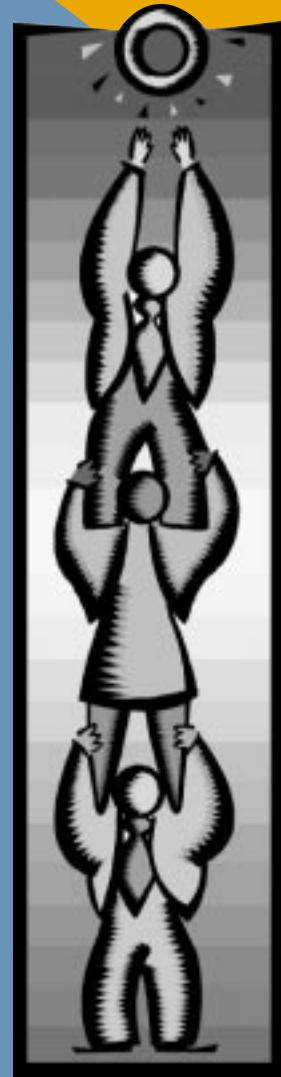




Auditor General
Western Australia

**Public Sector
Performance Report
1999**

Report No 7 – November 1999





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**Public Sector
Performance Report
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Report No. 7 - November 1999



AUDITOR GENERAL

Western Australia



AUDITOR GENERAL

Western Australia

THE SPEAKER
LEGISLATIVE ASSEMBLY

THE PRESIDENT
LEGISLATIVE COUNCIL

Public Sector Performance Report 1999

I submit to Parliament this Performance Report for 1999 pursuant to section 95 of the *Financial Administration and Audit Act 1985*. This Report contains:

- ▲ the results of seven Controls, Compliance and Accountability audits which seek to provide Parliament with assessments of public sector management and to identify opportunities for improved performance; and
- ▲ two follow-up examinations which assess changes in performance since the initial examinations,

undertaken pursuant to section 80 of the Act.

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

D D R PEARSON
AUDITOR GENERAL
November 10, 1999

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INTRODUCTION

This Report focuses on a range of public sector performance issues which are reported under the following areas:

Controls, Compliance and Accountability (CCA) Audits

CCA audits are conducted to inform Parliament about aspects of financial control and public administration which are not routinely covered in depth by performance examinations or the annual attest audits of agencies' financial statements and performance indicators.

They cover areas which at an individual agency level are unlikely to be material, however are considered significant and warrant attention across the public sector. The objective of these audits is to facilitate improved performance and financial management in the public sector.

Both agency specific audits and those undertaken across a number of agencies are reported. The issues raised in these latter audits are based on findings in a range of agencies which are considered indicative across the public sector. A purpose of this Report is to inform agencies not included in these particular audits of potential risks and exposures they may be facing and have not adequately addressed.

The results of seven CCA audits covering a range of issues are reported in this section.

Follow-up Performance Examinations

Performance examinations are conducted to provide Parliament with information about the use of public resources. In addition they serve the purpose of assisting public sector managers in identifying and promoting better management practices.

Following the tabling of a performance examination, a follow-up examination is usually undertaken within three years. The purpose of a follow-up is to provide Parliament with an assessment of changes in performance and practice that have occurred since the initial examination was tabled.

This section reports on the findings from two follow-up examinations.



CONTROLS, COMPLIANCE AND ACCOUNTABILITY AUDITS

Controls, Compliance and Accountability (CCA) audits are a part of the Office's performance auditing approach which has as its mission *'To meet Parliament's need for independent and impartial strategic information regarding public sector accountability and performance'*.

These audits complement the Office's program of in depth performance examinations and annual cycle of attest audits of agencies' financial statements and performance indicators and are directed towards:

- △ internal controls systems;
- △ compliance with applicable legislative and policy requirements;
- △ accountability; and
- △ probity.

This section of the Report summarises the results of seven CCA audits covering issues in the areas of:

- △ controls over revenue collection;
- △ control of agency expenditure;
- △ management of assets; and
- △ reporting of performance.

Where appropriate, action taken by agencies to address the issues raised is also reported. As this Report covers audits undertaken progressively over the last 12 months, the extent of action taken by agencies varies, particularly so for those only recently completed.

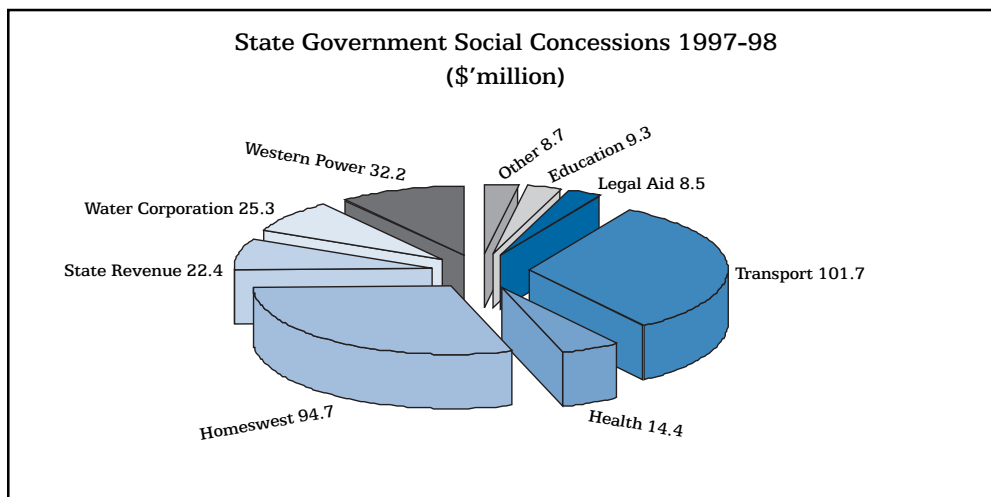
Controls Over Revenue Collection

MANAGEMENT OF GOVERNMENT SOCIAL CONCESSIONS

▲ Background

Concessions on government goods and services are a major form of social assistance provided by the State Government to disadvantaged groups. Around \$317 million in concessions is provided annually by 21 agencies, including discounts and rebates on power, water, transport, and housing.

Eligibility is currently based on low-income, age, service to country or community, and/or special needs or disadvantage. The major concession recipients are holders of Pensioner Concession Cards, Health Care and Health Benefit Cards, and State Concession and Seniors Cards.



Source: State Government Social Concession Database 1997-98

Figure 1: Summary of value of concessions provided by agency
Around \$317 million in concessions is provided annually by 21 agencies.

In 1992, Audit raised concerns about the lack of a coordinated whole of government approach to targeting, monitoring and evaluating concessions provided by government agencies. In addition, most agencies had not instituted controls to ensure that concession recipients continued to remain eligible.

A follow-up review, reported in 1996, found that these concerns were largely being addressed through:

- △ the development of a government-wide concessions database; and
- △ a whole of government review of concessions.

▲ What is the Potential Risk?

Two key risks associated with the management of concessions are that:

- △ the various types of concessions currently available may not be effectively targeting or assisting those in need; and
- △ concessions may be claimed by recipients who are no longer eligible for the concessions.

▲ What Did We Do?

The audit involved:

- △ reviewing the outcomes of the whole of government review of concessions and the status of the government-wide social concessions database; and
- △ examining controls over the ongoing eligibility of concession recipients at five agencies. The estimated value of concessions reviewed as part of this audit are shown in the table below.

Agency	Concessions provided in 1997-98 \$m	Number of Concession Recipients
Department of Transport	43.9	268 248
Homeswest	88.6	29 384
Water Corporation	25.3	243 994
Western Power	32.2	231 473
State Revenue Department	19.9	93 590
Total	209.9	

Source: State Government Social Concession Database 1997-98

Table 1: Details of concessions reviewed in audited agencies

Controls over concessions totalling around \$210 million were reviewed as part of this audit.

▲ What Did We Find?

Whole of Government Reporting and Review

The government-wide social concession database has now been established by the Treasury Department and provides details for the year ended June 30, 1998 on each State Government social concession offered.

The database was intended to facilitate annual reporting to Parliament on the effectiveness and cost of social concessions. The data collected to date has been reported in the 1999-2000 budget papers. However, as outlined below, the issue of the effectiveness of social concessions has not been fully addressed.

The whole of government review of social concessions was coordinated and chaired by the Ministry of the Premier and Cabinet and included representation from a range of government agencies including the Departments of Treasury, Family and Children's Services and Transport, and the Disability Services Commission. The review examined the following issues:

- △ equity - improving the fairness of concessions by better targeting those in need and addressing inconsistencies in who can access concessions; and
- △ efficiency, effectiveness and accountability in the provision of social concessions.

The results and recommendations of the review were submitted to Cabinet in March 1999. Cabinet referred the report back to the Ministry of the Premier and Cabinet for further investigation and liaison with Treasury where required prior to reporting further to Cabinet.

Eligibility of Concession Recipients

Most State Government concessions provided are based on the type of income support payment received from the Commonwealth Government, or Seniors and State Concession Cards issued by the State Government. Pensioner Concession Cards, Health Care and Health Benefit Cards, for example, are issued to recipients of income support payments for circumstances such as unemployment, sickness, and sole parenting. As these circumstances are subject to change, concession recipients may no longer be eligible for these benefits and therefore, should no longer be entitled to concessions.

Agencies which provide concessions should implement cost-effective control procedures to ensure that concession recipients remain eligible. These procedures include inspection of concession cards, data matching and verification of income and assets where eligibility is based on capacity to pay.

Verification of Eligibility against Concession Cards

Procedures such as the inspection of current concession cards are the most effective control to prevent ineligible claims being made. However, such arrangements are not always practical due to

the methods of payment available such as through the mail, contracted collection agencies and over the phone.

Practices in the agencies examined required recipients to either quote concession card details, produce cards for inspection and/or sign a declaration of eligibility on application for the applicable concessions.

Recipients are generally required to notify agencies regarding any change in status affecting concession eligibility. In some cases, such as motor vehicle licences, the renewal form also requires a signed declaration and concession card details to be provided.

However, the effectiveness of these procedures is limited and can result in ineligible concession recipients claiming concessions. This highlights the need for agencies to implement other procedures, such as data matching procedures, to verify the eligibility of concession recipients.

Data Matching

Data matching involves comparing an agency's data to databases maintained by issuers of Pensioner Concession Cards, Health Care and Health Benefit Cards, and the State Cards. This matching exercise determines whether the concession recipient still holds an eligible concession card. Western Power, State Revenue Department, Water Corporation and Department of Transport provide concessions which could be verified through data matching.

Two of these agencies (Water Corporation and Department of Transport) have not instituted this control to verify the eligibility of concession recipients. Details of practices in the agencies examined are outlined below.

- △ Western Power provides concessions in the form of supply charge rebates and rebates for dependent children. Concession recipients are required to quote pensioner card numbers or to sign a declaration of eligibility on application for a concession.

Western Power's database of concession recipients is matched with data held by the Commonwealth Departments of Social Security (Centrelink) and Veterans Affairs, and the State Government Office of Seniors Interest. In March 1998, a data matching exercise identified 50 700 (22 per cent) ineligible or expired concession recipients. A subsequent matching exercise in March 1999 identified 22 600 (10 per cent) ineligible recipients had claimed concessions, estimated at \$1 million per year. These concession recipients were removed from Western Power's database.

- △ The State Revenue Department provides a reimbursement to local government authorities of up to a 50 per cent rebate, or interest on deferred rates to persons who own and occupy their own home and hold a pensioner concession card or a State concession card. Applications for this concession are made by the pensioner to the local government authority.

A data matching exercise undertaken by the Department in 1996-97 identified 15 629 (15 per cent) ineligible pensioners who had made claims estimated at \$2 million, while in 1997-98, 8 666 (8.5 per cent) pensioners were found to be ineligible, with claims estimated at \$1.0 million being rejected. Reimbursements to local government authorities were reduced by these amounts, which then became payable by the ineligible pensioner.

- △ The Water Corporation provides a rates rebate for pensioners and seniors and a water consumption concession for pensioners who hold current eligible cards. The Water Corporation requires concession recipients to sign a declaration of eligibility on application for a concession. Under the *Rates and Charges (Rebates and Deferments) Act 1992* the Water Corporation is required to review concession eligibility at least once every three years. The last review conducted in 1995, resulted in 17 731 concessions requiring amendment, of which 581 were cancelled outright. A further 3 473 were considered doubtful. The value of these ineligible concessions is not available.

The next review, which was due in 1998, has not been conducted and consequently the accuracy of the Water Corporation's concession information cannot be ascertained. However, as the application for these concessions is made on the same form as for council rate concessions, the number of ineligible claims could be substantial based on the 1997-98 data matching exercise undertaken by State Revenue Department which identified around 8.5 per cent ineligible recipients.

- △ The Department of Transport provides a number of concessions including discounts on motor vehicle and drivers licences fees to various concession cardholders (valued at around \$13.2 million). On initial application, the concession recipient must complete a declaration and produce a current concession card.

Renewal forms provide for concession card details and a declaration to be completed, while procedures at Departmental Licensing Centres and Shire Councils require a current card to be produced. However, this procedure is not required or is not practical for renewals made through other payment methods such as by mail, over the phone or through external collection agencies. These arrangements, which apply to around 75 per cent of concession renewals, increase the risk of ineligible claims.

The Department does not perform data matching for these concessions and consequently it is difficult to estimate the value of any incorrect claims. However a review of concessions data showed that around 18 per cent of concession renewals are:

- ▲ subject to changing concession circumstances (eg. carer, sole parenting etc); and
- ▲ made by means other than through Licensing Centres or Shire Councils.

The other major concession administered by the Department for eligible cardholders is Transperth fare concessions (\$30.7 million). Eligibility for these concessions is ascertained by bus drivers or inspectors sighting valid concession cards.

Accuracy of Data Matching

Data matching rejections can occur for a number of reasons including expired and invalid cards, and a lack of information. The two agencies undertaking this process advised that a number of concession recipients identified as ineligible have been reinstated on providing further information. However, the number of such cases is not recorded.

Means Testing

Homeswest provide rental subsidies to low-income individuals and families with accommodation needs. Eligibility for the subsidy is not based on the type of concession card held, rather the applicant's capacity to pay rent as determined by an income and assets test which is reviewed annually. Audit testing in this area found controls to be operating satisfactorily.

▲ What Does This Mean?

Although standardised management information on concessions is now available, the review into the equity and effectiveness of concessions has still to be finalised. Therefore, the current approach may not be effectively targeting those in need and could result in inconsistencies as to whom can access concessions.

In the absence of effective control procedures, concessions may be claimed by recipients who are no longer entitled to the concessions.

▲ What Should Be Done?

- △ The Ministry of the Premier and Cabinet should ensure the whole of government review of social concessions is finalised in a timely manner.
- △ All agencies providing social concessions should implement adequate controls to ensure that concession recipients are eligible. In particular:
 - ▲ the Water Corporation should ensure that concession eligibility is reviewed on a regular basis in accordance with the requirements of the *Rates and Charges (Rebates and Deferrals) Act*; and
 - ▲ the Department of Transport should investigate accessing Centrelink, Department of Veterans Affairs and Office of Seniors Interests databases in order to conduct regular reviews of the continued entitlement of motor vehicle licence and drivers licence concession recipients.

▲ What Has Been Done?

Ministry of the Premier and Cabinet

The Ministry of the Premier and Cabinet has advised that the recommendations of the Review are the subject of ongoing consideration. Some of the issues raised in the course of the initial Review relate to the quality of the available data and its capacity to provide accurate information on the targeting of concessions. Information gathered by Treasury from the second annual concessions survey is awaiting analysis. When that data becomes available the equity and effectiveness of concessions will be re-examined.

