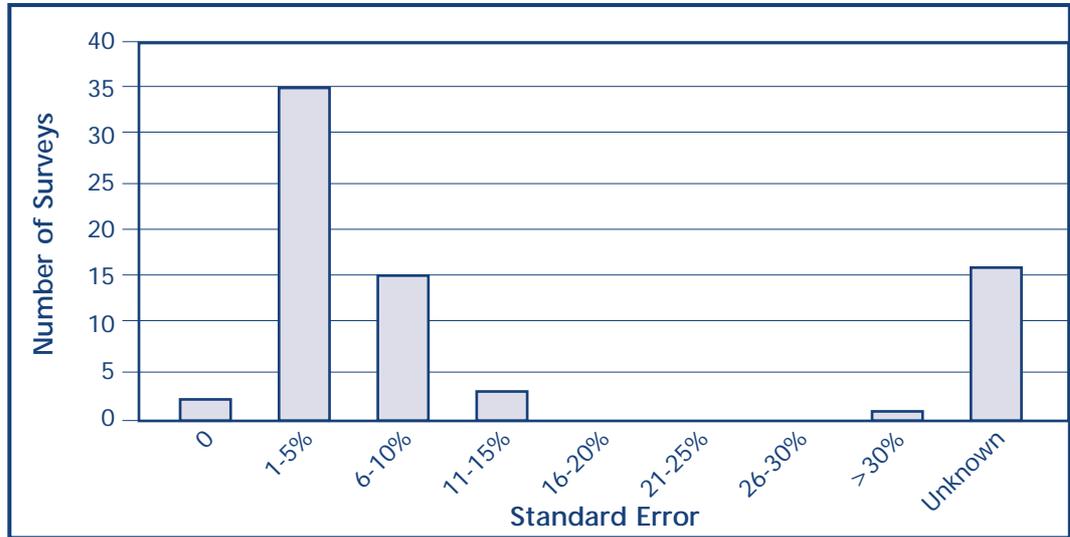


Figure 3: Size of standard errors in agency surveys.

Just over half of the 72 surveys examined reported a desirable standard error of five per cent or less.

Source: OAG

Survey reliability

A survey is said to be reliable if it collects information in a consistent manner. One way to test for reliability is to get the same group of individuals to complete the survey twice in short succession. If the survey is measuring in a consistent manner the two sets of results will be highly similar. Strategies for increasing survey reliability include:

- conducting and analysing pilot surveys;
- using a customer reference group to assist in the development of survey questions;
- using process controls during the survey to ensure that the survey is administered in the same way to each respondent;
- providing clear and concise instructions and definitions to respondents to ensure that all respondents have a similar understanding of the survey questions; and
- including multiple questions in the survey and forming these questions into an overall scale.

A comprehensive strategy for enhancing survey reliability was used for only five of the 72 surveys examined. This typically involved a combination of the above techniques. Some, although insufficient, strategies were used to control for and test reliability for a further 20 surveys. For two-thirds of the surveys examined, no reliability controls or testing were used.

Survey validity

A survey is valid if it actually measures what it is intended to measure. Validity can be established in a number of different ways. For example:

<i>Face Validity:</i>	Does the survey 'look right' to people who are familiar with the service being provided?
<i>Content Validity:</i>	Does the survey capture all of the factors that might affect customers' satisfaction with a service?
<i>Concurrent Validity:</i>	Does the survey provide similar results to other assessments or tests?
<i>Criterion-related Validity:</i>	Is there a direct and empirically established relationship between the survey and what it claims to measure?

In general, agencies did not attempt to establish the validity of their customer surveys except in terms of face validity. In this regard, most of the surveys studied demonstrated a direct correspondence with the host agency's stated outcomes or performance indicators. One of the strategies that agencies used to achieve this correspondence was to use words from their outcome statements or performance indicators in the survey questions. Some agencies also attempted to improve the content validity of the surveys by asking questions about different aspects of a service being assessed. Establishing concurrent and criterion-related validity can be a complex task and has generally not been attempted by agencies.

Other strategies that agencies could also use to improve survey validity include:

- pre-testing the survey on a small sample of agency customers and comparing the results with other tests of the service being assessed (for example, complaints logs);
- obtaining input from subject matter experts during the survey's development; and
- obtaining input from customers when formulating the survey's questions.

