

WITNESSES

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The Committee commenced at 9.08 a.m.

The CHAIRMAN: I declare open this public hearing of the Parliamentary Committee of Public Accounts. This public hearing is being held pursuant to the Public Accounts Committee Act 1988. We have convened this hearing today to hear evidence in relation to the Committee's inquiry into the implementation of the Public Finance Standards in the Queensland public sector. I would like to inform members of the media and the public that tape-recording of these proceedings is not permitted. On behalf of the Committee, I welcome the witnesses from the South East Queensland Water Board. Before commencing to give evidence, I am obliged to inform you that the proceedings here today are legal proceedings of the Legislative Assembly and that the Committee requires that your evidence be given on oath or affirmation.

JOHN JOSEPH MULHERON, sworn and examined:

JEFFEREY GEORGE WATSON, sworn and examined:

BRIAN HARTNETT, sworn and examined:

The CHAIRMAN: Mr Mulheron, to begin the proceedings, could you please state your full name, place of employment and the title of the position you hold?

Mr Mulheron: My full name is John Joseph Mulheron. I am the Chairperson of the South East Queensland Water Board, whose head office premises is at 41 Edward Street, Brisbane.

The CHAIRMAN: Mr Watson, could you please state your full name, place of employment and the title of the position you hold?

Mr Watson: Jefferey George Watson, South East Queensland Water Board. I hold the position of Secretary.

The CHAIRMAN: Mr Hartnett, could you state your full name, place of employment and the title of the position you hold?

Mr Hartnett: Brian Hartnett, Finance Manager of the South East Queensland Water Board.

The CHAIRMAN: By way of introduction, I will read a brief statement. The Parliamentary Committee of Public Accounts is an all-party Committee of the Queensland Parliament, whose purpose is to scrutinise and provoke reform of the financial administration of the public sector and to ensure that Executive Government is accountable to Parliament. The Committee conducts its business in accordance with the Public Accounts Committee Act and the Standing Rules and Orders of the Legislative Assembly relating to select committees.

The Committee is presently conducting an investigation into the implementation of the Public Finance Standards in departments and statutory bodies. These standards are issued under the Financial Administration and Audit Act and commenced operation on 1 July 1990. The Committee has a particular interest in the requirements of the standards relating to financial management practice manuals, position assessments, system appraisals, program management, internal audit and the move to general purpose financial reporting by business undertakings and statutory bodies. The use of private consultants in the implementation of the standards is also of interest to the Committee.

I inform you as witnesses that you are required here today to answer all questions relevant to the subject matter of this inquiry. The Committee would like you to answer its questions frankly and to provide it with an accurate and clear view of your organisation's position on the issues canvassed. Basically, either I or other members of our Committee will address questions to you, Mr Mulheron. You may feel free to hand over to Mr Watson or Mr Hartnett if it is in their area of particular knowledge or expertise.

Mr PEARCE: The first subject today is the financial management practice manuals. The Committee considers financial management practice manuals to be very important. They are to prescribe the practices and procedures, etc., to be followed by staff in the financial administration process in your organisation and are a key element of the overall financial management policy and principles upon which the Public Finance Standards are based. In your letter to the Committee, you stated that you expected that the board's manual would be updated and complete with respect to financial procedures by 30 June 1992. Could you tell the Committee what is the current position with respect to your manual? Is it now complete?

Mr Mulheron: Our financial management practice manual was being updated at the time when we wrote the letter to the Committee, that is, in April of this year, with a view to bringing it up to date with the practices then current at 30 June. Essentially, we did go a long way to completing that assignment at 30 June, but at 30 June, or 1 July, we looked to the financial practice manual to go beyond the system in operation last financial year, moving towards the systems that we want in place and completed by the end of this financial year. The financial practice manual is being constantly and progressively updated, taking into account our new direction for this year.

Mr PEARCE: And when do you expect that it will be completed?

Mr Mulheron: I might defer to our finance manager, Mr Hartnett, on that one.

Mr Hartnett: I would expect that it will be completed by 30 June next year. The reason I mention 30 June next year is that there are certain procedures which we need to implement to bring about full accrual accounting. There are decisions still to be made, for instance, on what depreciation rates to use, and what is the cut-off point for capitalisation. These are board decisions, and once these decisions are made, they can be incorporated in the accounting manual.

Mr PEARCE: Could you give us some sort of indication of what resources have been allocated to the task of preparing the manual?

Mr Hartnett: Essentially, in-house resources at this stage. It is something that we will have to review during the next financial year, as to whether we need to find other resources to bring it up to the standard that we are aiming for.

Mr PEARCE: Are you indicating there that you may be looking at using consultants to do it, or do you think that you can do it with your own staff?

Mr Hartnett: It would be preferable to do it with our own staff, because it is a very time-consuming process. It could be very expensive to have it done with an outside consultant. It would be better to get an outside consultant to do some other work to enable one of the board's employees to work on it full time, because it does require detailed knowledge of the systems and procedures.

Mr PEARCE: And the way you run your own organisation?

Mr Hartnett: Yes.

Mr PEARCE: Is the Board's practice manual readily accessible to all staff who could have a need to refer to it in the course of performing their duties?

Mr Mulheron: Yes.

Mr PEARCE: There are no problems there?

Mr Mulheron: No.

Mr PEARCE: From your letter I note that the board had an existing accounting manual which was to be used as a basis for preparing your practice manual. Could you tell us whether you have found it difficult in the past to maintain these types of manuals in an up-to-date state?

Mr Hartnett: I think it is a fairly common experience amongst all bodies that it is difficult to keep it up to date. It is only because of the resource problem. As to whether it should be a problem or not—I would not like to comment on that, but I just know from experience in various organisations that it does seem to be a problem in keeping accounting measures up to date, and it is something that really requires a conscious effort, a conscious allocation of resources.

Mr PEARCE: How important do you think it is to have a complete and up-to-date practice manual in your statutory body?

Mr Mulheron: I will answer that one. I believe that it is very, very, important.

Mr Hartnett: I table a copy of our accounting manual that we have prepared up to 30 June. It covers financial procedures for expenditure, revenue, payroll, fixed assets, and it will be expanded during the year to cover other aspects that are contained in the Public Finance Standards such as position assessments and, when we finalise our depreciation procedures, the full fixed asset procedures and various other matters contained in the Public Finance Standards.