Water Corporation

The Water Corporation has reviewed customers registered as pensioners and seniors to confirm their entitlement to receive a rebate on their annual service charges, in accordance with the *Rates and Charges (Rebates and Deferments) Act*. Registration details have been computer matched with agencies that issue concession cards and those customers with no match are being contacted to determine their eligibility.

Department of Transport

The Department advised that a review of concessions and the eligibility criteria is in Licensing Business Plans and is scheduled to commence later in 1999. Informal discussions have already taken place with Centrelink with regard to data exchange to improve the effectiveness and accuracy of concessions granted.

Control of Agency Expenditure

EDUCATION DEPARTMENT OF WESTERN AUSTRALIA – PAYROLL SYSTEM CONTROLS

▲ Background

The Education Department of Western Australia (EDWA) incurs payroll related expenditure of over \$1 billion per annum and processes 35 000 payroll-related transactions per fortnight. In September 1998, EDWA implemented a Human Resource Management Information System (HRMIS) to replace a personnel/payroll system which:

- △ had operated for more than eight years;
- △ no longer provided the required functionality; and
- △ could not support a move to decentralised personnel/payroll processing.

HRMIS is one component of the Personnel 2000 (P2000) project which commenced in 1995. Other components of this project involved policy development and business process re-engineering.

▲ What is the Potential Risk?

The implementation of a new payroll system can increase the risk of payroll errors occurring due to:

- △ lack of staff training in new system requirements;
- △ changed processes and procedures; and
- △ undetected system errors.

In addition, the risk of errors is likely to be higher in a department like EDWA due to the large number of staff and staff movements, and the geographical dispersion of staff.

▲ What Did We Do?

In March and August 1999, audits were conducted to assess the adequacy of controls over payroll transactions at EDWA, including procedures to prevent and detect payroll errors, following the implementation of the new system. Implementation costs of the new system and issues relating to system performance were also examined.

▲ What Did We Find?

EDWA has a history of payroll overpayments caused by late payroll advice from schools to Central Office (accounting for 70 per cent of recorded overpayments in 1997-98) and a smaller proportion due to human or system errors and delays in processing by the personnel/payroll branch.

However, since the introduction of HRMIS, the number of payroll errors which has resulted in overpayments, underpayments and non-payment of staff, has significantly increased. These errors occurred due to:

- △ lack of sufficient high level checking and monitoring procedures which would assist in identifying payroll errors;
- △ deficiencies with the new system which should have been identified prior to going 'live'. Examples included the incorrect payment of pro-rata long service leave for employees not entitled to such payment and errors in the calculation of the tax component of termination payments; and
- △ inadequate staff training.

Payroll Overpayments

In the past, the input of most personnel and payroll transactions was performed centrally at EDWA, with limited on-line input at schools. With the implementation of HRMIS, the Department's Staffing Directorate was reorganised with schools progressively given on-line access to input their own personnel/payroll information. By the end of July 1999, approximately 67 per cent of schools were on-line, covering the majority of employees.

One of the planned benefits resulting from the introduction of HRMIS was to be a reduction in overpayments. However, to date, the number of payroll errors has increased contributing to gross errors and overpayments totalling \$4.9 million in 1998-99. This compares with about \$835 000 recorded in 1997-98. The median value of overpayments has also more than doubled from \$428 in 1997-98 to \$937 in 1998-99.

In addition, at October 1, 1999, 460 overpayments totalling \$491 522, relating to the 1999-2000 financial year have been identified for the period from July 1 to September 30, 1999.

Causes of Payroll Errors and Overpayments

Table 1 (page 15) shows the different causes of errors and overpayments in 1998-99 as recorded by EDWA.

Cause	Number	Amount (\$)
Late payroll advice from schools	963	1 842 996
Human errors	625	1 524 042
Delays in processing	361	622 314
System errors	268	541 536
Cause not specified	384	393 378
Total	2 601	4 924 266¹

Source: EDWA records

Table 1: Causes of errors and overpayments as recorded by EDWA

Causes of errors and overpayments varied but late payroll advice from schools and human errors accounted for 68 per cent of the total value of errors and overpayments.

Late Payroll Advice

The number of overpayments due to late payroll advice shown in Table 1 is overstated due to incorrect identification of causes in the earlier part of 1999. EDWA is therefore not in a position to determine whether the implementation of HRMIS has contributed to a reduction in these types of overpayments in 1998-99.

However, it is unlikely that overpayments due to late payroll advice decreased in 1998-99 compared with previous years for the following reasons:

- △ although more schools came 'on-line' during the year, complex transactions (such as roster variations and terminations) were still being performed by the Staffing Directorate at Head Office based on advice submitted by the schools;
- △ delays in processing payroll advice by the Staffing Directorate; and
- △ some schools submitted payroll advice to Head Office rather than processing them at the school site until problems with system performance were addressed.

System and Human Errors

Overpayments resulting from system and human errors are due to a range of factors including:

- △ human errors such as the incorrect input of data which was not detected in exception reports which are used to highlight unusual or significant transactions; and
- △ system errors such as the incorrect payment of pro-rata long service leave which should have been identified during system testing and rectified prior to HRMIS going 'live'.

Examples of the type of errors made include:

- △ number of hours worked were incorrectly input by staff as days and accepted by the system;
- △ dollar amounts due were incorrectly input by staff as days and accepted by the system. For example, an amount of \$2 425 was input as 2 425 days work and resulted in an incorrect

¹ This figure has since been reduced by \$67 053 for reasons such as adjustments for errors in calculation of overpayments and repayments prior to the issue of debit notes.

payment of \$399 029 being made. This error was identified by EDWA who arranged for the bank to repay this amount;

- △ starting and finishing times were incorrectly input by staff. This resulted in several days' pay being made for one day's work;
- △ staff paid twice for periods of leave taken due to system error; and
- △ staff on extended leave without pay were erroneously paid.

Control procedures, which highlight high risk or unusual transactions, are commonly used in payroll systems to identify and prevent potential overpayments that may arise from human errors. These procedures include 'flagging' potential errors immediately through warning messages when data is entered or prior to payment via exception reporting.

These types of controls were either not in place or operating effectively and contributed to a large number of overpayments. Had the system alerted the input officer that the data being entered may not be correct or had they been highlighted in an exception report, most overpayments could have been avoided. These human errors also indicate that input officers have not been adequately trained in using the new system.

These types of errors resulted in some of the large overpayments shown below in Table 2. Most of these overpayments were identified by officers in the Staffing Directorate soon after pays were disbursed.

Pay Fortnight	Gross Overpayment	How it Occurred	Repayment
April 29, 1999	\$98 416	Amount due of \$535 was input as 535 days' work.	Repaid in full by employee on May 19.
May 13, 1999	\$90 946	Amount due of \$639 was input as 639 days' work.	Repaid in full by employee on August 10.
April 15, 1999	\$27 663	Incorrect take-up of leave and system pay-out of pro-rata long service leave to which the officer was not entitled.	Repaid in full by employee on June 9

Source: EDWA records

Table 2: Examples and Causes of Large Overpayments

Incorrect input of data by payroll staff resulted in the three largest 1998-99 overpayments.

Although special queries have been written to identify certain transactions at risk of error, most of these queries identify potential underpayments rather than overpayments. Management also advised that warning messages were 'customised' out of HRMIS because of:

- △ the potential for warning messages to 'slow down' performance; and
- △ payroll officers would become 'conditioned' to the messages.

It is likely that 'avoidable' overpayments will continue to occur until EDWA has fully analysed error rates and causes to identify areas requiring improved controls, further training or system modifications.

Recording of Overpayments

Procedures require details of payroll overpayments to be recorded in a Debit Note Register. In the period before and after the implementation of HRMIS, this Register was not maintained. Consequently, the issuing of debit notes for the recovery of overpayments was delayed.

As a result, only \$352 000 in overpayments were 'debit noted' between July 1998 and February 1999. In March 1999, a Debit Note Team (comprising four officers) was established and took over responsibility for maintaining the Register and \$4.2 million of overpayments were 'debit noted' from March 1999 onwards.

The Debit Note Register does not record details of the date on which the overpayment occurred and when it was identified. Therefore it was not possible to readily assess the timeliness in recording and recovering each overpayment. However, an examination of a sample of debit notes confirmed that overpayments that occurred in September and October 1998 were not identified or recorded until after March 1999, with some employees not notified until May to June 1999.

Limited audit sample testing also showed that not all identified overpayments had been referred to the appropriate section for recovery action. It is therefore likely further overpayments may have occurred which have not been identified and/or referred for recovery action.

Underpayments and Non-payment of Teachers

Due to delays in processing the appointment of new teachers and the renewal of temporary teachers' contracts, some teachers had not been paid on time or were underpaid. Reliable statistics on the number of underpayments and non-payments are not available. However, audit testing identified 143 examples of underpayments, with the error rate indicating the possibility that the true figure is in the order of 1 700.

In addition, the number and value of 'manual cheques', usually drawn to urgently pay staff on time or following a payroll error significantly increased with the implementation of HRMIS. From September 1998 to March 1999, a total of 1 171 cheques to the value of \$2 million were issued. This compares with 140 cheques to the value of \$461 944 issued in 1997-98.



Other Issues

Payroll Checking Procedures

In large organisations, the accuracy of fortnightly payroll information should be checked by individual section managers (eg in schools) to ensure that anomalies are detected on a timely basis. However, at EDWA, this control was not applied to most schools during the year.

System Performance

The performance of the new HRMIS is a major concern to the Department. Management has advised that due to inadequate system performance, some schools have, for example, been unable to generate payroll certification reports and check for payroll errors prior to the payroll being disbursed.

There are also management concerns that the fortnightly processing of pays by the system is excessive, currently taking longer than 10 hours.

Performance requirements were specified in the original Request for *Proposal for the Provision of a Human Resource Management Information System* dated February 1996, however these requirements were not included in the contract with the successful tenderer. EDWA have advised benchmarks were not included due to considerations which emerged during contract negotiations including:

- △ the extent of customisation being greater than originally anticipated due to the complexity of EDWA award conditions;
- △ changes being made to EDWA's network infrastructure; and
- △ varying hardware capability between schools.

HRMIS Costs

The total project cost of P2000 at December 1998 is estimated at \$22.8 million. Difficulties have been experienced in determining the true actual cost because departmental records do not enable accurate reporting of the cost of internal staff time or other costs associated with the project. At August 1998, the HRMIS component of this project is estimated to had cost \$13 million (with an estimated \$3.8 million of additional development and operational costs expected in 1999-2000).

The cost of HRMIS has increased from the initial proposal to system implementation stage due to a range of factors. In January 1996, the cost of the HRMIS component was originally estimated at between \$3.5 and \$4 million, which included software, consultancy services and outsourced implementation and customisation services.

Following further planning and at the time of contracting for the new HRMIS (December 1996), EDWA had authority from the State Supply Commission to arrange its own purchasing up to the value of \$5 million. As a result of contract negotiations, EDWA entered into a contract with the

successful tenderer for \$7.6 million. Prior approval to exceed the approved purchasing level of \$5 million was not obtained from the Commission as required by the *State Supply Commission Act 1991*.

Reasons for the increase to \$7.6 million as advised by EDWA included:

- △ original figures were based on estimates of resource costs and time without input from the companies involved; and
- △ the intention to implement a product close to the commercial software application needed reconsideration due to the public sector specific requirements and EDWA's award conditions.

The cost of HRMIS subsequently increased to \$13 million (at August 1998) following reviews of the project scope and approach. These cost increases arose from:

- △ additional functions being added to the project;
- △ the extent of customisation required. To meet EDWA's business requirements, over 440 changes had been made to the application software, resulting in a system that has been heavily customised². The extent of customisation will cause many difficulties in future upgrades; and
- △ the cost associated with migrating from the previous system which was not factored into the original contract value of \$7.6 million.

An in-house review was also conducted in March 1997 of the P2000 cost estimates which identified the following reasons for the increase in expenditure:

- △ requirements were not fully specified in original proposals;
- △ the complexity of some processes was underestimated;
- △ 'errors of judgement' were made as to the capability of the original version of the application software; and
- △ loss of key personnel over the life of the project.

▲ **What Does This Mean?**

The lack of adequate controls and training of users in the new personnel/payroll system has resulted in:

- △ avoidable payroll errors;
- △ significant disruptions to operations; and
- △ an escalation of costs associated with additional resources to address deficiencies.

² As compared with the original version of the software package. Around 70 per cent of customisation related to changes to the business functionality of the software application and 25 per cent involved cosmetic changes to screen layouts etc.

▲ What Should Be Done?

EDWA should:

- △ provide adequate training to users of the system;
- △ develop exception reports or warning messages (edit checks) which highlight potential payroll errors;
- △ analyse error rates and causes of errors to identify areas requiring improved controls, further training, or system enhancements;
- △ ensure all overpayments are identified and corrected on a timely basis; and
- △ record details of the date the overpayment occurred and was identified so that effectiveness of recovery action can be monitored.

▲ What Has Been Done?

EDWA has initiated the following action:

- △ engagement of internal audit and other expertise to identify errors in payments and their causes. The majority of recommendations made by audit have been implemented;
- △ implementation of changes to the payroll system and business rules to prevent the recurrence of identified errors. This includes development of exception reports and compliance measures;
- △ establishment of a dedicated team to identify and recover specific overpayments, 64.5 per cent of overpayments have been recovered by October 1999;
- △ doubling the amount and improved the quality of training provided to schools, and provided substantially increased training to all payroll staff;
- △ trialing and purchasing software to improve network performance; and
- △ implementation of quality assurance processes to further continuous improvement in system performance.

SPECIALIST MEDICAL PRACTITIONERS – PRIVATE PRACTICE ARRANGEMENTS

▲ Background

Specialist medical practitioners employed by the Metropolitan Health Service Board (MHSB) in public teaching hospitals (ie Fremantle, King Edward Memorial and Princess Margaret, Royal Perth and Sir Charles Gairdner) may be granted rights of private practice. This allows a medical practitioner to operate a private practice, and consequently receive a higher income, so long as the private practice does not interfere with the necessary duties of the medical practitioner's hospital appointment.

The terms and conditions of private practice arrangements are set out in the *Western Australian Government Health Industry AMA Medical Practitioners Collective Workplace Agreement, Versions 3 and 4* (the Agreement).

Fees are raised for services rendered by the medical practitioner on private patients. There are two main private practice arrangements:

△ Arrangement A

The medical practitioner gives the hospital authority to render accounts in the medical practitioner's name for private patients seen by the medical practitioner. The hospital retains all moneys received. In exchange the medical practitioner receives a 16 per cent salary increase.

△ Arrangement B

The medical practitioner renders accounts directly on private patients seen by the medical practitioner. From the amount collected the medical practitioner retains an amount up to the equivalent of 25 per cent of salary after deducting certain expenses. Any remaining surplus after the payment of any facilities fees due to the hospital is split between the hospital and medical practitioner.

If a medical practitioner's private practice earnings are not sufficient for the medical practitioner to retain an amount equivalent to 25 per cent of salary the hospital makes up the shortfall to either 16 or 25 per cent of salary depending on the amount of earnings.

The operation of these two private practice arrangements for the 1997-98 financial year are depicted in the following tables.

Hospital	Number of Medical Practitioners	
	Arrangement A	Arrangement B
Fremantle	14	11
King Edward Memorial and Princess Margaret	18	43
Royal Perth	42	43
Sir Charles Gairdner	27	36
Total	101	133

Source: Hospitals records

Table 1: Numbers of medical practitioners on Arrangements A and B for 1997-98
A total of 234 medical practitioners were granted these rights to private practice arrangements in 1997-98.