Surveys of Ministers

In examining the customer satisfaction surveys conducted during 2000, a small number of agencies were identified who reported a performance indicator based upon a survey of their Minister. Such surveys typically involved a single annual questionnaire regarding the Minister's satisfaction with the agency's performance. For example the Department of Resources Development asked the Minister how he would rate the policy branch in terms of working towards particular agency objectives.

Agencies have used Ministerial feedback to measure organisational performance in relation to a range of outcomes including facilitating industry development and providing policy advice. Where the Minister is the primary target or customer for the output being produced, Ministerial feedback may be an appropriate measure of agency performance. In most cases, however, Ministerial feedback represents a very indirect and hence less accurate measure of performance (see Figure 4). Public sector agencies that are currently reporting very indirect measures of their performance are urged to report more direct measures whenever possible.

Listen and Learn – Using Customer Surveys to Report Performance in the Western Australian Public Sector *(continued)*

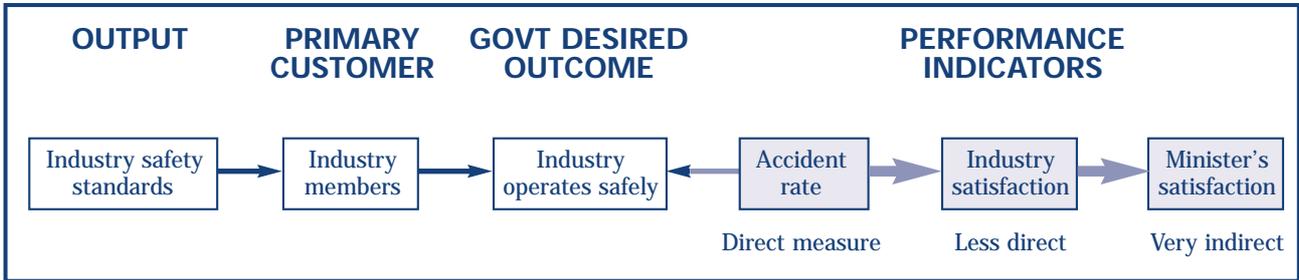


Figure 4: Hypothetical example: direct versus indirect performance measures.

Public sector agencies are encouraged to report direct measures of their performance.

Source: OAG

Developing performance indicators for public sector policy functions presents its own special challenges. In most cases the provision of policy advice should be treated as a support activity, rather than attempting to isolate the outcomes of individual policy projects. The objectives of support activities are not ultimate ends in themselves, but rather a precondition to achieving some higher level outcome. However, where an agency undertakes the provision of policy advice as a primary output, it would still be necessary to develop indicators which illustrate agency efficiency and effectiveness in progressing towards a desired outcome.

Developing performance indicators for assessing the effectiveness of policy advising programs is a complex undertaking. Measuring the impact of policy advice in relation to improvements in the general community’s wellbeing would appear to be a difficult and controversial task. The alternative of assessing the adequacy of the policy advice offered appears more achievable.³¹

The standards by which the adequacy of policy advice can be judged include the extent to which the advice:

- provides adequate background information as to the nature, size and history of the problem or issue, the relevant stakeholders groups and their views of the situation;
- identifies a comprehensive range of potential options for action;
- accurately assesses the merits of each option on dimensions such as cost, legality, administrative feasibility, stakeholder support, technical rationality, consistency with other relevant policies, ethical considerations, etc;
- packages one or more of these options into a clearly defined, coherent and feasible strategy;
- is timely and relevant; and
- meets the policy client’s needs.

One option for an effectiveness performance indicator would be to use independent experts to rate the adequacy of the policy advice offered against predetermined standards such as the six points previously mentioned. If this approach raises problems in relation to confidentiality and objectivity, another option

³¹ See: Dunn, W. 1994, *Public Policy Analysis*, Prentice Hall, New Jersey; and *Australian Journal of Public Administration*, December 1992. The Commonwealth Government has also undertaken work in the area of assessing the performance of policy advising programs.

would be for Ministers or their staff to rate the adequacy of the advice they receive against these same criteria. Thus, a systematic sample of policy briefings submitted to the Minister could be accompanied by a rating sheet that was then completed by the Minister’s office. For example, the Minister could be asked to indicate whether the policy briefing was provided within the requested deadline and met identified criteria.