Mr PEARCE: Could you just give us some indication of why you do think that it is important?

Mr Hartnett: I think that it is important because it gives you the opportunity to present the requirements which are in the Financial Administration and Audit Act, Public Finance Standards and our own Act in a readily readable form so that various staff can implement the procedures. They do not have to be accustomed to reading an Act of Parliament. Their requirements can be reduced to simple procedures so that virtually anybody can follow it.

Mr PEARCE: Following on from that, what do you intend to do to ensure that the board's practice manual is maintained in an up-to-date state in the future?

Mr Mulheron: I will answer that one. We will ensure that there are resources and if the resources are required from outside we will certainly get outside resources to work in with the board staff to make sure that we keep it up to currency. I think that it is important—in fact, it is dangerous—not to have a manual that is out of date when people are following some rules and procedures which are dated for various reasons. It is extremely important to keep the manual up to date. In some respects, notwithstanding Brian's comment, one can see advantages in getting an outside body to assist. If we are working on it ourselves, internally, we might know the answer as well as the questions altogether, whereas an outside body gives that almost second opinion. I think, as Brian says, it is important that internally there is someone with complete possession and knowledge of the manual. It is our manual; it is not someone else's. It is ours, it has to suit our style and our requirements, and the Government's requirements too, but it has to be familiar, and people in the organisation must feel familiar with it.

Mr PEARCE: I have one last question. In the absence of a complete and up-to-date practice manual, how are your staff apprised as to the practices and procedures that they need to follow in performing their duties?

Mr Watson: The manual is current as to what we do at the present time in terms of payroll, creditors and debtors—the whole procedure. I might just add that the board has 43 staff. That covers four different locations—head office with three dam sites. Our finance section consists of five of those 43. When we talk about having to use extra resources, that is a requirement because we use consultants extensively not only for financial matters but also town planning, surveyors, valuers—the whole range of functions. We use consultants extensively. If there is a requirement beyond our resources we would use consultants, but in terms of our current procedures, it is all in the manual, and that is distributed amongst the staff. As regards our current procedures—that is documented. As regards what we have to do this year—that is yet to be done.

Mr ELLIOTT: What level of staff would actually do the physical work of monitoring those dams and deciding what level, for argument's sake, Wivenhoe is going to be kept at, vis-a-vis, water usage and/or flood mitigation?

Mr Mulheron: The dams are operated under contract to the board by Brisbane City Council. Brisbane City Council also treats most of the water in its own right that goes to local authorities. In the normal course of events, there is liaison between the board and the council as to what are the requirements. When the dams are operating in a flood mode, the interaction between council and the board becomes more regular and more intense. In the normal course of events, there is almost a procedure whereby you draw water from one at the required amount and you do not draw any more than is needed. There are rules, whether they are written or unwritten, about the actual modus operandi of supplying water.

The CHAIRMAN: Mr Mulheron, I have a series of questions about financial reporting. A major issue in implementing the requirements of the Public Finance Standards is the need to prepare accrual-based general purpose financial statements. The Committee is aware that the change from cash to accrual accounting gives rise to a number of significant issues that need to be addressed. We would like to discuss some of these with you from the point of view of your organisation. In your letter, you refer to a conflict between the financial reporting requirements set out in the South East Queensland Water Board Act and those prescribed under the Public Finance Standards. You further state that unless the board's Act is amended, you will be required to produce separate sets of accounts to satisfy your Act and the Public Finance Standards. Could you explain to us in some detail the conflict which exists between the two reporting requirements?

Mr Mulheron: I will just introduce it, if I might, Dr Flynn. Under Part IIA, Financial Administration, of the Financial Administration and Audit Act, section 46A deals with the fact that Part IIA, where there is a conflict of interest, does override the conflict. But when you get to Part IIB, which particularly does cover the Public Finance Standards, Part IIB, section 46L (5) states—

“Every accountable officer and statutory body shall, subject to the provisions of this Act or of any other Act or law that applies, comply with the Public Finance Standards . . .”

When we get to our Act, our Act is quite specific that we have to maintain four specific funds in separate bank accounts. The theme—the tenor—of the Act is to cash accounting. In a sense, we think that it is a bit unfortunate that Part IIB of the Financial Administration and Audit Act did not read like Part IIA that gave the Financial Administration and Audit Act, we believe, a superior standing to our Act in that matter. Our interpretation is that it does not. We are bound by the Act, and we must present reports. There is a format by which we must present our budgets. We see that there is a conflict, and whatever our Act is in its form, we must comply. We believe that we should be complying with the Public Finance Standards. That means that we in fact are running at least two sets of reports. To do that, we must also be running in parallel the supporting accounting systems.

The CHAIRMAN: You have also indicated in your letter that your board is endeavouring to have its Act amended. Would not an amendment to the regulations under the Act be all that is needed? I just want to be quite clear as to what is needed to technically clear up this problem.

Mr Mulheron: We would look to have the regulations repealed in that area. The Act itself, at section 85, also deals with the budgets or, starting at section 79, the funds of the board. Notwithstanding the repeal of the regulations, there are still sections 79, 80, etc., which set out the operating fund and what shall be done. Without the regulation which perhaps is prescriptive of a form, we still have the requirements of the Act.

The CHAIRMAN: And you believe that those requirements will necessitate a separate set of accounts and a separate set of reports?

Mr Mulheron: Yes.

Mr Watson: And that has been confirmed by the Auditor-General, too—or a spokesman of the Auditor-General.

Mr Hartnett: The Auditor-General’s representative does our audit.

The CHAIRMAN: What reaction have you received from the Department of Primary Industries or your Minister regarding these legislative amendments that you are seeking?

Mr Mulheron: Nothing specific. We did have some contact. I think it was about March—earlier this year, anyway. At the time, the parliamentary legislative session was really crowded and there was not a great hope of getting any change to our Act in the last session of Parliament. We continue to make mention to DPI. We do not let it be forgotten.

The CHAIRMAN: Have they acknowledged to you the need for a change and perhaps put forward a suggested timetable for those amendments?