	Fremantle	King Edward Memorial and Princess Margaret	Royal Perth	Sir Charles Gairdner
	\$	\$	\$	\$
Total collections	845 410	1 713 578	3 013 093	3 332 364
Less expenses	203 820	401 303	597 253	750 204
Net earnings	641 590	1 312 275	2 415 840	2 582 160
Distribution:				
Hospital facilities fee	314 118	393 490	747 393	145 345
Medical Practitioners ¹	251 203	713 055	952 311	825 353
Hospital trust fund ²	41 168	126 141	358 067	821 364
Medical Practitioners ²	35 101	79 589	358 069	790 098
Total	641 590	1 312 275	2 415 840	2 582 160

Source: Hospitals records

Table 2: Arrangement B financial details for 1997-98 (based on private practice returns submitted by April 30, 1999)

Medical practitioners reported collections of \$6.95 million from private patients under Arrangement B in 1997-98.

Notes

¹ Retention of net earnings up to 25 per cent of salary

² Allocation of surplus net earnings

▲ What is the Potential Risk?

There is a risk that financial information provided by medical practitioners in relation to their right of private practice may be inaccurate or incomplete leading to:

- △ inaccurate payments to or from medical practitioners;
- △ shortfalls in revenue due to the hospitals and their trust funds; and
- △ unbilled private patients.

▲ What Did We Do?

Private practice arrangements in each of the four teaching hospitals were reviewed for the 1997-98 financial year to assess whether:

- △ information provided by medical practitioners on their private practice was complete and accurate;
- △ private practice income was allocated in accordance with the Agreement;
- △ hospital facilities fees were correctly calculated; and
- △ all private patients were billed.

▲ What Did We Find?

Annual Returns

Medical practitioners operating under Arrangement B (and undertaking their own billing procedures) are required to provide the hospital with a statement (annual return) of their private practice income and its distribution by September 30 each year. Over 80 per cent of annual returns for the 1997-98 financial year had not been provided by September 30, 1998.

Annual Returns	Fremantle	King Edward Memorial and Princess Margaret	Royal Perth	Sir Charles Gairdner	Total
Received by due date (September 30, 1998)	1	Nil	2	16	19
Received within 6 months of due date	8	28	17	20	73
Received more than 6 months after due date	2	15	4	Nil	21
Total	11	43	23	36	113

Source: Hospital records

Table 3: Timeliness of Arrangement B medical practitioners annual returns 1997-98

Annual returns were not submitted on timely basis with only 17 per cent of returns submitted by due dates.

The table on page 23 shows that only 19 of 113 annual returns were received by the due date. Furthermore, 21 returns were still outstanding six months after the due date. This table excludes medical practitioners whose billing procedures are carried out by the hospital.

Reliability of Annual Returns

The Agreement requires annual returns to be certified *'I certify that all moneys due to the hospital have been accounted for'* by the relevant medical practitioner. The Agreement also states that medical practitioners *'shall provide to the hospital within three months after June 30 each year an audited statement ...'*.

In three of the hospitals, audited annual returns are generally not provided by the medical practitioners. Only Royal Perth Hospital required annual returns to be audited. All hospitals maintain that the Agreement does not require annual returns to be audited. Although there may be some ambiguity in the Agreement regarding the requirement for annual returns to be audited, audited annual returns provide greater assurance to the hospitals that the returns are complete and accurate. This level of assurance is warranted as the hospitals have no other means of verifying that annual returns are complete and accurate.

Billing Private Patients

Medical practitioners operating under Arrangement A have given the hospital the authority to bill their private patients. For this to happen the hospital needs to be informed of all private patients seen by the medical practitioner. Only Fremantle Hospital had procedures in place to verify the completeness of information provided by medical practitioners (ie that all private patients had been identified and billed). The remaining three hospitals had inadequate procedures in place to provide this assurance.

Facilities Fees

The Agreement requires certain medical practitioners to pay for the use of hospital facilities when treating private patients. In particular, the Agreement specifies that facilities fees are to be determined *'... as a percentage of the total amount of accounts collected ...'*. Only Fremantle Hospital was calculating the facilities fee on the total accounts. The other three hospitals had interpreted the Agreement differently and were calculating the facilities fees on the net earnings (ie total accounts less administration and collection costs, and medical defence premium) and as a consequence a lesser facilities fee was being paid to these hospitals. For 1997-98 it is estimated that this different method of calculation results in facilities fees being under-recovered by approximately \$295 000. This under recovery is however offset by increased payments to hospitals' trust funds of \$150 000.

▲ What Does This Mean?

The findings from this audit indicate that private practice arrangements are both inadequately managed and applied differently across the four hospitals. This has led to:

- △ reduced hospital revenue due to inconsistent calculation of facilities fees and the possible non-billing of some private patients; and
- △ delays in collecting hospital revenue due to the lateness of annual returns.

▲ What Should Be Done?

The MHSB should:

- △ take action to ensure private practice arrangements in the four hospitals comply with the Agreement;
- △ implement procedures to ensure all private patients of Arrangement A medical practitioners are identified and billed by the hospitals;
- △ ensure facilities fees are calculated in accordance with the Agreement; and
- △ require all annual returns to be audited and submitted in a timely manner.

▲ What Has Been Done?

The MHSB has indicated that the Agreement has been renegotiated and includes changes which specify clearly that:

- △ facilities fees are to be based on a percentage of net earnings; and
- △ annual returns are to be prepared and certified by an accountant.

In addition, the MHSB has advised that it will develop a policy which will address the need for:

- △ consistency across the four teaching hospitals; and
- △ systems that will ensure all private patients of Arrangement A medical practitioners are identified and billed.

M anagement of Assets

MANAGEMENT OF INTELLECTUAL PROPERTY

▲ Background

Government agencies spend at least \$96 million per year¹ on various types of research or development activities that may give rise to 'intellectual property' (IP). In addition to this amount, agencies engage in activities such as the creation of training and advertising materials, databases and computer programs which may also be the subject of IP protection.

IP is by its nature intangible but it is as much an asset as a building or a piece of equipment with the potential to generate substantial income as well as assisting Western Australian industries to compete internationally. Hence it must be safeguarded and managed to ensure proper control of its use and exploitation.

The importance of IP has long been recognised. In 1989, the former Technology and Industry Development Authority issued *Guidelines for the Western Australian Public Service Intellectual Property Rights Policy*. The focus of these guidelines was on the identification and assignment of IP and the provision of rewards for public service employees whose IP resulted in significant commercial return or benefit to the State.

This policy emphasis shifted with the 1997 release of the *Public Sector Intellectual Property Management Policy*² which focuses on the management and commercialisation of public sector IP assets on behalf of the State. This represented a significant change for many agencies that had historically undertaken research or other activities and developed IP assets without always fully considering the protection or commercialisation of such property.

▲ What is the Potential Risk?

The financial returns available from the successful commercialisation of IP could be lost if agencies fail to:

- △ consider whether any of their projects or activities will result in the creation of some form of IP; and
- △ take adequate steps to protect and preserve the value of IP assets.

In addition to the loss of financial returns, Western Australian industry may lose important business opportunities if agencies do not effectively commercialise their IP.

¹ Source: Australian Bureau of Statistics, Government Expenditure on Research and Development (GOVERD), State Government contribution 1996-97.

² The release of the policy was followed by detailed *Intellectual Property Guidelines* produced by the Department of Commerce and Trade in April 1998.

▲ What Did We Do?

The management of IP was examined between February and April 1999 at Agriculture Western Australia (AGWEST) and at the Metropolitan Health Service Board (MHSB). These agencies undertake various research and development activities that may result in commercially valuable IP assets. The audit involved reviewing controls and procedures over the:

- △ identification and recording of IP; and
- △ protection and commercialisation of IP.

▲ What Did We Find?

Government Intellectual Property Policy

In June 1997, Cabinet endorsed the *Public Sector Intellectual Property Management Policy* and established the Government Intellectual Property Policy Council to implement and monitor a consistent, whole of government approach to the management of public sector IP. The Council was also given responsibilities for assigning IP ownership, apportioning net proceeds from commercialisation, selling IP assets, and investigating unauthorised exploitation of IP.

The Council has encountered difficulties in implementing the government-wide IP policy. Sections of the policy have proven to be unworkable and the Council does not have the legislative authority to perform some of its intended functions.

In addition, the Council faces the problem that many agencies lack the legislative authority to commercialise their IP. A contributing factor to this is that the *State Trading Concerns Act 1916* prohibits agencies from engaging in activities, including the commercialisation of IP, unless expressly authorised by Parliament or unless they obtain an authorisation by regulation under the Act. Authorisations can only be obtained by departments or parts of departments with their own accountable officer. At present, statutory authorities can only obtain the power to commercialise by having their enabling legislation amended.

As a result, government agencies have not always been able to commercialise IP. Examples provided by the Council include:

- △ Main Roads WA: Contract Administration System
- △ Water and Rivers Commission/Swan River Trust: Sediment Remediation Project

Amendments to the *State Trading Concerns Act* to extend its application to statutory authorities have been drafted and passed by the Legislative Assembly and is awaiting debate in the Legislative Council. The Government Intellectual Property Policy Council has also obtained Cabinet endorsement of interim amendments to its terms of reference and has reviewed the existing policy to address shortcomings. This review has been completed and the revised policy is to be submitted to Cabinet for endorsement.

Management of Intellectual Property in the Public Sector

The *Public Sector Intellectual Property Management Policy* is designed to provide guidance and assistance to agencies as they develop appropriate processes for managing IP. In addition, existing legislation such as the *Financial Administration and Audit Act 1985* assigns responsibility to accountable officers and authorities for properly managing assets, including IP. Chief Executive Officers also have obligations under performance agreements in relation to the management of IP assets.

The management of IP assets involves three key processes; identifying the existence of IP or the potential for its creation; taking steps to secure the ownership of or protecting the IP to ensure that its use and benefits can be accessed and controlled by the agency; and where appropriate, commercialising the IP to obtain a return. These processes were examined at two agencies:

- △ It is estimated that MHSB spends between 8 and 15 per cent of its \$1 billion-plus budget on research, development, teaching and training activities. However, in view of the significant complexities involved, the amount spent on research and development (other than teaching and training activities) cannot, at this time, be separately determined. Research into the prevention, treatment, and investigation of the causes of diseases represents a vital role in maintaining and improving the health of Western Australians. These activities and others including training, information management systems, and public education may result in commercially valuable IP.
- △ AGWEST spends over \$40 million per annum on various research programs, some partly funded by external bodies, with the objective of assisting the State's agricultural industries to be sustainable and profitable. These research activities may result in the creation of IP including new plant varieties or patentable inventions. AGWEST may also create valuable IP in their non research-based activities including information management systems, education materials and other publications. AGWEST's IP is commonly exploited in an international market place and involves Rural Industry Research Corporations and/or commercial partners governed by different legal requirements.

In addition to AGWEST's functions as a research, advisory, and regulatory agency, section 6(f) of the *Agriculture Act 1988* also assigns the exploitation of IP as a function of AGWEST. In 1998-99, AGWEST received \$2.39 million in IP revenue.

Identification and Recording of IP

The early identification and recording of IP assets with commercial potential is a critical stage in the management of IP. This requires consideration of the possible creation of IP at the planning stages of any research or development projects, or other activities such as consultancies. It also involves increasing staff awareness of the commercial value of IP and the need to consider IP issues prior to disclosing information in a public forum, as this may adversely affect the potential value of IP.

Individual hospitals forming part of the MHSB, such as the Royal Perth Hospital, have administrative instructions which deal with the assignment of rights and rewards for any IP created by staff. However, MHSB has not yet developed a policy or implemented procedures covering the identification, protection and management of IP.

The Board faces difficulties in dealing with whether the IP that results from its research and development activities should be protected given the issue of immediate patient care and public benefit and whether it is in a form that can be readily commercialised. The Board has also yet to develop an adequate register of IP.

However, until the Board addresses the issue of the identification of IP assets and formally considers public and commercial benefits of IP, it will not be in a position to deal with the protection of IP as a State asset. This issue arose recently in the development of a universal catheter holding device:

EXAMPLE: UNIVERSAL CATHETER HOLDING DEVICE

In 1998, a catheter holding device was developed at one of the hospitals under the control of the Board to greatly reduce the incidence of accidental removal of existing types of catheters. To determine whether appropriate adhesives for the catheter holding device were available, the design of the device was disclosed to a European manufacturer. The hospital received legal advice that as a result of that disclosure, patent protection for the catheter holding device is now unlikely to be available.

AGWEST has had a culture of scientific research which traditionally relied upon open and free scientific communication. AGWEST's experience has shown that staff may occasionally overlook or inadvertently publicly disclose IP unless they have a good understanding of IP related issues.

AGWEST has established an IP committee to develop and promote its IP management system. However, discussions with staff revealed that the overall level of awareness of AGWEST's internal IP policies needs to be further improved. There was also the need to give greater emphasis to consideration of IP matters during research planning so that IP is recognised and protected as soon as possible.

In addition, details of IP were included in a wide range of records such as contract registers and funding agreements. This made it difficult to determine the extent of AGWEST's IP assets and whether they had been appropriately protected. The development of a comprehensive register of IP assets would facilitate improved management of AGWEST's IP.

Protection and Commercialisation of IP

Once IP is identified, agencies need to assess whether the IP should be protected and commercialised. The decision to commercialise IP needs to consider whether its commercial value will outweigh the costs of protecting and exploiting the IP. Although the commercial returns may not outweigh the costs borne by the agency in developing the IP, it may earn additional revenue for the State.

The types of IP protection available include copyright, patents, trademarks, plant breeder's rights, registered designs, and confidentiality. The premature publication or disclosure of IP in the public domain may adversely affect the ability to obtain patent, design or plant breeders' IP protection rights but more importantly the extent of the commercial benefit that may be obtained.

With the increased focus on 'user pays' principles and value for money together with the Government IP policy, all agencies are facing a greater need to evaluate the commercial opportunities that may arise from research and development. For example, the move away from AGWEST's traditional focus as a provider of a range of cost-free services towards some emphasis on IP exploitation means that AGWEST needs to:

- △ conduct formal assessments or evaluations ('business planning') of the commercial costs and benefits of exploiting its IP assets;
- △ develop commercial expertise to exploit its IP and to access appropriate legal advice;
- △ conduct regular reviews of its IP portfolio and reassess protection and commercialisation strategies in response to changing needs and industry conditions; and
- △ maintain adequate records of revenue and expenditure associated with commercialisation.

AGWEST may not have in the past achieved the best possible returns from the commercialisation of IP and may not have been in a strong position to address commercial and legal risks.

Agencies will need to implement effective strategies to manage risks associated with the commercialisation of IP, such as those faced by AGWEST with the release of the Cripps Pink Apple.

EXAMPLE: 'PINK LADY'[®] APPLES

The Cripps Pink (associated with the trademark Pink Lady[®] and Cripps Red apple varieties) were developed by AGWEST to assist local industry expand its export market and improve profitability. Since 1994, the Cripps Pink and Cripps Red apple varieties have earned AGWEST in excess of \$3 million in royalties, with over \$1 million collected in 1998-99.

With the release of Cripps Pink, AGWEST was suddenly faced with the need to deal with the new and burgeoning issue of IP and commercialisation. In some cases, events preceded AGWEST and it was not adequately prepared to deal with the exploitation of IP, resulting in some of the situations listed below. Legal advice obtained by AGWEST in 1994 highlighted the need for AGWEST to '*develop strategies to exploit the IP rights and the products protected by the IP rights having regard to AGWEST's statutory functions*'.