The current approach adopted by some agencies of undertaking an annual one-off generic satisfaction ‘survey’ of their Minister is a less direct and hence less accurate measure of agency performance (see Figure 5). Consistent with the Auditor General’s developmental approach to performance indicators, agencies that are currently reporting indirect indicators for their policy outputs will need to take a more rigorous approach if they are to receive an unqualified audit opinion in the future³².

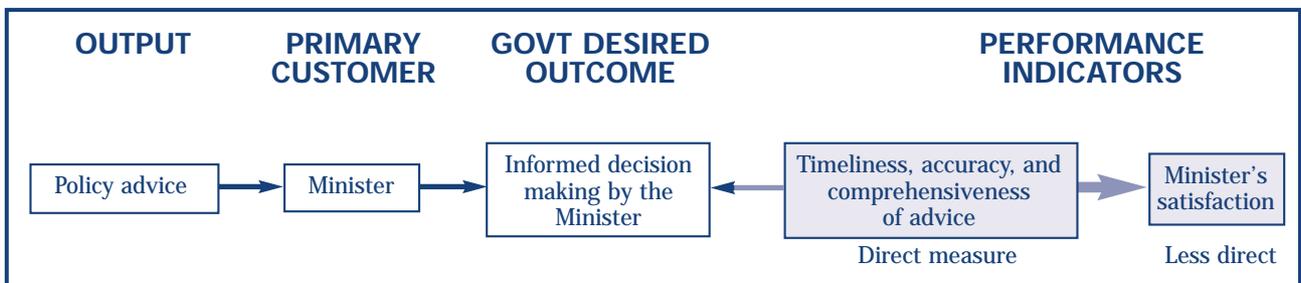


Figure 5: Performance indicators for policy outputs.

Public sector agencies are encouraged to develop performance indicators that directly measure the effectiveness of their policy outputs.

Source: OAG

Provision of relevant supporting information

Performance indicators based upon survey data should be reported in conjunction with relevant supporting information in order to help the readers to interpret the survey’s results and to understand the survey’s technical limitations.

Interpreting Survey Results

It can be difficult for readers to comprehend a survey’s results unless appropriate supporting information is also provided. Information such as survey findings from previous years, comparative results from similar services, or comparisons against the targets that the agency was hoping to achieve, are particularly relevant.

For the surveys examined, most agencies presented some type of supporting information to assist the readers (see Figure 6). Trend data was the most common type of supporting information provided, but this was generally only for a single previous year. A small number of agencies presented survey results alongside agency targets or comparative results for similar services offered by different organisations.

³² For discussion understanding of the Auditor General’s developmental approach to the auditing of performance indicators, see Office of the Auditor General 1994, *Public Sector Performance Indicators 1993-94*, Perth.

Agencies could increase the value of their survey based performance indicators by including trend data from a longer period of time (say five years) and by offering readers comparisons with results obtained by other service providers or against agency targets.

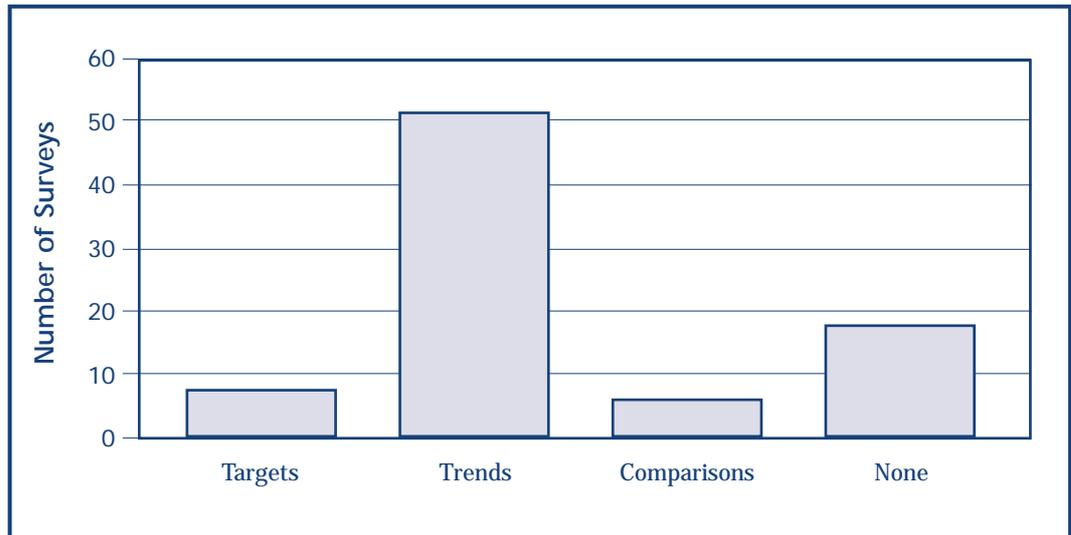


Figure 6: Provision of supporting information.