Mr Mulheron: There is a recognition that our Act and regulations are inhibiting. There is no timetable that we are given as to when the proposed legislation might be introduced into the House.

The CHAIRMAN: But you have had formal acknowledgment from the department?

Mr Mulheron: I believe so. On 17 October 1991, we wrote to the Commissioner of Water Resources, and that is the channel through which we go. The board has pointed out that “in order to ensure a more efficient and effective operation by the board, it will be necessary to amend the following legislation as soon as possible: South East Queensland Water Board Act, South East Queensland Water Board By-laws, Brisbane and Area Water Board Financial Arrangements Regulations of 1979”. The letter goes on in a little bit more detail.

We did get an acknowledgment of that in November 1991. It stated—

“I refer to correspondence. Inquiries have been made with the aim of having the desired amendments enacted as a matter of urgency. However, due primarily to the very heavy workload of Parliamentary Counsel and the fact that the legislative program for the

current session of Parliament is fully committed, there is no possibility of the amendments being considered in the current session which is due to end on 5 December.”

That was a letter in 1991. We have raised it since in 1992. The parliamentary session was pretty congested then.

The CHAIRMAN: What are you proposing to do at this time—I know it is only August—in terms of the preparation of your accounts for 1992-93—the accrual-based accounts, no cash accounting, and presumably it will be fixed by then. Is that the approach of the board?

Mr Watson: This year's budget for 1992-93 has been adopted by the board on a cash accounting basis. Under our Act, we must then submit it to the Minister for approval. That will be done this week. The budget has been prepared on a cash accounting basis. During the year we will report to the board on a cash accounting basis every quarter, but by the end of the year we will have prepared the general purpose statements in accordance with the Public Finance Standards. We will do both under cash accounting and accrual accounting.

Mr ELLIOTT: How much extra is that going to cost?

Mr Watson: It is hard to estimate how much extra it will cost, but it will certainly cost money because you have to use your resources which are tied up in other things.

Mr ELLIOTT: How many man hours or man days are involved?

Mr Watson: Mr Hartnett would probably be able to answer this, but I would say at least 10 to 20 hours per month.

Mr Hartnett: Possibly 10. There are ways in which you can attempt to do cash accounting and accrual accounting at the same time, but obviously it does take more time.

Mr ELLIOTT: In a computer sense, is it a similar program, or do you have to set up two separate programs?

Mr Hartnett: No, we do not require two separate programs. You can theoretically run your accounts on an accrual basis and analyse the entries to the bank account. An analysis of those entries to the bank account may take more time. You can do that within your chart of accounts structure, but obviously time has to be spent on reconciliations to ensure that the accounts you are presenting under both concepts are true.

Mr ELLIOTT: What is involved? If you are going to look at all your assets, from what you were saying before, you will have to put values on all of those assets to have a starting point. What sort of system would you need to do that? Would you have to get independent people in to value those?

Mr Mulheron: Yes. Last year, Engineering/Valuation Consultancy carried out an valuation of our assets covering land, buildings, recreational facilities and dams. We had a fairly good starting base for our asset valuation. They also reported on the remaining useful life of assets. We do feel that we do have a good starting point on the asset valuation. Internal policy matters will dictate how we handle matters of depreciation.

Mr ELLIOTT: Where is the logical progression from there? Are you looking at those values and then looking at the yields in terms of what you are actually doing with those assets and the money that is made in an internal sense?

Mr Mulheron: No, we have not progressed that far. Up until now we have just been on the cash accounting. I do not say that it is not in our thoughts.

Mr ELLIOTT: Is that the intention, though?

Mr Mulheron: The intention is to move fully into accrual accounting to take into account the assets, their value, their depreciated value, and how they are being used.

Dr WATSON: Mr Hartnett raised the issue of chart of accounts. If you are going to produce both cash and accrual accounts, I do not see what the great difficulty is. Most business organisations work on an accrual accounting basis. Everyone knows you have to manage the cash. At the same time you have to have cash reports going to management. I do not understand what the difficulty is. A few more hours may be involved. If you have the appropriate structure with chart of accounts plus the computer programs, I do not see that there would be

any great difficulty. The impression is that there is some difficulty. I would have thought that it was a fairly straightforward procedure.

Mr Hartnett: I think the difference is that in addressing a cash flow statement in a commercial enterprise you do not go into the same kind of detail. The cash flow statements are fairly generalised. Whilst we have to report on a cash basis, we have to report on each detailed budget item.

Mr Watson: The information has to be there to do it. Whether you do a fund statement, cash accounting or something else, or whether you are producing cash reports and forecasts and comparing those for management, you still have to have the information in the accounting system. I understand that it may take a bit of time to program the structure in a particular way depending on the detail, but I do not see what the great difficulty is. Most organisations cope with it.

Mr Hartnett: I could repeat what I said before and give an example. Take telephone expenses as an example. Under cash accounting, you would have an item in your budget called "Telephones". You will have a whole list of items, the same as you would have under accrual accounting. There would be the same number. You pay the telephone expenses four times a year, and each time you pay them, that would appear in that month's expenses. Under accrual accounting you would have a standing journal entry and charge the telephone expenses in 12 equal instalments. The extra work involved is actually reconciling the two. I am not suggesting that it is extraordinarily difficult.

Mr ELLIOTT: There is a cost.

Mr Hartnett: There is a difference. You are reporting on your cash transaction in more detail than what you would in a fund statement or cash flow statement. You are reporting on each budget item under both systems.

The CHAIRMAN: Would other water boards throughout the State face similar problems to you in relation to reporting requirements, and conflict between Public Finance Standards and your Act?

Mr Mulheron: They may not. The Gladstone Area Water Board operates under its own Act. Their Act is a little bit later than our Act. I am not sure that it replicates the wording of our Act. The Townsville/Thuringowa Board operates under its Act. It is different again. The Mount Isa Water Board operates under the Water Resources Act, which is different again. There are differences. Some water boards are joint local authorities operating under the Local Government Act. Some have their specific Acts. Our Act dates to 1979. I am not sure that subsequent Acts covering water boards in 1984 or 1985 updated things.

Dr WATSON: My understanding is that Thuringowa does have similar accounting requirements as you have and they seem to be able to produce both sets of financial data.