- △ Due to limited experience with plant breeders' rights legislation and uncertainty about industry acceptance, AGWEST did not apply for plant breeders' rights in Australia to the Cripps Pink variety.
- △ In Argentina, France, UK and the USA, other organisations successfully filed applications for the Pink Lady[®] trademark before AGWEST. In all but the USA ownership of these trademarks has been recovered by negotiation with the relevant parties.
- △ In 1998, AGWEST successfully defended its IP rights in legal action against an infringement of its Cripps Pink variety rights in the USA.
- △ Despite a strong case prepared by plant breeders' rights experts, AGWEST was unsuccessful in opposing a third party's application for Australian plant variety rights to the Pink Rose apple which AGWEST maintains is identical to the Cripps Pink variety.

AGWEST has taken ongoing action to ensure that its IP is more effectively managed, including the recruitment and outsourcing of commercial and legal expertise. These improvements should assist in ensuring that IP is protected and opportunities for commercialisation are properly considered, as demonstrated in the following example where appropriate protection was obtained prior to the technology being disclosed.

EXAMPLE: HIGH SPEED ROTOR SPINNING OF WOOL

Research undertaken between 1996 and 1999 by AGWEST and other parties led to the development of a new wool treatment process allowing pure wool yarn to be produced using high speed rotor spinners. It is predicted that this process will reduce the retail cost of pure wool products and increase the demand for raw wool. Following plans to disclose this technology at a trade show, discussions were held with patent attorneys and provisional patent protection was obtained in late May 1999. New commercial agreements are currently being developed and negotiated to ensure that AGWEST's IP interests are protected.

▲ What Does This Mean?

In the absence of robust policies and practices, IP may not be identified or protected and opportunities for recovering costs will be lost. Without appropriate protection, agencies may jeopardise potential royalty streams. In addition, there may be impacts on the competitiveness of Western Australian industry and loss of commercial opportunities if IP is not protected and falls into the public domain.

▲ What Should Be Done?

Agencies should develop policies and/or practices for the management of IP in accordance with the *Public Sector Intellectual Property Management Policy* including:

- △ raising staff awareness of IP;
- △ establishing effective systems for identifying, protecting and managing IP assets;
- △ evaluating the costs and benefits of protecting and commercialising IP assets; and
- △ maintaining a register of IP assets.

It should be recognised that the issues involved in the management and commercialisation of IP assets are extremely complex and it is an area which is changing rapidly. It is therefore recommended that agencies seek expert advice when addressing these issues. Advice and assistance is available from the Intellectual Property Support Program at the Department of Commerce and Trade.

▲ What Has Been Done?

Agriculture Western Australia

AGWEST generates a diverse range of IP from copyright to new plant varieties. In many cases, the IP generated by AGWEST is derived from jointly funded projects where both public and industry based funding is involved. The agency anticipates increasing scrutiny of its ability to manage IP from both the public (via government) as well as from industry collaborators and external funding bodies.

AGWEST is committed to effective IP management as a holder of IP assets developed through public funding, on behalf of its collaborative funding partners, and as a core project management tool. This commitment is reflected by the:

- △ appointment of dedicated IP managers including the Manager Business Development and Program funded IP Development Officers;
- △ significant utilisation of legal advice related to the protection of IP including in-house legal services, fee-for-service advice from patent attorneys (approximately \$400 000 over five years) and support from the Crown Solicitor's Office;
- △ ongoing improvement of project management processes to extend the capture and protection of IP, including the establishment of a computerised IP register with audit and contract management functionality;
- △ greater scrutiny of the IP implications of external funding agreements and negotiation with funding partners to secure a return to AGWEST; and
- △ significant benefits to Western Australian agriculture industry by using AGWEST generated IP to enhance international competitiveness.

Metropolitan Health Service Board

The MHSB has noted the recommendations. Action will be taken to address what is a particularly complicated issue in a public health system which, as has been noted in the Report, gives priority to patient care before commercialising intellectual property. A Board policy addressing each of the issues raised will be developed. In the mean time, two additional steps are already under way:

- △ in association with the Health Department of Western Australia, a consultancy on teaching, training, research and development has been tendered and consultants appointed. This exercise is to be completed in the next three months with a draft report due on December 22, 1999. The terms of reference of this consultancy includes the intellectual property issue; and
- △ in view of the significant cost of teaching, training, research and development, management have initiated an internal review hereof.

MATTERS RELATING TO LEASE OF GOVERNMENT LAND IN WELSHPOOL

▲ Background

The Welshpool Site

Since the mid 1950's, the Department of Contract and Management Services (CAMS) (and its predecessor agencies the Building Management Authority (BMA) and the Public Works Department) has maintained a 4.86 hectare reserve at Welshpool in Western Australia as a depot. In the mid 1980s, the site also became headquarters for the BMA's construction and maintenance operations. At its peak, these operations involved about \$100 million per annum and about 1000 employees including 150 apprentices. In the early 1990s, operations at the site came under pressure to improve efficiency. Business units were created with comparisons made against similar private sector operations. Eventually however, potential for government savings led to a progressive outsourcing of the various business units.

In 1995, part of the site was sold to the Town of Victoria Park, leaving an area of 3.9 hectares in government ownership. By the end of 1996, most operations on the site had ceased, though use of the site for warehousing continued up until May 1998. By 1998, the disposal of most plant, equipment, furniture and vehicles on the site had also taken place.

Included in the site was an area of 1.17 hectares that contained office accommodation and workshops and some plant and equipment. In January 1999, this component of the site was leased, and the plant and equipment thereon sold, to a private training provider.

Disposal of Surplus Land and Goods

Under the June 1996 *Property Disposal Program*, any land surplus to a government agency's requirements may be disposed of with the assistance of the Department of Land Administration (DOLA). In certain circumstances the Western Australian Land Authority (also known as LANDCORP) may buy the land for redevelopment and resale.

The recommended practice for sale of surplus government assets is for an open selling approach, whereby all interested parties have equal opportunity to purchase and assurance can be given that the best price was achieved in the circumstances. The principle of open selling in regard to property disposals is outlined by the Treasury Department in *Guidelines for Managing Government Real Estate* which was issued in June 1998. Similarly, the State Supply Commission Policy of July 1998 for *Disposal of Goods* recognises the responsibility of public authorities to dispose of their surplus goods, including machinery, furniture, equipment and other tangible items, in an efficient, consistent, equitable and accountable manner.

Vocational Education and Training

The Western Australian Department of Training and Employment (WADOTE) is responsible for the strategic development and management of Technical and Further Education (TAFE) in Western Australia. Historically, training in Western Australia has been provided through publicly funded TAFE colleges with the funding process managed by WADOTE.

In 1994, the Government adopted a competitive tendering policy for the delivery of training services. Since that time, the proportion of services delivered by private training providers funded by government has increased to about 18 per cent. One of the largest private providers of apprenticeship and traineeship training in Western Australia is Radock Pty Ltd (Radock)¹ as trustee for the Building Group Training Trust but formerly (until March 1999) the MBA Group Training Scheme Trust (MBAGTST).

Since early in 1999, Radock has been delivering training from the 1.17 hectare Welshpool site. It occupied the land on the basis of a draft lease agreement with DOLA and agreed to purchase the plant and equipment thereon from CAMS.

▲ What is the Potential Risk?

- △ Established policies and practices are designed to provide assurance that the disposal of State land and goods is conducted with due probity and reasonable care so that the optimum return for the State is achieved and the risk of adverse consequences to the State is minimised. Departure from these guidelines puts both of these objectives at risk.
- △ The public funding of vocational education and training initiatives is undertaken with a strategic view of the overall needs of the State. The establishment of an additional privately owned training centre that qualifies for training funding from the State, without consideration of system wide implications, may put at risk the effective use of the State's limited training resources.

▲ What Did We Do?

The circumstances surrounding the leasing of the Welshpool site and the sale of the plant and equipment thereon were examined. The methodology involved:

- △ documentation review;
- △ discussions with relevant stakeholders including CAMS, DOLA, WADOTE, and two Directors of Radock; and
- △ inquiries with other public sector agencies regarding property disposal practices.

The scope of the examination included the methodology used for disposal of the site and on situ plant and equipment but did not include an appraisal of the decision to dispose of the site and equipment. The scope also excluded decisions made in regard to funding of Radock for provision of training to apprentices and trainees

¹ Has a two dollar issued capital and its two shareholders are a former Director of the Master Builders Association (MBA) and the previous manager of the MBA Group Apprenticeship Scheme. Until February 1999 the current Executive Director of the MBA was also a Director (but not shareholder) of Radock.

▲ What Did We Find?

Lease of the site

The *Guidelines for Managing Government Real Estate* state that 'real estate may be sold by public auction, public tender or by private treaty', adding that 'the Property Disposal Program promotes the sale of surplus government property competitively on the open market and, as a general principle, sale by auction or tender is encouraged'. Public auction is described as the most open selling approach and therefore consistent with government policy.

The Guidelines point out that 'private treaty is not necessarily the best method for selling government property as it is difficult to regard as being open and fair due to the opportunity to conduct simultaneous negotiations with several parties'. The Guidelines also suggest that private treaty sales generally be avoided as the initial method of sale and that it may be better to test the market first by way of auction or tender to be satisfied that there is limited demand and a private treaty sale is required.

Action to acquire the Welshpool site for private training purposes commenced in 1995 when the Master Builders Association (MBA) became aware that CAMS was ceasing its operations on the site. The Master Builders Association Construction Training Institute (MBACTI), an independent legal entity, established in 1995, became the vehicle to acquire the site and foster the development of training in the building and construction industry.

In August 1996 the MBACTI formally expressed its interest in acquiring the site to CAMS. Its position was strengthened in November 1996 when LANDCORP advised CAMS that it did not wish to acquire the site. The MBACTI bid was also strongly supported by the South Metropolitan College of TAFE. The proposal was for the site to be owned by the MBACTI with the college providing the training from the site under a long-term lease agreement. The leasing arrangement would enable the MBACTI to acquire the site and apply for federal funding via a Capital Development Grant from the Australian National Training Authority to develop the site.

In September 1997, after protracted discussions, CAMS recommended to the Minister for Works that the site be sold to the MBACTI. Ministerial approval was given to proceed to a formal submission to Cabinet to sell the site. Sale of the site was dependent on the MBACTI reaching agreement with WADOTE for a long-term contract to provide construction training. However, for a variety of reasons, agreement was not reached and the sale did not proceed. CAMS was advised of the WADOTE decision in February 1998.

In mid March 1998, CAMS determined that it would put the site on the open market. However, later in March 1998, a Director of Radock met with the Minister for Works and expressed interest in acquiring the 1.17 hectare part of the site comprising office accommodation and workshops

including the Machine shop and Cabinet-making/Joinery workshop. Value of this area as a sub divided site has been assessed by the VGO as \$1.4 million² At that time, in addition to being trustee for the MBAGTST, Radock was closely associated with the MBA. The Minister referred the proposal to CAMS for consideration.

CAMS have advised that following the request from the Minister to consider the 'MBA proposal', it returned to previous considerations given to maximising returns to the State through subdivision of the site. After reconsidering advice received from a town planner in 1995 and from LANDCORP in 1997, CAMS concluded that complexities of the issue meant it should refer the matter of disposal to DOLA.

In July 1998, CAMS transferred responsibility for disposal of the site to the DOLA. CAMS advised DOLA that the *'MBA...has a strong interest in acquiring part of the site for industry training purposes and although CAMS is supportive of this activity it is more appropriate that DOLA determine the method of disposal and manage the process'*. CAMS considered that through this instruction, responsibility for evaluating sale options and following through with the best method was transferred to DOLA. However, DOLA has advised that it sees its role in this and like matters is *'...to arrange transfer within Government or sale to private interests or government bodies ...'*, that is, to act as a *... real estate agent...'*. In this respect, CAMS and DOLA had a different understanding as to which agency had lead role in determining the method of disposal.

In considering options for disposal, the *Guidelines for Managing Government Real Estate*, as mentioned previously, encourages an open selling approach in order to gain assurance that the best price is achieved in the circumstances. When referring to private treaty sales as *'...generally (to) be avoided ...'* the Guidelines include the provisions *'... except where there is no perceived demand, the property has no strategic value, can only be sold to an adjoining holder or is of limited value'*. None of these conditions applied to the Welshpool site.

In August 1998, the Minister for Lands in correspondence to a Director of Radock advised that DOLA had been asked to meet with him (Radock) and representatives from CAMS, and the MBA to discuss the proposal to acquire the 1.17 hectare part of the site.

At the resulting meeting in September 1998, DOLA agreed to a nine year lease with an option to convert the lease to freehold at market value as determined by the VGO at any time during the lease term. The lease option rather than sale was regarded as the fastest way to facilitate Radock's need to be operating from the site by February 1999. Rent was to be at market value as determined by the VGO. CAMS also agreed to negotiate the sale of in-situ plant and equipment.

Between October 1998 and December 1998, Radock was offered and accepted in writing a draft lease of the 1.17 hectare site. The draft lease offered to Radock was DOLA's standards Section 79 General Conditions of Lease and as such did not include the option to convert the lease to freehold at market

² In October 1998.

value. In March 1999, Radock requested this and several other new conditions be inserted in the eventual lease document. At September 16, 1999 a final lease agreement had not been signed.

The VGO assessed market rent for lease of the site at \$137 500 per annum. Instead, Radock suggested a maximum rent of \$70 000. DOLA acceded to Radock's request that the lease rate be set at a maximum of \$70 000 for the following reasons:

- △ *'The MBA proposal has considerable support based on the benefits it will provide to the State in training skills'.*
- △ DOLA policy which authorises rental discounts for leases *'...for community purposes (but not operational or service delivery purposes) to be set at a percentage of market rental value'.*
- △ *'The MBA will contribute towards the service premium on this site for power, water, surveying and a boundary fence'.*

All three reasons for acceding to the request for a rental concession cause some concern. Firstly, DOLA had not sought advice from WADOTE as to whether the Radock training centre was consistent with the State's broader training objectives and should therefore be supported.

Secondly, in operating a group-training scheme and delivering off site training, Radock is conducting an operation or delivering a service.

Thirdly, at the time of agreeing to the reduced rent, no documented assessment was made of the extent of the costs Radock would likely incur to bring the site up to operational condition.

Up to June 1999, Radock had incurred costs of \$54 090 and has advised that final expenses are likely to be around \$56 000. On this basis, Radock will receive a discount of 36 per cent or \$146 500 over three years assuming the site is not sold during this time to Radock or that there is no increase in market rent. After three years the rent reverts to full market value.

On January 8 1999, DOLA permitted Radock to occupy the site. This was contrary to DOLA's normal practice as a formal lease agreement had not been signed. At September 16, the formal lease agreement had still not been signed. However, legal advice suggests that the offer of a lease by DOLA in November 1998 and the acceptance of the terms and conditions of that offer by Radock in December 1998 constitutes an agreement and is enforceable at law.

The standard DOLA lease condition is for half of the yearly lease payment to be made on execution of the lease with the second and subsequent payments to be in advance. In this dealing, DOLA passed control of the site to Radock without firstly receiving payment. Rental payment for part of the first six months of the lease was not made until August 1999.