Most agencies include trend information when reporting customer survey results.

Source: OAG

Disclosing technical limitations

All surveys involve potential errors that can introduce uncertainty or bias. For the results to be credible, error must be reduced whenever possible and reported results should disclose any significant survey limitations. To enable readers to make use of performance indicators based upon survey findings, the technical limitations of the survey should be presented along with the indicator. Agencies should present information regarding:

- the client population and survey sample;
- the survey method;
- who conducted the survey;
- survey response rates; and
- survey standard error.

For just under half of the performance indicators examined, agencies reported their survey results in conjunction with only one of the following types of information: the survey sample, the survey’s response rate, or the survey’s standard error. Agencies are encouraged to adopt a more comprehensive approach when reporting their survey based performance indicators.

Customer Surveys as a Tool for Improving Services

Agencies typically conduct customer satisfaction surveys as a means of demonstrating their accountability for performance. In addition, some agencies are using their customer surveys as a tool

4 FOLLOW-UP EXAMINATION

for monitoring and enhancing services. The follow-up performance examination identified a small number of agencies who are actively using customer surveys to improve service delivery. Some examples are described below:

Country High Schools Hostels Authority

The Country High Schools Hostels Authority conducts a biennial survey of parents of students residing in the Authority's residential hostels. The survey questionnaire, which asks parents about the quality of nine different aspects of the hostels' services, was developed by an external evaluation consultant in 1992 and is distributed to parents by the Authority's head office in Perth. The survey results are published in the annual report as part of the Authority's performance indicators. Individual hostels each receive their own survey results benchmarked against results for the group.

The survey information has been used by the Authority in a number of different ways. Individual hostels have used the direct survey feedback to make improvements to a range of operational issues, including student involvement in decision making. For example, Albany Residential College has successfully involved groups of students in developing menu plans in response to dissatisfaction with hostel food as well as concerns regarding low student involvement in the running of the college.

WA Alcohol and Drug Authority (Next Step)

Next Step conducts an annual survey of participants in the state methadone programme. The programme includes counselling, crisis care, and a methadone dispensary service operating out of clinics in Perth, Fremantle, and through accredited general practitioners. The customer survey is a self-administered questionnaire that is provided to all programme participants attending the Perth and Fremantle dispensaries on one nominated date. Survey results are provided to programme managers and clinicians and are formally presented to the clinical executive.

Programme managers and clinicians have made a number of improvements to the programme on the basis of survey feedback. For example, the latest survey contained comments from clients that they did not see the same doctor when they returned for appointments. Programme management has since reviewed clinical practice and reinstated a previous policy of continuity of care whereby doctors and counsellors are allocated to individual clients. In addition to addressing clients' concerns, it is also expected that this practice will improve clinic operations as familiarity with clients will reduce the time required by clinicians to review case notes prior to appointments.

Next Step has also responded to client criticism of the new dispensing clinic. Programme management has commissioned an architectural review of the new facility to, among other things, better protect client privacy.

WorkSafe Western Australia

To date, WorkSafe Western Australia has commissioned three separate market surveys of the ThinkSafe campaign. The surveys have each been outsourced to market research firms and have been conducted by telephone interview of a random sample of respondents identified through the White Pages telephone book. The survey information is used to report against WorkSafe WA's performance indicators and to plan future ThinkSafe campaigns.

4 FOLLOW-UP EXAMINATION

Listen and Learn – Using Customer Surveys to Report Performance in the Western Australian Public Sector *(continued)*

Each survey has produced a comprehensive evaluation report describing the survey method, results, and conclusions. The survey results are referred to WorkSafe's Corporate Executive for consideration. The Executive Director Policy and Promotions and the Promotions Team consider the survey results and any directives from Corporate Executive when developing further ThinkSafe campaigns. For example, the initial survey, conducted in 1996, resulted in a simplification of the campaign to concentrate on the "Spot the hazard, assess the risk, make the changes" slogan, after it was found that this slogan resulted in greater recall among survey respondents. The 1996 survey also reported that a large number of respondents felt that the ThinkSafe campaign was not relevant to them and suggested that this attitude be addressed through future niche campaigns. This finding contributed to WorkSafe WA's decision to target particular hazards during the 1997 "Falls from Heights" and "Electrical" advertising campaigns.