Mr Watson: My understanding is that they do it once a year on an accrual basis. That is my understanding from people whom I have met up there. During the year they do it on a cash accounting basis. The Townsville/Thuringowa Water Board has a staff of two—a manager and one other person. All the accounting is done by the Townsville City Council. They just massage the figures at the end of the year to produce an accrual basis. We have spoken to the Townsville/Thuringowa Water Board about the way they went about it.

The CHAIRMAN: If we turn to the accrual accounting system, we see that you propose to be able to present your 1992-93 statements in a full accrual format.

Mr Watson: Yes.

The CHAIRMAN: Would you comment on the progress you have made? You know that you are going to be able to do it at the end of the year.

Mr Watson: Yes. We have looked at trial balance sheets and profit and loss statements. In our annual report we have always published a balance sheet. That was based on historic cost, not on our depreciated cost at the present time. We have got our asset valuation done. We were able to do that. We were able to present it on a depreciated value basis to current costs. We have always had a balance sheet. We will be able to update that with a proper asset valuation. We have done some trial profit and loss statements, so we are moving towards it. All this

information has yet to be put to our board. We have a board of five. We will be doing that throughout this year.

We have set aside some money in our budget this year to also look at management program budgeting. There is \$50,000 there. We have also looked at our strategic planning and corporate planning processes, but we have to spend a bit more money on that. We have plans in place to actually implement it this year. We spent a fair bit of money—\$150,000—last year and continuing on this year in introducing a new accounting system using a PC network and commercially-based software. We are moving towards full implementation of accrual accounting. The first thing we had to do was actually get our proper PC network in place with a proper commercial-based accounting system. We have done that. We are actually collecting all our costs now on a cost-centre basis, so we are actually building up from the bottom and eventually this year we will get into proper full accrual accounting with proper reporting to the board.

The CHAIRMAN: Just checking that situation with assets again—have all of the assets of the board now been valued?

Mr Watson: Yes, those assets over \$500.

The CHAIRMAN: Again, could you tell us who you got to do that? You have mentioned it already.

Mr Mulheron: Gutteridge Haskins and Davey were the technical people, the engineers, combined with Herron Todd White, Valuers. They were, in conjunction, consultants to produce the report for us.

Mr ELLIOTT: What sort of money would you have had to pay the engineers, in round figures, to do something like that?

Mr Hartnett: We paid \$51,900 for both.

Mr ELLIOTT: For the total?

Mr Hartnett: Yes.

Mr Mulheron: The GH and D side was about \$32,000, in round figures, and Herron Todd White was \$20,000, in round figures.

The CHAIRMAN: Have all the Board's assets been fully recorded in an asset register?

Mr Watson: The report that GH and D gave to us—they have been recorded in that format at this stage. They also gave us a PC-based software program which has enabled us to put out our own asset register. It is moving towards that way.

The CHAIRMAN: Can you tell us what valuation methodologies were applied in determining the values for various classes of assets?

Mr Hartnett: We asked them to value on replacement or reproduction costs for the dam walls and associated mechanical equipment. In respect of the land—we asked them to value at current market value assuming the original use of the land. The reason we adopted that approach is that we were trying to find the representation in current value terms of what the original investment was when all the land was acquired for each of those dam sites. This meant that the land underneath the dams was included in the valuation. If we had valued the land at current market value, the land surrounding the dams obviously would have a fairly high value because of the existence of the water storages, but in that case, we would have been advised to exclude the land underneath the dam. You could not have it both ways. You could not say you had a high valued land, when the land underneath the water was not able to be used. We adopted the current value of the land assuming its original use, which was mainly grazing purposes, particularly in Wivenhoe and Somerset. The construction assets were on a replacement or reproduction basis, and we obtained the depreciated values and an estimate of the remaining lines for depreciation purposes.

The CHAIRMAN: So you have systems in place which will enable you to depreciate non-current assets?

Mr Hartnett: Yes, we have a fixed asset module now. Our accounting software will do that.

The CHAIRMAN: Were there any particular problems encountered during the asset valuation process, for instance, deciding the value of the land?

Mr Hartnett: It was a problem. It was something we had to give some thought to before we briefed the consultants.

Mr Mulheron: If there was a problem, it was related to getting the information, particularly regarding Somerset Dam and, to a lesser extent North Pine, and, to a lesser extent, Wivenhoe. Somerset Dam was started in about 1933 and finished in 1955. It had almost a series of owners or builders in that time. The record just was not presentable in a compiled document. The engineers went back to some basics in the stages, to look at the amount of concrete and what would you value it at, etc. I think it was the lack of a collated and presentable document of record that created the difficulty for them. Wivenhoe is more recent and North Pine is intermediate, and the record on both of those is not too bad. I just mention that the number of separately identified and assessed assets is about 1 200.

The CHAIRMAN: Does the board have systems in place to enable it to readily establish the value of inventories held?

Mr Hartnett: We do not have a call to assess inventories. Our saleable stock is our water. Whilst there has been some talk about valuing water, we have not embraced that philosophy. Other than that, our inventory really just consists of maintenance stores, not goods for resale.

The CHAIRMAN: But you have some systems to at least keep tabs on those?

Mr Hartnett: Yes, we have some systems—particularly with fuel—whereby they are checked every day and checked against usage.

Mr ELLIOTT: If water valuation does eventuate, how do you imagine you would go about setting a value on water? Will you take into account your current running costs and depreciated value of assets or—

Mr Mulheron: We have done some work on water pricing policy. A paper has been produced for the board by Deloittes. We are looking to get additional work done on water pricing policy, and we are about to go out to a consultancy to get this further work done to take into account our asset valuation and the treatment of assets. We will probably be doing that in the next couple of months. We will then bring together all the consultant work and in-house work, and will put it to the board as to whether there is a review of water pricing policy. At present, water pricing is really on a cost recovery basis, and that is all. We believe we will be looking beyond that. The cost of the water or the value of the water stored has to be a consideration. I am not sure just where we will—

Mr ELLIOTT: Regardless of the use to which that water is being put?

Mr Mulheron: Essentially, our water—

Mr ELLIOTT: Town water supply.