DOLA also did not undertake due diligence procedures to establish the legal status of Radock. Such a step should have clarified the legal status of Radock as trustee for the MBAGTST and its independence from the MBA. This independence did not become understood until February 1999 when the MBA made clear that it was not associated with the MBAGST. A dispute over control of

Radock and management of the Trust led the MBA³ to write on February 23, 1999 to DOLA, CAMS and WADOTE advising that Radock no longer had their support and the MBA was no longer associated with the Radock action to acquire the Welshpool site. Subsequently, the MBA threatened legal action unless Radock dropped all reference to the MBA in the name of the Trust. This was done with the name changed to the Building Group Training Trust in March 1999.

No evidence was found to indicate that Radock misrepresented their identity in correspondence to any government agency.

Plant and Equipment

Included in the part of the site leased to Radock were about 100 items of plant and equipment, ranging from trolleys to large woodworking machinery. The State Supply Commission Policy for *Disposal of Goods* states that *'Goods must be disposed of by one of the following methods:*

- △ *transfer to another public authority;*
- △ *inviting competitive offers;*
- △ *public auction;*
- △ *trade-in;*
- △ *other means, as approved by the public authority's accountable officer or authority'.*

For goods valued at above \$1 000 the express approval of the authority's accountable officer must be obtained for any method of disposal other than transfer to another public authority, inviting competitive offers, public auction or trade-in. 'Other' includes donation, direct sale, internal disposal and dumping.

The Commission's Guidelines associated with the Policy make it clear that *'The primary aim of disposing of surplus goods is to achieve the best net return or outcome for the agency'* and point out that *'it is therefore important that public authorities consider all disposal options before deciding which is the most appropriate'*. A range of factors will impact on the disposal process including the nature of the recipient market as well as the time, costs and benefits provided by each disposal option.

In September 1997, CAMS obtained independent valuations of the plant and equipment. Two valuations based on 'Auction Realisable Value' were \$52 130 and \$63 900. Under this method of valuation, the valuer assumes the equipment will be offered for sale at a properly promoted auction and that the assets will be removed from the site after sale. A further valuation was also obtained on the basis of 'Market Value for Existing Use'. Under this method the value is based on the continuation of the asset's existing use as part of a continuing business operation. This value was assessed at \$147 500 but it was pointed out during the valuation process that the basis may be inappropriate since the goods were not (at that time) being offered for sale as part of an ongoing operation.

³ A few days earlier Radock had written to the agencies advising that the parallel relationship with the MBA had concluded.

Direct sale to Radock was the eventual method of disposal. CAMS set the price at \$64 500 in December 1998 based on the 15-month old 'Auction Realisable Value' of \$63 900. CAMS considered that they did very well in the negotiations considering that Radock were initially only interested in 60 per cent of the equipment thereby necessitating disposal of the remainder through an auction process with its associated removal and auctioning costs.

It is unlikely that sale by public tender or auction would have yielded a greater net return. However, the actual sale differed from an auction in several respects, which could have influenced the negotiations about price:

- △ Radock had obtained DOLA's agreement to lease the site;
- △ Radock was aiming to commence training operations from the site by February 1999; and
- △ as the equipment was already installed and was fully capable of operation, Radock was saved time and cost of acquiring equipment from another source and in installation costs.

The VGO has advised that given the equipment was to remain in-situ and was fully capable of operation, any negotiations on the sale of the equipment '*...should have commenced based on Market Value For Existing Use*'. Moreover, the VGO has advised that valuations are generally considered current for between three to six months and that it would have been prudent '*...to have had the valuation reviewed prior to the offer for sale*'.

Roles/responsibilities

WADOTE operates under the *Vocational Education and Training Act 1996* and has principal responsibility for implementing government training policy and for evaluating training proposals in the context of system-wide implications. The examination found that this role was not sufficiently recognised by DOLA and CAMS.

The decisions to firstly sell the site as a training centre to the MBACTI in arrangement with the South Metropolitan College of TAFE and subsequently to lease the site at a concessional rate based on the purported training benefits to the State occurred without due input from WADOTE. DOLA advised that its responsibility is to ensure that the purpose for which the land will be put is consistent with that permitted under zoning regulations and that it is not practical to divine the views of other government agencies.

The different perspective of the three agencies was evident on a number of occasions. In September 1997 when CAMS recommended a private treaty sale to the MBACTI to the Minister for Works on the basis of training advantages to the State, WADOTE by contrast in subsequent comments said:

- △ '*...there already existed excess capacity in trade based public providers in the construction industry*'; and
- △ '*... the MBACTI proposal would bind (government) to a high cost ten year lease agreement*'.

When DOLA met with CAMS, the MBA and Radock in September 1998 and agreed to provide a lease with option to purchase to Radock, WADOTE's views were not sought. Subsequently, WADOTE has expressed concerns in statements to its Minister regarding the system level implications for training.

▲ What Does This Mean?

- △ The process for the lease/sale of the site was inconsistent with aspects of government guidelines, leading to a perception of preferred treatment:
 - ▲ The site was not put to open market sale.
 - ▲ The lease is at a concessional rate rather than at market value.
 - ▲ Normal DOLA lease conditions of occupation and payment of half the yearly lease payment on execution of the lease agreement did not occur.
- △ DOLA's 'real estate agent' role is not well understood by other agencies.
- △ An up to date valuation of the plant and equipment was not used as the basis of negotiation for sale.
- △ WADOTE's responsibility as the lead Government agency on training policy matters was not sufficiently recognised by CAMS and DOLA during consideration to sell/lease the site for use as a major training centre.

▲ What Should Be Done?

Agencies should:

- △ ensure property disposal actions comply with policies and are consistent with applicable guidelines; and
- △ consider any potential inter-agency implications of the disposal action and communicate these to the relevant agency.

R eporting of Performance

ANNUAL REPORTS

▲ Background

The *Financial Administration and Audit Act 1985 (FAAA)* requires public sector agencies to submit an annual report to their Minister within two months of the end of the financial year. Ministers are required to table annual reports in Parliament within 21 days of receiving the Auditor General's opinion on the financial statements and performance indicators of each agency.

Treasurer's Instruction 901 *Annual Reports* states that *'The fundamental objectives of the annual report are the communication of information necessary for:*

- △ *monitoring performance in terms of financial regularity and legal compliance;*
- △ *assessing the financial affairs of the department or statutory authority and the nature and extent of changes that have occurred during the financial year;*
- △ *evaluating managerial and organisational performance of a department or statutory authority; and*
- △ *making economic and social judgements and decisions in relation to the operations and performance of a department or statutory authority'.*

Annual reports are required to include a report on operations and audited financial statements and performance indicators. Treasurer's Instruction 903 *Report on Operations* prescribes the matters which should be included in the report on operations. Other legislation and government directives may also require further matters to be included in the report on operations.

▲ What is the Potential Risk?

There is a risk that:

- △ timely information on agencies' performance will not be made available to the Parliament and the public;
- △ information may be incomplete or inaccurate and not satisfactorily discharge Ministers' and agencies' accountability obligations; and
- △ agencies and Ministers do not ensure that their annual reports comply with reporting obligations specified by both the Parliament and Government.

▲ What Did We Do?

Timeliness of Tabling Annual Reports in Parliament

The tabling dates in Parliament for the 1997-98 annual reports of 269 agencies were reviewed to identify reports which were not tabled within the timeframes specified by the *FAAA*.

A sample of 46 of the reports were also reviewed to ascertain whether:

- △ the published financial statements and performance indicators were the same as those audited; and
- △ the report on operations included the matters required by the Treasurer's Instructions, other legislation and government directives.

The sample was chosen to be representative of the public sector and included varying sizes of departments (14), statutory authorities (22) and health services (10) from both the metropolitan and country regions of the State.

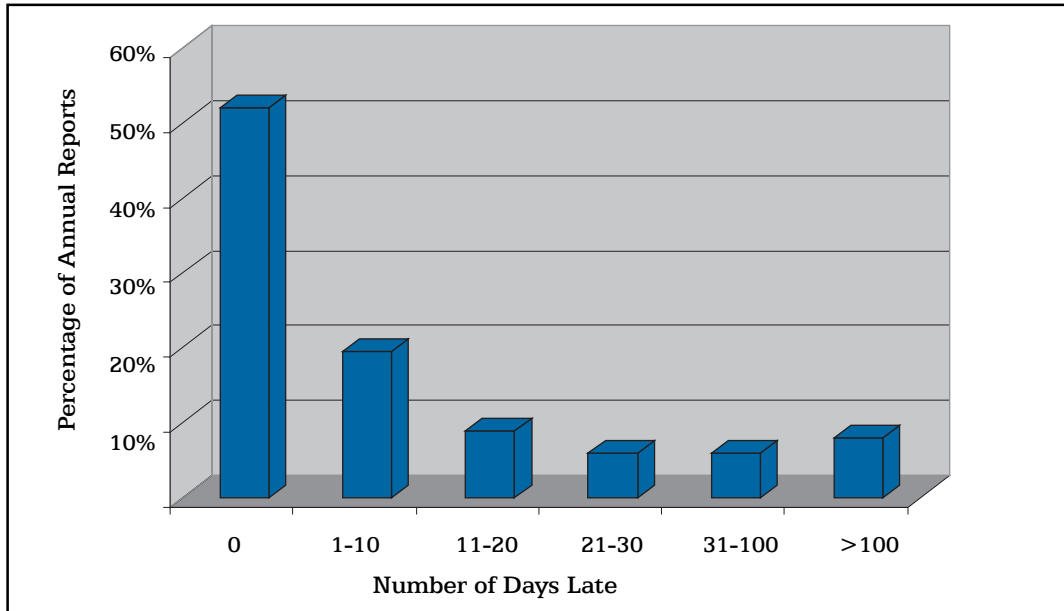
▲ What Did We Find?

Timeliness of Tabling Annual Reports in Parliament

The *FAAA* requires Ministers to cause agencies annual reports *'to be laid before both Houses of Parliament within 21 days of receiving the Auditor General's opinion'*. If Parliament is not sitting within or on the expiration of the 21 day period the *FAAA* requires Ministers to forward annual reports to the Clerks of the Legislative Council and the Legislative Assembly. The reports are then *'declared to be have laid before both Houses of Parliament'* (in effect 'tabled') and are available to the public.

The tabling dates of 269 agencies' 1997-98 annual reports were reviewed. Twelve agencies reports had not been tabled at the time of this review (May 31, 1999). All but one of these agencies have since tabled their reports subsequent to follow up by the Ministry of the Premier and Cabinet.

Only 52 per cent of annual reports had been tabled within the statutory timeframe. The timeliness of tabling of annual reports is summarised in Figure 1 (page 43).



Source: OAG

Figure 1: Timeliness of tabling 1997-98 annual reports in Parliament

Around 48 per cent of agencies annual reports were not tabled by due dates with 20 per cent being over 20 days late.

Publication of the Audited Financial Statements and Performance Indicators

From the sample of 46 annual reports reviewed there were variations between the published and audited financial statements (for eight agencies) and performance indicators (for seven agencies). The degree of variation between the published and audited versions ranged from relatively insignificant printing errors and presentation changes to omissions of essential audited information. The more significant variations were:

- △ inclusion of changed numbers in financial statements and performance indicators;
- △ inclusion of additional unaudited data in notes to financial statements and performance indicators;
- △ omission of audited notes to financial statements and performance indicators; and
- △ changed graphical presentations of audited performance indicators.

Report on Operations

The sample of 46 agencies' reports on operations were reviewed to ascertain whether matters required to be disclosed by the Treasurer's Instructions, other legislation and government directives had been included. Other legislation disclosures mainly relate to the *Public Sector Management Act*, *Electoral Act* and *Disability Services Act*, while government directives relate to information on customer focus achievements and the Year 2000 Date Problem.

Non-disclosures identified are summarised in Table 1.

Disclosure Type	Number of Agencies			Total	Percentage of Sample
	Departments	Statutory Authorities	Health Services		
Staffing policies	3	7	-	10	21
Employee categories	2	7	-	9	19
Pricing Policies	1	7	-	8	17
Organisation Chart and activities/responsibilities of divisions	-	5	2	7	15
Estimates	N/A	3	4	7	21
Industrial relations	1	6	-	7	15
Workers' compensation	3	4	-	7	15
Capital Projects	2	4	-	6	13
Names and responsibilities of senior officers	-	4	-	4	8
Mission, outcomes and objectives	-	1	-	1	2
Summary of significant operations	-	-	1	1	2

Source: OAG

Table 1: Extent of non-disclosure of matters required to be disclosed by the Treasurer's Instructions. (Individual agencies are listed at the end of this section)

Compliance with Treasurer's Instruction disclosure requirements was relatively good across the 46 agencies reviewed.

The extent of specific non-disclosures in the sample ranged between 2 and 21 per cent. Reasons for these non-disclosures included:

- △ difficulties in understanding the Treasurer's Instruction; and
- △ agencies questioning the relevance of mandatory disclosures and failing to disclose.

Compliance by agencies with the disclosures required by other legislation and government directives is shown in Table 2.

Disclosure	Number of Agencies			Total	Percentage of Sample
	Departments	Statutory Authorities	Health Services		
Acts					
<i>Disability Services</i>	2	4	-	6	13
<i>Electoral</i>	3	11	1	15	32
<i>Public Sector Management</i>	-	-	-	-	-
Government Directives					
Customer focus achievements	8	8	9	25	54
Year 2000 Date	2	6	2	10	22

Source: OAG

Table 2: Extent of non-disclosure of matters required by other legislation and government directives

Non-disclosure of other matters ranged from 13 to 54 per cent and was largely attributed to agencies not being aware of reporting obligations.

▲ What Does This Mean?

The delays in tabling 48 per cent of annual reports past the statutory timeframe specified in the *FAAA* means that both Parliament and the public are not being provided with information on agency performance in the timeframe set by legislation. This reduces the usefulness of the information and delays the discharge of accountability obligations of agencies and their Ministers to the Parliament.

Editing and amending audited financial and performance information which is to be included in annual reports may affect the reliability of this information. Users may be misled as to the accuracy and completeness of the information.

Non-disclosure of mandatory information raises concerns as to why the information was excluded and may affect users' confidence in the accuracy and completeness of reports.

▲ What Should Be Done?

- △ Treasurer's Instruction 903 should be reviewed and amended to provide clearer guidance to agencies on what should be included in the report on operations including matters required by other legislation and government directives.
- △ The Ministry of the Premier and Cabinet should develop a checklist to assist agencies in complying with their annual reporting obligations.
- △ Agencies should ensure that financial statements and performance indicators included in the annual report are identical to those audited.
- △ Monitoring procedures should be implemented to ensure all annual reports are laid before the Parliament within the statutory timeframe.

▲ What Has Been Done?

- △ The Premier issued a Circular to Ministers (No. 15/99) on July 19, 1999 clarifying the timeframe for tabling reports in Parliament and the respective obligations of agencies and Ministers.
- △ In recognition of the wide range of public sector reporting requirements that currently exist, the Reporting Management and Information Group (RMIG), under the direction of the Government Management Committee of Cabinet, have developed an Internet web-site (www.reporting.wa.gov.au) to assist agencies in meeting their reporting obligations. In May 1999 an Annual Report Framework was added to the site to provide guidelines on annual reporting and a checklist of obligatory annual report requirements.