Subsequent surveys of the effectiveness of the ThinkSafe campaign have confirmed the decision to concentrate on the "Spot the hazard" slogan by reporting a very high level of recognition of the slogan amongst survey respondents. The 1998 survey also confirmed the choice of Glen Jakovich as the face of the campaign by reporting that he holds a very high level of credibility with survey respondents.

Agriculture Western Australia (AGWEST)

Since 1998, AGWEST has conducted three customer satisfaction surveys to identify the needs and expectations of farmers and monitor the agency's performance. In 2000, AGWEST surveyed 500 farmers from a range of regions and farm types by telephone. The survey was conducted by a private research consultancy. The researchers provided a comprehensive survey report detailing the survey method and findings. The results were presented to AGWEST Executive, Programme Managers, and published in agency publications. The results were also disaggregated to industry group level to assist Regional Directors to review service delivery.

The survey results have been a trigger for improving AGWEST communications with farmers. The 2000 survey results suggested, among other things, that the AGWEST publication AgMemo, ABC Radio, and direct telephone contact are key preferred sources of information and methods of communication with AGWEST. The survey also suggested that AGWEST is most valued for its role as a provider of independent, technical information and expert advice on specific issues. AGWEST has responded to these findings by reviewing their communications strategies. For example, the Pulse and Oilseeds Programme has established an Editorial Committee to oversee the production of AgMemos. The Committee, which includes industry representatives as well as AGWEST staff, will plan and ensure the quality, relevance, and timeliness of technical articles, and reinforce AGWEST's perceived primacy as a researcher and provider of technical information. In response to farmers' preferences for using the ABC Radio as a source of information, AGWEST has also established two regular weekly radio sessions devoted to supplying pastoralists with technical and community information.

Department of Conservation and Land Management (CALM)

CALM conducts a biannual survey of visitors to selected National Parks and other recreational sites. The survey, which was developed in conjunction with an external consultant, is conducted via a self-

administered survey form that is made available at CALM managed sites for a specified period each year. In 2000, 450 site visitors completed and returned the survey form. The survey results are entered into the agency's visitor statistics (VISTAT) database and are distributed to participating sites in individual visitor feedback reports. The results have also been published in *Touristics*, a Research Brief produced by the WA Tourism Commission.

Regional managers and rangers use the customer survey information to improve the facilities and services offered at CALM managed estates. For example, the CALM Narrogin District Office, which manages the 29 000 ha Dryandra Woodland northwest of Narrogin, is currently improving walking trails in the park in response to the latest survey. Survey respondents commented that they have got lost on walking trails in the park and that road and trail signage was not adequate. In response to the survey, CALM has allocated a higher priority to providing walking trail signs and markers. During the next 12 months CALM will also reconstruct some trails and establish trail heads to make trails in the park more visually identifiable.

At the Karijini National Park, the most recent customer survey included requests from visitors that CALM supply descriptive information to accompany walking trails. CALM's Pilbara District Office has since commenced installing descriptive plaques at points along trails describing the native flora and fauna and areas of local Aboriginal cultural significance. Visitors also commented on the availability of drinking water in the park. At present visitors need to cart drinking water from two sites in the 700 000 ha park. In response to the survey, CALM is currently investigating the feasibility of collecting and storing run-off from shade shelters to supply water tanks to be located at the Dales Camping Ground.

Conclusion

Customer satisfaction surveys have continued to be popular as a basis for agency performance indicators. However due to excessive amounts of methodological error, many of these surveys have limited utility. Although a majority of agencies have presented some supporting information to help readers interpret reported survey results, most agencies are still failing to disclose the technical limitations of their surveys.

Ministerial surveys and policy advice present particular challenges for agencies reporting performance indicators. In most cases Ministerial feedback represents a very indirect and hence less accurate measure of agency performance. Agencies should endeavour to develop direct performance measures for all agency outputs. Agencies that are currently reporting effectiveness indicators based on annual one-off generic surveys of their Minister will need to adopt a more rigorous approach if they are to receive an unqualified audit opinion in the future.

A limited number of agencies have been able to demonstrate that their customer surveys have contributed to improved public services. This report includes some examples of agencies that have used their customer surveys to guide service improvements.

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