Mr Mulheron: —as far as consumption, is for urban use. Our dams do not supply water for irrigation or rural use; they provide water for urban use. There are some hydro-electric installations which, in a sense, do not really consume; they just recycle.

Mr ELLIOTT: The water goes up to the pump storage and back again. In flood mitigation terms—do you never release water?

Mr Mulheron: If there is a flood, we must release water. Somerset and Wivenhoe have a space built into the volume to accommodate flood waters. The flood waters progressively fill that space, and progressively we release water, so that the dam does not get overtopped. We can probably hold some flood waters back and take the peak off what might otherwise be a large and devastating flood.

The CHAIRMAN: Is the board readily able to determine the extent of its outstanding liabilities, for example, the value of employee leave entitlements?

Mr Hartnett: Yes.

The CHAIRMAN: To present accrual accounts for the 1992-93 year, it will of course be necessary to establish reliable opening balances for all the board's assets and liabilities. Will you have reliable balances as at 30 June 1992?

Mr Hartnett: Yes.

The CHAIRMAN: Will the board be in a position to produce general purpose financial statements fully compliant with the Public Finance Standards for the year ending 30 June 1993?

Mr Watson: It is certainly our aim.

The CHAIRMAN: You are not anticipating any problems?

Mr Watson: No.

The CHAIRMAN: Is the process of moving from cash to accrual accounting difficult?

Mr Watson: It is a challenge.

Mr Hartnett: Yes, it is a challenge. I think the difficulty, really, is trying to run the cash accounting system at the same time. Other than that, there would not be a problem. I believe we have the expertise in-house to be able to do accrual accounting. We do not have to hire any outside people to do that. I anticipate we would certainly produce annual statements on an accrual accounting basis. I think the real challenge with accrual accounting is doing your monthly statements. That is where the resources come in.

Mr Watson: The other challenge is that the membership of the board includes Mr Mulheron, who is the Chairperson and the other four members are from local government, so part of the process will be educating the board as to what accrual accounting is all about and the different ways of reporting on it. Fortunately, the local government members are also coming from their authorities, which are also introducing accrual accounting. They will be getting exposure to accrual accounting from their own local authority as well as the board. One of the challenges during the year is to educate the board in terms of what accrual accounting is all about.

The CHAIRMAN: Will there be benefits to the board as a result of the change?

Mr Watson: It makes you actually look at assets in a whole different way. You never really looked at what you returned on those individual assets over a period. It certainly makes management and the board look at things in a lot of different ways, rather than just on a straight cash-in, cash-out basis. The benefits will be there in the actual use made of the information which is available.

Mr Mulheron: I do not think we could come up with a different way of looking at water pricing if we were not looking at it through a mechanism or the eyes of accrual accounting. At present, there are not too many combinations of looking at water pricing when it is cash accounting and recovery of costs. There is no recognition of assets, their use or their depreciation. We need that to be able to come up with and be able to have a defensible and transparent water pricing policy.

Mr ELLIOTT: When looking at the older dams and the top end of the catchment, what sort of a write-down do the consultants put on dams? As I understood it, before you were talking about the quantity of concrete. Do you then transfer that into present-day values? It would obviously need to be depreciated in terms of its useful life.

Mr Hartnett: It is working out that useful life of a dam wall, for instance, which could be one of the more controversial aspects of working out the depreciation charge. Gutteridge Haskins and Davey have suggested a life of 150 years for a dam wall.

Mr Mulheron: I will quote from the executive summary of the report, which states—

“The dams and associated equipment have been valued on a current reproduction cost basis using quantities and present day unit rates based on similar work for which recent prices are available.”

The report states that they have actual details of costs for North Pine and Wivenhoe. No costs or measured final quantities were available for Somerset Dam. They approached it a bit differently.

Mr Hartnett: To quote a figure in relation to the dam structure at Somerset—the replacement cost was set at \$51.9m and accumulated depreciation was set at \$12.4m, giving a current depreciated value of about \$39.4m or \$39.5m. Gutteridge Haskins and Davey were saying that essentially it was close to 25 per cent depreciated.

Dr WATSON: Which reflects the number of years. It is over 150.

Mr Hartnett: Yes.

Dr WATSON: I would like to move on to the submissions on program management. In your letter you indicate that the board is developing a new strategic plan and it is due to be completed by 30 November this year. Is the development of your strategic plan on target? What time span will that cover?

Mr Mulheron: We will meet the November deadline. The question of amount of progress I would have to leave to either one of my colleagues, but there is no question about it.

Dr WATSON: Is it a five-year program?

Mr Mulheron: Yes.

Dr WATSON: Starting when? Is it this year?

Mr Mulheron: It will include this year and four beyond. In addition, as part of our budgetary process we do have to produce a financial plan two years out, that is, the budget plus two. That is written into our legislation. We must go that way as well. We extend that out two more years.

Dr WATSON: But that is within the five-year strategic plan?

Mr Mulheron: Yes.

Dr WATSON: Could you briefly outline the thrust of your proposed strategic plan? For example, will it define the board's purpose or mission, will it identify goals which the board aims to achieve and will it state the strategies to be adopted in the pursuit of those goals?

Mr Mulheron: It will include those. We are looking to complete a corporate plan for the board. This board has been in existence since 1 July last year. Members were actually appointed on 15 August and the first meeting of this board took place on 5 September last year. The Government established a water strategy for south-east Queensland and handed to the board the implementation of a substantial part of that strategy. All of this was occurring late last year and early this year. The Secretary was appointed about November, and our Administration Manager was appointed earlier this year. The board started ab initio sometime during the latter part of the last calendar year. We have established, again through a group of consultants, the Consultancy Bureau, a number of workshops and carried out a scan of our environment and our customers. We believe that set us on the track for building upon some of these things and getting the corporate plan, which was more an organisational review.

The corporate plan is just one feature of that review. The computing system, or the accounting system, and the records management and other things were all part of that organisational review. We have addressed each stage progressively, given that we have started somewhere around zero. We are overcoming or meeting each one of those sorts of challenges as best we can. It is a requirement that we produce the strategic plan, and we will. We have budgeted and we will be conducting further workshops very soon, looking at our corporate plan and our mission statement which, in fact, we did address a little bit in our organisational review, but other things were deemed at that time more important to pursue.