Exceptions and Non-Disclosures Identified in the Sample of 46 Agencies' Annual Reports

Agency	Exceptions		Non-Disclosures	
	Number	Type	Number	Type
Aboriginal Affairs Department	0	-	1	S
Albany Health Service	0	-	0	-
Albany Port Authority	2	A,E	1	T
Beverley District Hospital Board	0	-	2	T,U
Bruce Rock Memorial Hospital Board	0	-	2	T,U
Bunbury Port Authority	1	E	5	J,K,R,T,U
Burswood Park Board	1	E	2	J,S
Collie Health Service	1	E	4	G,I,L,U
Commissioner of Main Roads	1	E	6	G,K,N,O,P,U
Dampier Port Authority	0	-	3	R,T,U
Department of Land Administration	0	-	0	-
Department of Local Government	1	E	5	M,N,O,T,U
Department of Productivity and Labour Relations	1	A	1	P
Department of Resources Development	1	B	1	U
Department of Transport	0	-	2	J,K
Esperance Health Service	1	E	2	L,U
Gaming Commission of Western Australia	1	E	1	J
Gascoyne Health Service	0	-	2	L,U
Geraldton Health Service	0	-	1	U
Health Department of Western Australia	1	B	4	P,R,S,U
Kalgoorlie-Boulder Health Service	0	-	2	L,U
Lotteries Commission	0	-	2	N,O
Metropolitan Cemeteries Board	3	A,B,C	7	G,H,L,M,N,P,U
Metropolitan Health Service Board	4	A,B,D,E	2	R,U
Ministry of Fair Trading	3	A,C,D	1	U
Ministry of Justice	0	-	1	U
Office of Energy	0	-	1	U
Office of Health Review	1	A	6	G,H,R,S,T,U
Office of Water Regulation	0	-	3	M,N,P
Peel Development Commission	1	E	1	R
Perth Market Authority	1	E	2	O,R
Pilbara Development Commission	1	E	1	F
Police Service	0	-	2	R,U
Public Trustee	1	B	2	G,R
Rottneest Island Authority	2	A,E	3	H,J,K
Small Business Development Corporation	0	-	0	-
The State Housing Commission	1	E	5	J,K,L,M,R
The National Trust of Australia (W.A.)	1	E	8	G,H,M,N,O,R,T,U
The Western Australian Government Railways Commission	2	B,E	7	L,M,N,O,P,R,S
Valuer General's Office	3	C,D,E	1	K
Western Australian Land Authority	2	A,E	2	M,T
Western Australian Sports Centre Trust	0	-	5	J,M,N,R,U
Western Australian Tourism Commission	2	B,E	0	-
Western Australian Treasury Corporation	1	E	8	J,M,N,O,P,R,S,U
Western Health Service	0	-	2	G,U
Worksafe Western Australia	0	-	4	N,R,T,U

KEY

EXCEPTIONS

- A Published financial statements differed from the audited financial statements
- B Published performance indicators differed from the audited performance indicators
- C Dates on financial statement certification differed or were omitted from the audited certification
- D Dates on performance indicator certification differed or were omitted from the audited certification
- E Statement of Compliance was not in accordance with Treasurer's Instruction 902

NON-DISCLOSURES

- F Agency's mission, government desired outcomes and broad objectives
- G Organisational chart, incorporating a summary of the agency's activities and responsibilities
- H Names and responsibilities of the agency's senior officers
- I Narrative summary of the agency's significant operations together with financial and quantitative information
- J Pricing policies for outputs provided
- K Major capital projects
- L Approved annual estimates for the proceeding financial year for agencies not which do not operate as Divisions of the Consolidated Fund
- M Summary of the agency's employees by category, in comparison with the immediately preceding financial year
- N Staffing policies, including recruitment and staff development
- O Industrial relations
- P Workers' compensation claims, the prevention of occupational injuries and illnesses and the rehabilitation of injured and sick employees
- Q Compliance with public sector standards and codes of ethics
- R Electoral Act expenditure disclosures
- S Progress of the disability services plan
- T Progress against the Year 2000 risk management plan
- U Customer focus achievements

HEALTH SERVICES AND HOSPITALS: REPORTING OF MORBIDITY DATA IN PERFORMANCE INDICATORS

▲ Background

Health services and hospitals report a range of effectiveness and efficiency indicators to Parliament covering various aspects of the sector's performance. These indicators come from a core set of indicators developed by the health sector's Key Performance Indicator Working Party (KPIWP) which has been established as part of a three-year strategy to improve and refine the reporting of health service delivery performance. Health services and hospitals have been clustered into groups according to size and/or type of services provided, with each group reporting a minimum set of indicators drawn from this core set.

The Health Department of Western Australia's (HDWA) hospital morbidity data system (HMDS) is a major system for recording hospital inpatient activity in public and private hospitals. The system has two major purposes:

- △ it provides management information for the health sector, which is a major input into health planning, purchasing and funding decisions. This information is also used for the reporting of performance information, including key efficiency and effectiveness performance indicators for public sector health agencies; and
- △ it provides information used as a basis for medical research.

Data from this system was used in 17 of the 43 standard performance indicators used in 1998-99. These indicators are subject to audit with the audit opinion taking into account the phased development of the health sector's performance indicators.

The major source of input to HMDS is information that was previously recorded on the Hospital Inpatient Summary Form. This information is input to HMDS mainly via other feeder systems. The information is very detailed and requires a high degree of coding skill and clinical judgement at the hospitals. Over 500 000 separations are processed annually from both public and private hospitals. The data is input either on line at hospitals or by the HDWA. Some data checking for accuracy and completeness is done at the HDWA, however accuracy of the data is largely dependent on the ability of the coders who complete the forms at the hospital.

▲ What is the Potential Risk?

There are two major risks:

- △ the data may be incomplete or inaccurate; and
- △ the data may be inappropriate for the purpose it is being used.

This can lead to reporting inaccurate or inappropriate performance indicators that may affect the monitoring and assessment of performance and the allocation of resources.

▲ What Did We Do?

The 1997-98 morbidity data provided from the HMDS for reporting in the performance indicators of the Health Services and Hospitals was reviewed for completeness and accuracy which involved:

- △ testing whether records of all relevant separations from hospitals in the financial year were included in the reported performance indicators; and
- △ testing the accuracy of data reported in individual performance indicators and other closely related records, which may affect these indicators.

The examination did not involve reviewing the clinical judgements made by doctors and hospital staff on which the coding of HMDS data is based. The HDWA undertake regular audits of medical records to verify the appropriateness of admission and correctness of the classification of diagnosis.

▲ What Did We Find?

Data from HMDS is used in a number of indicators measuring different aspects of the sector's performance. These include:

- △ efficiency indicators such as the average cost of treatment per hospital separation (adjusted for complexity);
- △ effectiveness indicators measuring the performance of hospital based services (eg unplanned hospital readmissions and survival rates for various types of conditions); and
- △ the effectiveness of community health strategies (eg such as the number of hospital admissions for certain conditions per health service population).

Completeness and Accuracy of Reported Indicators

In developing the current set of performance indicators, the health sector has made use of current systems, processes and information sources. These systems, such as HMDS, were not developed for the reporting of performance indicators and in consequence a number of issues were identified which need to be addressed.

Number of Separations

The HMDS data used in the 1997-98 performance indicators did not include around 15 750 or 4.5 per cent of the total number of separations from public hospitals for the year. This occurred because the indicators were based on data analysed before all records for the year were input to the system. The absence of records had varying effects on overall averages and individual indicators and is more significant at smaller and more remote hospitals because of the small number of separations involved and longer delays in processing data.

This affected a range of indicators as illustrated below:

- △ efficiency indicators which are based on costs per total number of adjusted separations for the year; and
- △ effectiveness indicators using hospital admissions as a proportion of health service population (eg hospital admissions for gastroenteritis, which did not include around 8 per cent of cases for 1997-98).

Effectiveness Indicators: Community Health Strategies

In addition to hospital based indicators which measure the effectiveness of services provided by hospitals, a range of population based indicators measuring the effectiveness of community health strategies, such as child health screening and health education, have been developed. For example, these indicators include measures such as the number of hospital admissions for various types of conditions (eg *gastroenteritis in children aged between 0 and 4 years per health service population*). They are based on the rationale that the number of cases will decrease as performance and quality of primary care or community health strategies in the health areas increases. Two issues were identified with these indicators as outlined below.

Completeness of Hospital Admissions

These population based indicators required both public and private hospital admissions to be included to accurately measure the performance of community health strategies. For the 1997-98 indicators, private hospital data was not used in one of the three population based indicators reported, while in 1998-99, the data initially supplied to health services and hospitals did not include any private hospital data. Following identification of this issue by Audit, HDWA provided amended data for reporting in 1998-99 performance indicators.

Non-Residents of Health Service Region

For population based indicators, hospital admissions by residents of the health service, regardless of which hospital(s) they attend, are used as an indirect measure of the effectiveness of community based health services and programs.

This is appropriate for cases such as tonsillectomies where the health region the patient resides is responsible for the community health strategies. However for other cases, such as gastroenteritis, inclusion of instances of disease that occur and are treated in other regions (for example during holidays) may not accurately report the performance of the health service's community health strategies.

While the number of this type of cases may not be significant in total it may affect the accuracy of reporting in some health services due to the small number of cases.

Additional Diagnosis

The HMDS records a principal diagnosis, which is the condition assessed to be chiefly responsible for the patient's admission to hospital, as well as additional diagnoses which are other conditions that may be identified. For example, a patient may be admitted to hospital for treatment of a broken leg (principal diagnosis) and also be diagnosed with asthma (additional diagnosis). In this case, asthma is recorded for information purposes and may not be treated as the condition is controlled.

Analysis of the data has shown that in all cases only the principal diagnosis was included. This may be appropriate for some indicators as outlined in the asthma example above. However, for other indicators it is considered that further diagnoses may also need to be included. How these records are classified may significantly affect the performance indicator and any assessment of performance. This is shown in the following examples:

- △ the indicator *Incidence of post-operative pulmonary embolism* reports the number of patients who develop a blood clot in the veins of the leg after an operation. This is the main preventable cause of death in fit people undergoing elective surgery and is used to demonstrate high quality care. For this indicator, the additional diagnosis would need to be included as the principal diagnosis would generally be the condition that was treated by the operation. For 1997-98, the percentage change in this indicator would have been 119 per cent if cases of pulmonary embolism recorded as additional diagnosis were included; and
- △ for indicators like *Hospital admissions for gastroenteritis*, it may be that the condition was not the principal diagnosis but was a major contributing factor to hospitalisation and should be considered for inclusion in the indicator. Inclusion of additional diagnosis of gastroenteritis in 1997-98 would have resulted in an overall increase of 18 per cent.

Other Issues

The examination also identified the following issues that affected the accuracy of specific indicators:

- △ the reports provided to hospitals for the indicator *Incidence of post-operative pulmonary embolism* contained a number of errors. For example, all surgical procedures undertaken at hospitals were included (totalling around 75 000) whereas the indicator should have been based only on procedures with a seven day post operative length of stay (11 200); and
- △ large variations occurred between health services for the indicator *Unplanned readmissions within 28 days to the same hospital for a related condition* due to inaccuracies in the coding for these admissions.

Coverage of Effectiveness Indicators

An analysis of the HMDS data used in those indicators reporting on the effectiveness of specific procedures in hospitals (eg survival rates for various types of conditions) showed that the data represents a small proportion of the overall separations from public hospitals. Around 6 per cent of total separations from public hospitals are reported in these indicators. These indicators are also complemented by other measures of care and good clinical practice (such as unplanned hospital readmissions and post-operative embolism).

The current sets of indicators are particularly useful in reporting on the general performance of larger hospitals, which undertake a range of different procedures and have a large patient base. However, these indicators may not be appropriate for smaller hospitals due to the nature of the patient base and the small number of cases for the procedures reported in the indicators which makes it difficult to assess performance. The current set of core indicators needs to be further developed to improve coverage and provide more meaningful information, especially for smaller hospitals.

▲ What Does This Mean?

Health services and hospitals have made significant progress over recent years in improving their performance indicators. However there are several matters and definitional issues in how the data in indicators is compiled and reported which can impact on the reporting of individual indicators.

▲ What Should Be Done?

As outlined in the next section, HDWA has taken a number of steps to resolve the issues identified in this report for the indicators reported in 1998-99. Other matters that need to be addressed are:

- △ Health services and hospitals should have procedures to ensure morbidity data used in the performance indicators is reviewed for accuracy and completeness. Where the data is materially incomplete due to the late input of records, hospitals and health services should request HDWA to provide reports at a later date which cover a reasonable number of hospital separations for the reporting period; and
- △ The Key Performance Indicator Working Party should:
 - ▲ review the coding and reporting of additional diagnosis against the rationale and objective of the indicator to determine which cases or procedures should be included;
 - ▲ develop guidelines (eg on the reporting of visitors and explanatory notes to the indicator) for residents treated in other health service regions for population based performance indicators; and
 - ▲ continue the development of indicators to provide more balanced and meaningful coverage, especially for smaller hospitals.

▲ What Has Been Done?

To improve the accuracy and completeness of 1998-99 HMDS data provided to health services and hospitals, HDWA has:

- △ changed the cut-off dates for reports from HMDS to ensure the number of separations reported in the indicators is reasonably complete;
- △ provided hospitals and health services with details of private hospital admissions for inclusion in the relevant indicators; and
- △ revised incorrect reports and required hospitals to review the data used in the *Unplanned readmissions* indicator for accuracy.

In addition, HDWA has initiated the following:

- △ A Technical Review Group established in 1998 reviewed the definitions of performance indicators including the indicator *Incidence of post-operative pulmonary embolism*. The 1998-99 KPI Manual set out where the additional diagnosis or procedures should be considered for production of a given performance indicator, based on the intent of the performance indicator and clinical advice. The KPIWP is currently reviewing performance indicators which posed problems during the 1998-99 annual reporting process, including a review of the coding and reporting of additional diagnosis against the rationale and objective of the indicators, to determine which cases or procedures should be included.
- △ The issue of ways to present population based indicators so that activity occurring outside the health service is quantified relative to internal activity will be referred to KPIWP.
- △ HDWA and KPIWP will continue to develop appropriate and meaningful performance indicators for each of the three intervention strategies reported by the health portfolio.

From the wide range of information that the HDWA collects about the health of Western Australians and the public health system, the further development of performance measures and key indicators is now based on the following criteria drawn from national and international experience:

- ▲ consistency with the objectives of the health system;
- ▲ focus on areas needing improvement;
- ▲ national, international or other benchmark measures;
- ▲ a mix of short and longer term measures;
- ▲ availability of data; and
- ▲ technical merit, including the validity and reliability of the measures.

In addition, KPIWP Working Groups will continue to develop appropriate and meaningful indicators for small hospitals.

FOLLOW-UP PERFORMANCE EXAMINATIONS

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

Follow-up examinations have been undertaken of two reports tabled in Parliament during 1997 to assess any changes in performance and practices. The approach taken was to gather information from document analysis, observations and interviews with agency staff involved and key stakeholders.



ON DISPLAY – PUBLIC EXHIBITIONS AT: THE PERTH ZOO, THE WA MUSEUM AND THE ART GALLERY OF WA

(Initial Report Tabled April 9, 1997, No 1)

▲ Overview

- △ *After several years of decline the number of people visiting the Zoo, Museum and Art Gallery is increasing.*
- △ *Access has been improved by increasing opening hours at both the Zoo and Museum and via the Internet for all three agencies.*
- △ *Each of the agencies is developing alternative sources of income to increase self-sufficiency.*
- △ *The Museum and Art Gallery have not yet prepared marketing plans based on market research of their visitors and potential visitors.*
- △ *The State Government has established an Indemnity Scheme to reduce the insurance costs of bringing touring exhibitions to Western Australia.*

▲ Background

The Perth Zoo (the Zoo), the WA Museum (the Museum), and the Art Gallery of WA (the Gallery) are the major State-funded cultural venues in Western Australia. From a variety of sites throughout the State, they preserve and promote the State's cultural and natural heritage.

These agencies are multi-faceted: each has conservation, research, education, and exhibition roles and each competes in the highly competitive leisure market. This competition is for patronage and the recreation dollar.

The 1997 Report on Public Exhibitions at the Zoo, Museum and Gallery found:

- △ Visitor numbers fell for each agency between 1992 and 1996.
- △ Neither the Museum nor the Gallery knew enough about their potential visitors to accurately assess the reasons for the decline.
- △ Traditional opening hours may no longer suit potential visitors.
- △ Each of the agencies was heavily dependent on the State Government for funding.
- △ High insurance costs were an obstacle in displaying overseas and interstate exhibitions in Western Australia.

▲ Findings

Since the 1997 report the agencies have all made progress towards increasing the public's use of, and access to their exhibitions, often involving quite innovative means.

For example, in response to the lack of overseas exhibitions visiting Western Australia, the Museum extended its role to attract such exhibitions to Western Australia by organising tours of overseas exhibitions to Australian and New Zealand venues. The first, in 1998, was the successful *Life and Death under the Pharaohs* exhibition, followed by *Ancient Lives: The Greeks, Romans, and Etruscans*. Both exhibitions originated from the Netherlands.

Ministry for Culture and the Arts

A significant change in the operating environment for the Gallery and the Museum has been the establishment, in 1997, of the Ministry for Culture and the Arts (the Ministry). The Ministry was created as a central body for the Arts. Currently it provides human resource and finance support functions and is commencing a marketing function across the Arts portfolio.

Proposed legislation¹ is intended to enable the Ministry to provide leadership, support and services to the Arts community, and seeks to bring together under one umbrella:

- △ The Art Gallery of WA;
- △ The WA Museum;
- △ The Library and Information Service of WA;
- △ Screen West;
- △ Arts WA; and
- △ The WA Theatre Trust.

The legislation, if passed as proposed, will see the Minister for the Arts established as a body corporate with legal responsibility for these agencies.

Visitor Numbers

From 1995 the trend of declining visitor numbers has been turned around (Figure 1). Although there have been occasional fluctuations, the number of people visiting these cultural venues has been increasing. This is the result of a pro-active, multi-pronged approach by the agencies.

As important though is the agencies' improved awareness of the reasons for fluctuations in visitor numbers. Through better understanding of their customers, the agencies are able to determine the activities likely to attract audiences as well as the conditions that deter visitors.

For example, the Museum is aware that visitor numbers fell in 1998-99 because of the lack of a major attraction (in the previous year *The Pharaohs* was exhibited) and because of the closure of several major exhibition halls for renovation. Numbers are therefore expected to pick up in the coming year with the re-opening of the Aboriginal and Dinosaur galleries as well as the arrival of the *Ancient Lives* exhibition early next year.

¹ The *Culture, Libraries and Arts Bill* was introduced into Parliament in October 1998

Similarly the Zoo is aware that visitor numbers fell in 1998 because of the lack of a major summer attraction. In the previous year, 1997, the dinosaurs of *Zoorassic Park* were exhibited at the Zoo. They returned in 1999, after a year's break, and this is reflected in the visitor numbers.

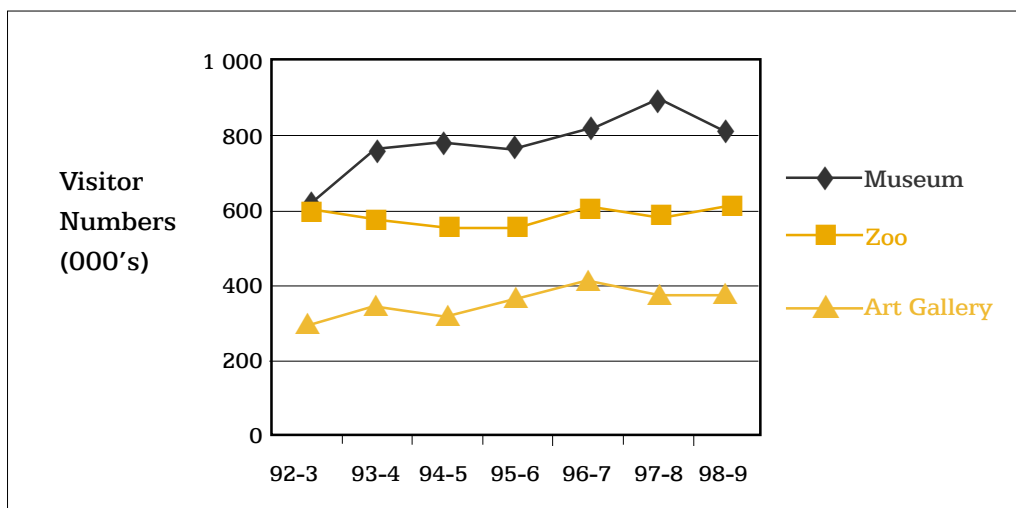


Figure 1: Visitor Numbers

Source: Zoo, Museum, and Gallery

The trend is for increasing visitor numbers at each of the cultural venues after low points in 1994-95 or 1995-96.

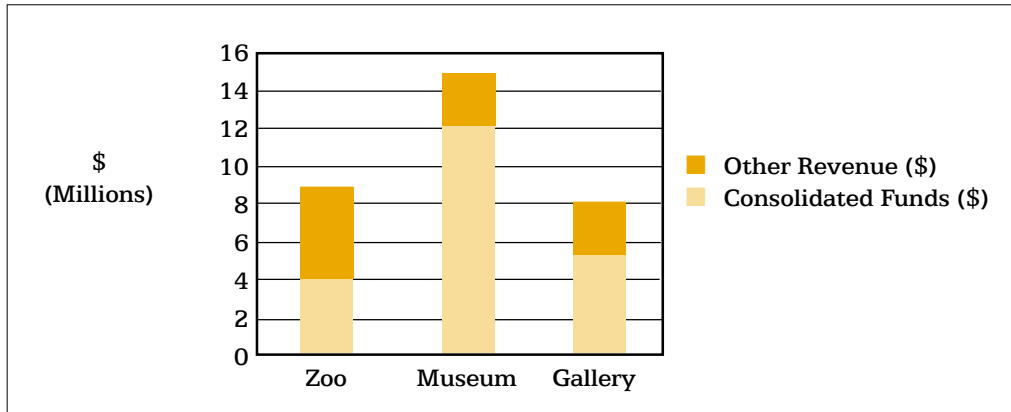
Alternative Funding Sources

The 1997 report recommended that the Museum and Gallery should set specific targets to improve their financial self-sufficiency. The Zoo had already established targets and national benchmarks and was working towards achieving them.

Funding self-sufficiency targets have not been set by either the Museum or Gallery although targets are set to raise funds to improve the quality and range of services via capital projects.

The Zoo's targets, set in 1995, are now being questioned because of the potential for imbalance between the Zoo's community responsibility (to conserve, educate, research and exhibit) and its commercial objectives.

Historically, each of these agencies has been dependent on Government funding. This is at least partly a consequence of community service obligations including conservation, research and education roles. The need for this support is ongoing. Existing proportions of Government funding compared with total funding are shown in Figure 2 (page 58).



Source: Zoo, Museum, and Gallery

Figure 2: The proportion of State Government funding (from Consolidated Funds) compared with Other Revenue 1997-982

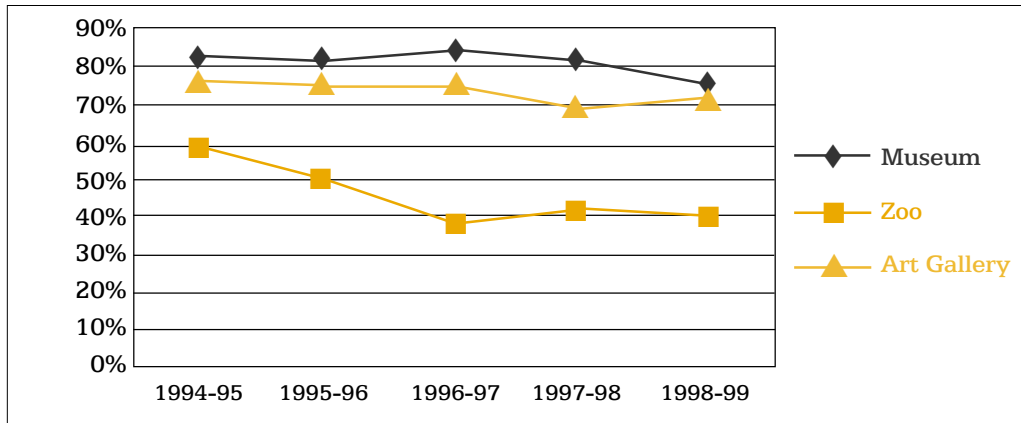
The Museum and the Gallery receive around three-quarters of their funding from the Government.

One way of increasing income is to raise prices, in the case of the agencies via admission charges. The Museum's and Gallery's community service obligations has resulted in them being reluctant to introduce general admission fees for fear of creating barriers to visit. Therefore entrance fees are only charged to cover the costs of special or touring exhibitions. The Zoo charges a general admission fee which has risen from \$9 for an adult in 1997 to \$11 per adult in 1999. Entrance fees are also charged for special events. Visitor numbers have not declined as a result of the increase. Any increase in admission charges at the Zoo requires Government approval.

In addressing these issues each of the agencies has sought to increase the activities of the separate fundraising bodies established to raise sponsorship and other funds for special projects. For example the Art Gallery Foundation has recently launched its campaign to raise \$16 million for the *Living Centre for Australia and the Indian Ocean Rim*, to be built on the Gallery's site in the Perth Cultural Centre. The Museum Foundation is working towards raising \$5 million for capital projects.

Among other projects, the Perth Zoo Society has been raising funds for the *Mate for Memphis* rhinoceros appeal. This appeal has raised \$82 028 over two years and the two new rhinoceroses are expected to arrive at the Zoo in October. Other sources of income such as Zoo concerts and functions are providing additional funds.

Agencies are making progress towards developing alternative sources of funding although there are no specified targets on the proportion of Government to 'Other Funding' income. The agencies' rate of progress is shown in Figure 3 (page 59).



Source: Zoo, Museum, and Gallery

Figure 3: The percentage of Government funding to total revenue.
The trend shows a decreasing reliance on Government funding.

The Zoo, in particular, has increased its other sources of funding, providing an opportunity to reduce its financial dependence on the Government. In 1994-95 nearly 60 per cent of its funding was from the Government; in 1997-98, around 40 per cent.

Understanding visitor needs

The needs and expectations of current and potential visitors must be understood to ensure relevant and appropriate activities and exhibitions are developed and provided.

The Museum and Gallery have not developed specific marketing plans. They survey visitors and use the information to plan future exhibitions but the cost of obtaining research on potential visitors is considered prohibitive. The Ministry has commissioned the Australian Bureau of Statistics to provide information about the Arts from data collected during the last Census and from other research. This should provide useful preliminary information to the Arts industry about potential visitors and will assist both the Gallery and Museum in preparing marketing plans.

The Zoo continues to demonstrate a thorough understanding of actual and potential visitors. It surveys both its visitors and potential visitors annually to obtain comprehensive market research. This information is used to plan and improve activities, details of which are then incorporated into the Marketing Plan and the overall business plan.

Public Access

The extent of public access is influenced by opening hours. The 1997 report concluded that traditional opening hours may no longer suit visitors.

While its opening hours have remained at 9am to 5pm daily, the Zoo now opens in the evenings for special events including the Alinta Creatures in the Night (where over the summer, visitors can view the animals at night), Zoo Twilight concerts (held in February and March), Zosnoozees, and for special-purpose functions.

The Museum's main Perth site in Francis Street has traditionally been open from 10.30am until 5pm Sunday to Friday and from 1pm until 5pm on Saturdays. From July 1999, the Museum has been open from 9.30am to 5pm daily, an increase of 9 1/2 hours each week. These new opening hours bring the Museum in line with other States and is the direct result of a change in the cleaning contract. Until July this year, cleaning was performed by Museum attendants. The contract has now been let to external cleaners and the attendants will be trained as Museum guides. The need for Museum guides was highlighted by visitor research.

The Gallery continues to open from 10am to 5pm daily. It monitors the use of its facilities as well as visitor feedback but does not consider immediate changes to opening hours necessary.

Access is now also provided outside opening hours by each of the agencies through the Internet.

At the time of the 1997 report, only the Museum and Gallery had Internet sites. The Zoo established its Internet website later in 1997.

The Internet provides a window into the agencies at the convenience of the visitor or user. Information is available regarding the nature of exhibits. Visitors via the Internet are as valid and valuable as physical visitors. Information about the numbers of visitors and the types of information they seek is invaluable in determining the cost/benefit of the site and the most sought after or popular types of information.

The Zoo provides a comprehensive website which is regularly updated. Visitor enquiries are frequently directed to the site, providing another dimension to its visitor services. Although the Museum has an extensive site, it is not effectively managed. For example, the Museum's information page was last updated eight months ago. The Museum's website provided an opportunity to advise potential visitors of its increased opening hours yet two months after the event, the old opening hours were still listed on the website. The Gallery operates an extensive site but it can be difficult to access.

The website's visitor counting facility provides information about the number of visitors and their interests. The Zoo's and the Museum's sites have visitor counters and that data is collected and analysed. The Gallery's site does not have a similar facility.

All of the agencies have made greater use of technology in their exhibits. For example, the Museum's Discovery Centre, which opened in 1997, provides three computers with CD-Rom and the Internet for visitors to learn more about a large range of topics.

A major deterrent in bringing visiting exhibitions to Western Australia has been the high insurance costs. The 1997 report recommended that the State establish a Government Indemnity Scheme. The State Government established an indemnity insurance scheme later that year. The scheme was first utilised by the Gallery for the *Golden Age of Dutch Art* exhibition, reducing the Gallery's insurance costs by more than \$150 000.

WAITING FOR JUSTICE - BAIL AND PRISONERS IN REMAND

(Initial Report Tabled October 1997, No 6)

▲ Overview

- △ *Significant reductions have occurred to the percentage of defendants who breach bail and to the time then taken to reapprehend these defendants.*
- △ *Proposed amendments to the Bail Act 1982 arising from reviews of bail that commenced in 1989, are now before the Parliament.*
- △ *The new Canning Vale prison complex is expected to have sufficient capacity to meet remand accommodation until at least July 2001.*
- △ *Suicide attempts in remand have fallen but incidents of self harm and assault have risen.*

▲ Background

When an individual is arrested and charged with committing an offence, there is invariably a delay before a court deals with the case. Depending upon the plea, the nature of the charge, the complexity of the case and availability of a court, the delay may vary from a few days to several months and in exceptional circumstances, even years. During this time, a defendant may be granted bail or detained in prison.

Bail is a defendant's undertaking to attend the court when it hears the case. If the defendant fails to attend, justice is delayed, the court is inconvenienced, and police resources are required to reapprehend the defendant.

Defendants not granted bail or unable to meet the requirements of bail are generally remanded to prison¹ until their court hearing. Remand prisoners represent a significant proportion of the total prison population. As at 30 June 1999, 13 per cent (398) of the prison population in Western Australia were remand prisoners. This represents a 23 per cent increase since completion of the original performance examination in June 1997.

The 1997 report raised a number of concerns about bail and remand procedures in Western Australia:

¹ Small use made of Home Detention Bail, Community Bail or Court Diversion Services for defendants with alcohol or drug dependency.