Dr WATSON: I note from your letter that the board proposes to introduce a program structure during the current financial year. Will the program structure link in with the board's strategic plan?

Mr Watson: Yes, one follows from the other.

Dr WATSON: Will the board's organisational structure be in line with the program structure?

Mr Watson: The difficulty is always as to whether you have a water supply program manager or a recreation program manager. We do have a parks and recreation operations manager now. Ideally, he would be the program manager for our recreation side. For the water supply program, which is our main core business and program, I think that would probably fall on myself. We do not have any engineers on board, other than the Chairperson and we do not have a technical services engineer, although it was recognised in the organisation review that we needed one. In answer to your questions—as much as we can, we will try to get it to align so as the parks and recreation manager is responsible for the recreation program. I am probably responsible for the water supply program. The other programs are really support programs.

Dr WATSON: What about catchment management?

Mr Watson: Catchment management would fall upon myself, as well.

Dr WATSON: Basically, you have the water supply program, the catchment management and the general management falling under you?

Mr Watson: Yes.

Dr WATSON: Then the recreation program, so that is how the structure will end up?

Mr Watson: Yes. In relation to the other parts of the board—the property manager has a supporting role to do with the acquisition of land, the sale of land and the leasing of properties. The finance manager also is a support area, as has the administration area.

Dr WATSON: That all comes under the general management of the board?

Mr Watson: That is right.

Dr WATSON: The principles of program management as set out in the Public Finance Standards require resource management systems which focus on outputs—that is, goods and services provided—and outcomes—that is, desired results—as a primary concern. Resources allocated and utilised are important, as they provide the means or limitations for achieving desired outcomes but should not be the primary focus for management. From your letter, I note that the board is about to introduce new reporting systems. Will these reporting systems be designed to provide regular reports by program to management to monitor financial and budgetary matters as well as progress towards the achievement of program goals?

Mr Watson: That is certainly the aim. The hierarchy comes down—that is, the strategic plan, program budgeting and performance indicators. You report to the board on those indicators, which will be on an output basis.

Dr WATSON: That leads to the next question. One of the important principles of program management is the need to have an appropriate set of performance indicators which should link in with the strategic plan. The practice statements to the Public Finance Standards require that the programs be reviewed in terms of key performance indicators annually and at such other times as appropriate. Your letter to the Committee stated that performance indicators for evaluating program effectiveness and efficiency will be developed during 1992-93. We would like to explore the current position and what those indicators are likely to be.

Mr Watson: We have not started yet. You have to come down the hierarchy. You get the strategic plan, get the programs and all the structure of your subprograms, then get into the outcomes of the programs and subprograms and then get performance indicators. It is a matter of coming down. Certainly, it is part of our plan this year to do that. The performance indicator for the South East Queensland Water Supply Board will be quite interesting. It gets down to making sure that our customers have enough water today and in the future to meet their needs. As the Chairman mentioned, it is part of our strategy to meet those needs not only for the next 10 years but also for the next 100 years. We are certainly on track in terms of our physical assets side. We are acquiring land for new dam sites to take us through the next 100 years to meet the needs of our customers, which are the local authorities. Our minds and our thinking are directed towards the way in which those performance indicators will be structured and how we will measure them. As far as getting it down on paper, no, we have not done that yet.

Dr WATSON: Can you give an idea of the kinds of things that you are thinking about?

Mr Watson: Water supply was one.

Dr WATSON: What kinds of desired outcomes are you thinking of there?

Mr Watson: The desired outcome is that the board's customers, that is, local authorities, have the water to meet the needs of their consumers, through drought conditions or whatever.

Mr Mulheron: The water has to be of a quality that meets minimum standards. One of the criteria in water is the pricing and the stability of pricing, so that it is reasonably predictable by some margin for the people who then have to budget their costs.

Mr ELLIOTT: Some of the projected populations by the year 2010 in the south-east corner are pretty startling. Whose criteria are you picking up on to make those judgments?

Mr Mulheron: We are generally using the projections that are done by the Department of Housing and Local Government. They, in turn, have used the Population Research Unit at the university. We are using it. In terms of water strategy, the Government has also used those sorts

of projections. Using those projections, the strategy indicates that a further water supply storage is required in about the year 2015. We are acquiring the land now for a dam in 2015. If the projections are 100 per cent wrong, we could be flexible enough to either compress a program of acquiring land and building a dam, acquiring the land slowly, relocating services or building the dam more slowly. Given the lead time, we have a fair amount of flexibility in being able to meet whatever eventuates.

Mr ELLIOTT: How do you go about looking at what proportion of your funds is to be committed to further acquisitions to ensure future water supplies as opposed to the internal running of your operation and maintaining your fixed assets now?

Mr Mulheron: It is, or it has been, for last year and this year a little bit difficult. The policy under which we are working is that the board will acquire land from landowners affected by the dams as and when they require. We look at the percentage of people and the area of land in which we may become involved, and we use our best guesses. We talk to the landowners to see what interest they have about selling or not selling, and we develop our forward budgets on that basis.

Mr ELLIOTT: Some people are asking you to acquire that land right now, up front, for Glendower, or whatever you call it. Is the valuation then done? That is not done by you, obviously. It is done by a third party. That is set at current rates right now?

Mr Mulheron: Yes. We are buying land now. Mr Hartnett will get the figure for our purchases of land at the present time. The land has been proclaimed. We are in the process of acquiring land. At Glendower, for example, 32 landowners are affected by the dam, 14 of whom have made approaches to the board. Of those, we have acquired by proclamation about five, or it might be seven now. I do not have the figure. We own that land. We lease it back if they wish to lease it back. In a sense, it makes it difficult for the board in a budget way, because we are responding to their wishes, whether they want us to buy or not to buy. Some have indicated that, no, they will look at it in another 5 or 10 years.

Mr ELLIOTT: In 5 or 10 years, the valuation would be based on today's value, would it not?

Mr Mulheron: No. It is based on the value at the date of proclamation. If they do not sell for another 15 years, it is the valuation at that time. The valuations are done. We employ a valuer as a consultant. Normally, the landowner employs a valuer as an adviser. At the end of the day, the value is influenced by the meeting of the minds of those two valuers. The valuations themselves are based on principles, taking into account sales of like properties—or as close as possible to like sales. That is not always easy, but that is the basis of it.