Bail

- △ Twenty per cent of defendants breached bail of whom 20 per cent remained at large after one year.
- △ Fifty three per cent of those who breached bail were not charged for that offence. For those that were charged, forfeiture of defendant and surety bail amounts often did not occur because of inconsistent administrative practices.
- △ Eighty seven per cent of fines for breach of bail remained unpaid after eight months.
- △ Legislative amendments to the *Bail Act 1982* arising from reviews of the operation of bail have been long delayed.

Remand

- △ The increase in remand prisoner numbers was causing pressure on a prison system already close to its capacity.
- △ Many low-security remand prisoners were detained in maximum-security. This was inconsistent with the Standard Guidelines for Corrections in Australia and had a cost implication because of the higher cost of holding prisoners in maximum-security.
- △ Improving the facilitation of bail had the potential to reduce the number of remand prisoners as many were unable to quickly arrange bail or to find a person to act as surety even when the amount was small.
- △ Incidents of suicide and attempted suicide, self-harm and assault were relatively common in remand.

▲ Findings

Bail

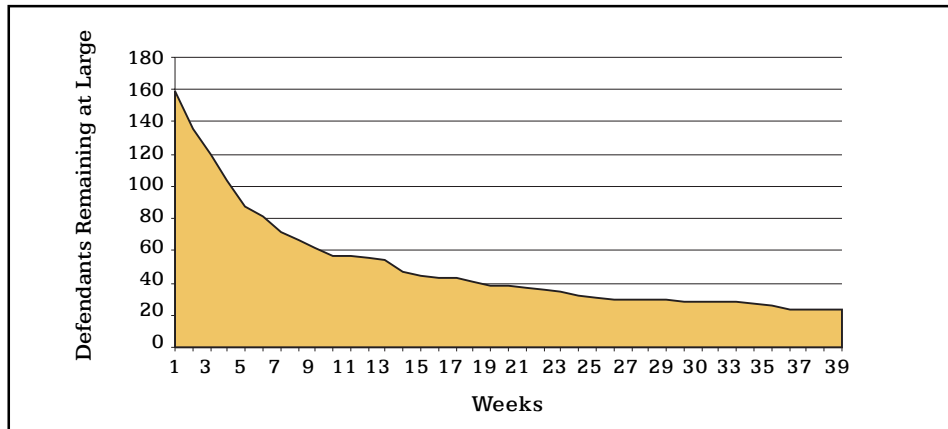
Bail Breach Rate

During 1998, 9910 people were arrested and granted bail. Of these, 15.5 per cent failed to attend their scheduled court hearing, a considerable improvement on the 20 per cent breach rate found during the original examination. Factors considered by the Ministry of Justice (MOJ) to have contributed to this improvement include:

- △ more effective use by Magistrates of the available bail conditions; and
- △ better information provided by the Court to defendants regarding their rights and responsibilities.

Time taken to reappear

The 1997 examination found that 40 per cent of defendants who breached bail were reapprehended within four weeks, but that 20 per cent were still at large after one year. This situation has improved. Of the defendants who breached bail in June 1998, 55 per cent were reapprehended within four weeks and 15 per cent remained at large after one year.



Source: Perth Court Administration

Figure 1: Time taken for defendants breaching bail to reappear in court

Fifty five per cent of defendants who breached bail in June 1998 were reapprehended within four weeks. Fifteen per cent remained at large after one year.

Failure to charge

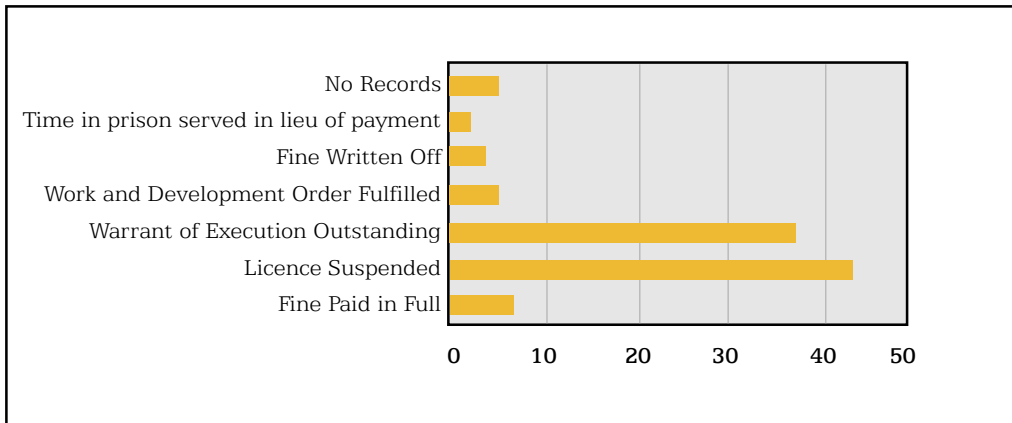
Defendants who breach bail are liable for a \$3 000 fine or three years imprisonment or both. Bail amounts may also be forfeited.

The 1997 examination found that 53 per cent of persons reapprehended after breaching bail were not charged for the bail offence, thereby potentially compromising the deterrent effect of the bail system. This percentage remains unchanged. However, the Perth Court Administration (PCA) believes that this situation will improve if the proposed changes to the *Bail Act*, scheduled for this year’s spring sittings of Parliament are enacted. Currently, police are responsible for initiating charges for breach of bail but may exercise discretion in doing so. A proposed amendment to the Act will require the Clerk of the Court to initiate these proceedings.

Fines and forfeiture

The 1997 examination observed that actual penalties imposed for breach of bail varied from a \$20 fine to six months imprisonment, with fines imposed in 83 per cent of cases. Only seven per cent of fines were paid within the required time limit and 87 per cent remained unpaid after eight months.

This situation has not improved. Of the fines imposed for breach of bail in June 1998, just seven per cent were paid in full by June 1999. Forty-four per cent of persons who had not paid their fine had their drivers license suspended under the fines enforcement system while warrants of execution had been issued to recover goods to the value of the fine in 37 per cent of cases.



Source: Fines Enforcement Registry

Figure 2: Outcomes of fines for breach of bail issued in June 1998

Only a small percentage of fines for breach of bail are paid in full.

In May 1999, MOJ entered into a new contract for the execution of warrants with the authorised officers of the contractor given three options for fulfilling the warrant:

- △ negotiate time to pay;
- △ seizure of goods; and
- △ work and development orders, where the defendant repays the fine in community work at a rate of \$150 per six hours.

In addition to being fined or imprisoned, persons who breach bail are also subject to forfeiture of any set bail amount. The 1997 examination found that in 77 per cent of instances where a defendant was convicted of breach of bail in the Perth Magistrate's Court, the Magistrate was not advised that a bail amount was involved and therefore was not in a position to consider ordering forfeiture. This situation has not changed. Despite procedures implemented by the PCA to ensure that appropriate information is available, 80 per cent of such cases still fail to result in forfeiture of the bail amount.

However, if proposed amendments to the *Bail Act* are enacted, the number of offences that can be the subject of payment of up-front bail will be increased. The Clerk of the Court will also be required to seek a forfeiture order when appropriate. The PCA expects that these changes will increase the forfeiture rate.

The 1997 examination also observed that 26 per cent of requests for forfeiture of surety bail were withdrawn. Reasons included:

- △ errors in bail documentation;
- △ failure to charge for breach of bail; and
- △ the defendant was in custody on another matter at the time of the scheduled court appearance.

The PCA anticipates that the proposed amendments to the *Bail Act* will address the first two reasons by enabling Court documents to be simplified and by requiring the Clerk of the Court to initiate charges for breach of bail. In the third instance, the PCA anticipates that a computerised case management system currently being developed will eventually inform the Court of the custodial status of all defendants, thereby avoiding a breach of bail proceeding and need for surety withdrawal.

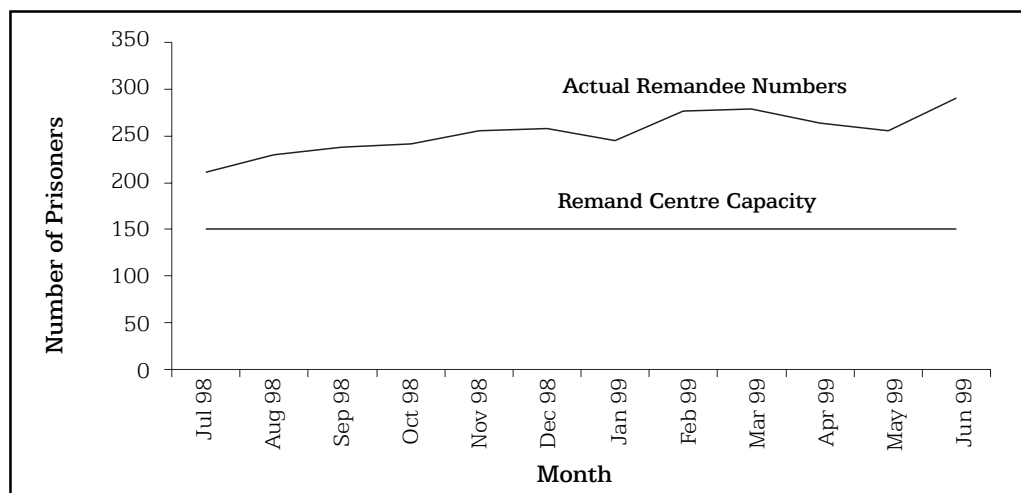
▲ Remand

Remand Prisoner Accommodation

The alternative to granting bail is to detain defendants in custody, consequences of which include:

- △ an impact on the defendant’s capacity to discharge family and community responsibilities;
- △ a need for prison accommodation and associated costs; and
- △ a duty of care to the defendant whilst in custody.

Male metropolitan remand prisoners are normally held in the maximum-security CW Campbell Remand Centre located adjacent to Canning Vale Prison. However, in recent years the number of metropolitan remand prisoners has far exceeded the Centre’s standard capacity of 151 and peak capacity of 177. As at July 1, 1999, 288 remand prisoners were accommodated in the metropolitan area with overflow from the Centre accommodated in Canning Vale and Casuarina Prisons.



Source: Ministry of Justice

Figure 3: Male remand prisoner shortfall in the metropolitan area

Remand prisoner numbers far exceeds the capacity of the Remand Centre.

However the capacity of other prisons to accommodate remand prisoners is limited. Indeed, the 3.5 per cent spare prison system capacity that existed at the time of the original examination is no longer available (see Table 1, page 66).

Prison	Standard Capacity	Peak Capacity	Prisoner Numbers	Spare Capacity 1-7-99	Spare Capacity 26-6-97
Bandyup/Nyandi	85	111	156	-45	-15
Total Female Metropolitan	85	111	156	-45	-15
Canning Vale	305	317	368	-51	-11
Casuarina	360	521	629	-129	-25
CW Campbell	147	177	237	-60	-5
Wooroloo	164	169	201	-32	-30
Riverbank	50	53	59	-6	-
Total Male Metropolitan	1026	1237	1494	-278	-71
Albany	186	217	223	-6	27
Broome	69	71	125	-54	-2
Bunbury	202	208	218	-10	14
Eastern Goldfields	103	105	103	2	9
Greenough	173	187	225	-38	2
Karnet	134	136	175	-39	3
Pardelup	66	72	69	3	13
Roebourne	141	147	211	-64	31
Total Country	1074	1143	1349	-206	97
TOTAL	2185	2491	2999	-529	81

Source: Ministry of Justice

Table 1: Prison Accommodation at July 1, 1999

The small amount of surplus capacity available in June 1997 no longer exists.

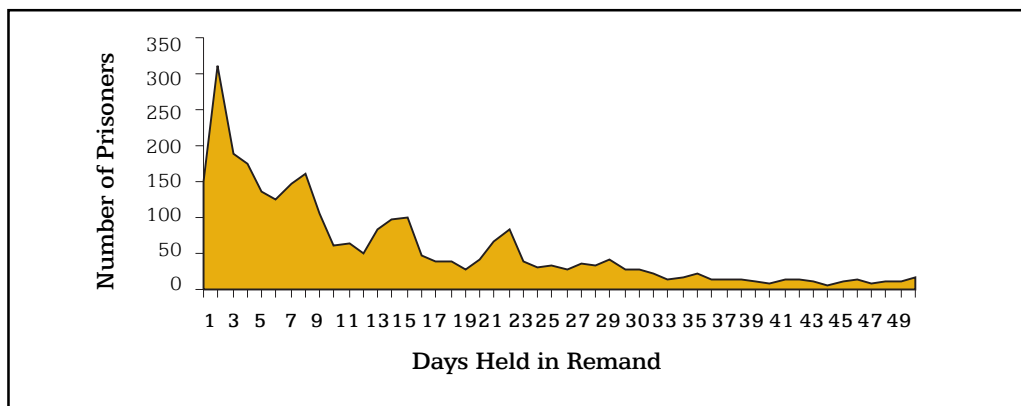
To address the shortfall in remand accommodation, work has commenced to transform the maximum-security Canning Vale Prison into a dedicated remand centre accommodating 295 prisoners. The existing Remand Centre will become an assessment centre for all metropolitan sentenced prisoners prior to being allocated to an appropriate prison. Completion of the work is scheduled for September 2000².

MOJ forecasts for the remand population suggest that the new centre should accommodate the predicted growth through to July 2001 though at times the capacity of the Centre will be marginally exceeded.

² The new remand and assessment centres are now titled the *Metropolitan Prison Complex - Canning Vale*, short name - Hakea.

Reducing remand prisoner numbers

In 1996-97, about 18 per cent of remand prisoners were found to be held in remand for less than two days. This has reduced to about 13 per cent in 1998-99, though more than one-third of remand prisoners were still held for less than a week (Figure 4).



Source: Ministry of Justice

Figure 4: Length of stay in remand

Thirteen per cent of remand prisoners were held for two days or less in 1998-99.

Many of these short-term stays occur because the defendant is unable to promptly arrange bail. To speed up bail arrangements, MOJ conducted a Bail Coordination Project in 1996-97 involving the temporary appointment of a Bail Coordinator to the Remand Centre. The project reduced demand on prison accommodation by almost 11 000 custody days, saving \$1.3 million.

The project found that the major reasons defendants were unable to arrange bail were:

- △ defendants not having legal representation at their first court appearance;
- △ failure to request bail;
- △ lawyers being insufficiently prepared for a bail application; and
- △ defendants' lack of understanding of the court processes, including their bail options; the outcome of their court appearance; or what would happen at their next court appearance.

A full time Bail Coordinator is now permanently located at the Remand Centre and MOJ is investigating the potential benefits of providing a second Bail Coordinator to assist defendants during the court process.

Prisoner risk

Prison life is not only difficult, it is potentially dangerous. Overcrowding, the relatively uncertain period of confinement and a lack of structured activity, including the opportunity to engage in meaningful work contributes to boredom, inactivity, and subsequent risk of suicide, self-harm and assault amongst remand prisoners.

In order to address the risk factors, MOJ has implemented a number of prevention strategies to identify, assess and treat at risk prisoners. Significant effort has been given to training prison officers to formally identify and monitor at risk behaviour. A more recent strategy has involved placing a television in each cell in the Remand Centre. MOJ has advised that this has reduced the number of calls for cell attendance by prison officers by more than 60 per cent.

These measures appear to have had an effect, at least in regard to suicide attempts. The 1997 report observed that 18 suicide attempts were made by remand prisoners between January 1, 1994 and March 31, 1997. Since that time five attempts were made in 1997-98 and two in 1998-99.

However, far less success has been achieved in reducing incidents of self-harm, with the number of incidents more than doubling in 1998-99 compared to the previous year. The incidence of assault has also gone up. In 1998-99, 20 assault charges were laid against prisoners in the Remand Centre compared to 16 in 1996-97.