Mr ELLIOTT: In this climate, there would have to be a lot of good sense in buying as much of that site as you could. Also, that would create a lot less grief in the future.

Mr Watson: Yes. The landowners are finding that it is good to sell at the present time, especially to the board.

Mr Mulheron: We have bought two properties, which are required for a dam, which is required in about the year 2060.

Mr ELLIOTT: Are they leasing those back?

Mr Mulheron: We do not know yet. We are in a negotiating stage with them. When we started out, we spoke to all the landowners. We had a quasi-public meeting. At that time—and that was late last year—everyone indicated that he or she would not be selling. Not very long afterwards, we had two applications to buy. In all, those applications represent about two and a quarter million dollars. In October last year, it was said that we would not be buying any. By July this year, we have spent two and a quarter million dollars. It makes budgeting a little bit difficult.

Mr Watson: That is not at Glendower. The position is that we have some money from the sales of surplus land at Wivenhoe Dam, which was sold last year. We have some money coming up this year from the sale of land at Wolffdene, which we will be programming over two years. The money over and above that, we are using from loan moneys. We just raise loans.

Dr WATSON: Can I just go back to the performance indicators again and pursue it a little further?

Mr Watson: Yes.

Dr WATSON: Are your performance indicators going to be incorporated as part of the board's strategic plan? Will achievements against those performance indicators be publicly reported, for example, in your annual report?

Mr Watson: Yes. When I say "yes"—when I say we will do it by 30 June this year—they will be there in a fashion. No-one can get them 100 per cent right in the first year, but certainly they will be there. The performance indicators—really, from our point of view, it is good to compare it with a competitor. It would be good to compare it with the other costs of raw water that other organisations sell to local authorities, or sell to whoever. If you go to the Sydney Water Board and the Hunter River, they do not actually sell on. They actually have the whole cycle of raw water to treatment and disposal—the whole lot. Ideally, we would like to compare our cost to other organisations. The recreation side is another side that we have got to develop in the performance indicators. We are getting under way, very shortly, a recreation management study. Part of that will be to look at the users' requirements. So part of the indicators there will be user satisfaction.

Dr WATSON: Again, in that situation, with the water supply, the user is clearly the four councils?

Mr Mulheron: Twelve local authorities.

Dr WATSON: Twelve local authorities, yes. In developing your performance indicators, you are not going to go beyond indicating your response to those? You are not going to—

Mr Watson: No.

Dr WATSON: And the recreation manual, your response is—

Mr Watson: The user.

Dr WATSON: To the direct public.

Mr Mulheron: Very much so.

Mr Watson: We are collecting our costs now on an individual recreation area so that we can work out the cost per customer. We have traffic counters to record how many people use those areas. That will be a performance indicator in itself, as to what the maintenance cost is per user who uses those areas. That will identify those which are just over the top, which means that they are underutilised, or whether we are spending too much money on those areas.

Dr WATSON: On my visits up there, I think that there has been significant improvement over the years, I must say, at least from a recreation viewpoint.

Mr Watson: Yes.

Dr WATSON: I think one of the things is that it is going to be interesting to see the balance and trade-off in those kinds of areas.

Mr Watson: There is a trade-off, very much.

Dr WATSON: I think that it is important that they are in the annual report. The practice statements to the Public Finance Standards require that a comprehensive evaluation of all programs be undertaken within the three-year period ending 30 June 1993. It is also a requirement that the results of all program reviews and assessments conducted during the year be reported to your Minister and that appropriate evaluation comments be given in your annual report. Your letter stated that the evaluations of your board's operations have been, or are in the process of being, undertaken and that while these evaluations were not done on a program basis, all activities were included. Will future comprehensive evaluations be undertaken on a program basis as required by the Public Finance Standards?

Mr Watson: Yes, once we get our programs in place. We have also appointed, just recently, an internal auditor. That will be part of their charter—to review those programs.

Dr WATSON: The thing that is holding it up is simply going through the program, but you do have that in mind?

Mr Watson: Yes.

Dr WATSON: Just a very general question: you are going through the strategic planning and program management right at the moment. Have you found that of any benefit?

Mr Watson: Yes. It certainly makes you challenge things, as to why you do them. It not only brings a whole new emphasis, but even the way people think about things in the board at officer level, as to what you spend money on and what you do not spend money on—what your priorities are. It would be fair to say that we have actually got the board to focus on what its core business is, which is water, whereas sometimes you might wonder whether it is recreation.

Dr WATSON: That is the interesting trade-off that we were talking about before.

Mr Watson: That is right.

Dr WATSON: Do you have a specific example of the kinds of benefits?

Mr Watson: I think that it is more this time, just focusing on what your objectives are, what your real core business is, and getting the focus on that.

Mr Mulheron: I think I would add—just reiterating—that it is a new board. Three of the board members were members of the Brisbane and Area Water Board, which was philosophically a completely different board. It was comprised of members—one from each local authority—who represented their local authorities. The City Council had more than one but, essentially, they were representative of their local authorities. The present board, the South East Queensland Water Board of five, is not representative of any local authority. It is a board of management, not a board of representation. Three members, having come from the Brisbane and Area Water Board on to the South East Queensland Water Board, have gone through a bit of a quantum leap in just looking at the board in such a different way. Board members, in a sense, when we have been speaking to local authorities, have admitted that it has required quite a real change of attitude and way of looking at how the board operates and does its business and what its business is.

Mr ELLIOTT: So they are basically like any other board of directors, or whatever?

Mr Mulheron: Exactly.

Mr ELLIOTT: They have to look at all of your constituent councils and what-not that you are servicing and cannot afford to look parochial in any way, shape or form, really, in theory.

Mr Mulheron: That is right, and I would say that they are acting in that way. For an elected local authority representative, I do not think that is altogether easy. I think that is supplementary to the answer that the secretary gave you.

Mr ELLIOTT: The Public Finance Standards require that all your board's revenue, expense, asset, liability and, where applicable, its equity systems, be appraised each financial year to determine the proper functioning and controls and the appropriateness of procedures followed. When you wrote to the Committee in mid-April, you indicated that the board had not yet implemented system appraisal processes. What is the current situation?

Mr Hartnett: In April we had not instituted any formal systems appraisal. Naturally, in the course of your everyday work, you are evaluating systems and when something comes up, you need to rectify it. Part of the formal systems appraisal effort in the board will be conducted in conjunction with internal audit. I think that systems appraisal is an integral part of the internal audit, and it will be part of his duties—not solely his duties. We will still have a responsibility for it, but we believe that to do it on a formal basis requires internal audit, and it will be part of his duties. The internal audit will do it in a systematic way, whereas when you are doing it in-house, you often tend to do it in an ad hoc way.

Mr ELLIOTT: What are you actually doing right now? Are you actually doing a bit of both?

Mr Hartnett: We do our own appraisal, but not on a formal basis. It is sort of an ad hoc basis, but we have appointed an internal auditor and during the year, the systems appraisal will occur in a more structured way.

Mr ELLIOTT: I think you probably answered this question earlier, but when will you be in a position to undertake annual appraisals? I think you said in your answer some time ago that next year you would be in a position to move to that. Is that about where it is at?

Mr Watson: Yes, that is correct. The external auditor, of course, has done systems appraisal as part of its review every year but, as far as a properly structured systems appraisal, that is part of the charter of the internal auditor, which has recently been appointed.

Mr ELLIOTT: From your letter I note that it is your intention that the board's system appraisals be performed by your internal audit function. Why do you propose to have the system appraisals performed by the internal auditor rather than by the line manager responsible in respect of accounting functions? Once again, I think you did touch on that before to a fair degree.

Mr Hartnett: Yes. When I mentioned it will be the function of the internal auditor, it was not relieving the line manager of that responsibility as well. I was wishing to make the point that the internal auditor will do it in a structured way. He will go and look at things at various times. It would be part of his program. That in no way relieves any line manager of the responsibility for having an adequate system.

Mr ELLIOTT: Right. How do these line managers feel about the whole thing? Do they see it as a bit of a duplication or a waste of money, or do they see it as something pretty important and worth working for?

Mr Hartnett: I do not believe that they see it as a duplication and a waste of money. I think everybody is conscious of the need for systems to be properly controlled. I think from a manager's point of view they should welcome the internal audit function because they see it as an assistance to management, not as something to be feared.

Mr Watson: I think head office people are the sorts of people who are quite used to developing systems and complying with systems. Where you have the problem is out in the field operations where the emphasis is on getting the job done. That is where the problems will be, in getting the field operations to actually have proper systems in place and then complying with those systems. That is part of the education program that is going on right now.

Mr ELLIOTT: Will the system create additional costs for the board itself?

Mr Watson: I suppose it does, but if you have proper systems in place and they are properly monitored, at the end of the day it should save money.

Mr ELLIOTT: There will be costs to initiate it, but you think that in the long term you will actually save money?

Mr Watson: Yes.

Mr J. H. SULLIVAN: I am a little bit confused about the answers. I thought I understood it earlier, but now I am not so sure. Is your internal auditor going to undertake the systems appraisals?

Mr Hartnett: Yes, he is going to do systems appraisals, yes. But he does not have sole responsibility for it.

Mr J. H. SULLIVAN: Finance Standard 610(3) requires that the internal auditor determine that systems appraisals have been properly undertaken, submitted and acted upon. It seems to me that if your internal auditor is going to undertake systems appraisals, there is some conflict. I wonder if you would care to comment on that?

Mr Mulheron: If we are in conflict in that way, we would certainly seek to avoid that conflict by appointing some other consultancy who does not work under the banner of the internal audit to assist us with systems development. We are a small organisation. The total of the salaried staff is about 24 altogether. In other circumstances in a big organisation, an internal audit might be done by in-house people. We do not want to do it. I do not think we have the resources, other than taking on someone casually or full-time for a non-full-time job. We have opted to go to a consultancy group. If in doing that we do create a conflict of interest with the internal auditor and the Financial Standards and the commonsense application to the board, we would seek someone else to work with us in developing the systems. I do think that we would look for outside assistance.

Mr J. H. SULLIVAN: I was not necessarily saying it needed to be internal assistance or inside assistance, it is just that giving the two functions to the internal auditor creates a Caesar judging Caesar situation.

Mr Mulheron: I take your point.

Mr Hartnett: I would not anticipate that the internal auditor would audit the system that he put in. I do not see that his job is implementing the system at all, just doing the system

appraisal. He might say, "This is not working properly. This should be fixed." He might even suggest the way it could be fixed. But it would be our job to implement the system, not his. There should be no conflict there.

Mrs BIRD: What are you doing about developing your position assessment processes to comply fully with the requirements of the Public Finance Standards?

Mr Hartnett: We intend to fully comply in the September quarter with the Public Finance Standards. We had proceeded, to some extent, during the last financial year, in the sense that we did make the board aware at the end of each quarter what the estimated year-end position would be. We presented to the board, along with the monthly budget, actual comparisons and an estimate for an end of the year and any reasons for variations. To that extent, we gave the board a position assessment based on cash accounting and monthly reports. Although we did not extend to all the areas contained in the Public Finance Standards, we intend to institute that this year.

Mrs BIRD: Why has your report not been able to implement the position assessment requirements of the standards?

Mr Watson: We have not had the systems in place to be able to do that. The revenue expenditure and the cash accounting basis have been there, but not the liabilities and assets report on a quarterly basis. It is a progressive type of thing in implementation. We are not at the full implementation stage of the position assessments. We certainly have been in the past doing it on the revenue and expenditure side, but not, as I said, on the assets and liabilities side.

Mrs BIRD: You have already been doing a quarterly one, have you?

Mr Mulheron: Yes.

Mr Watson: On revenue and expenditure. It is done monthly.

Mrs BIRD: The one that complies fully with the Public Finance Standards will be implemented in September; is that correct?

Mr Watson: Yes.

Mrs BIRD: Do you think the requirements for the quarterly assessments are too frequent?

Mr Hartnett: No, although I would question whether the one in September is of a lot of value. It is fairly early in the financial year in lots of cases, but not perhaps in all items. I was a lot more conscious of that when we have been doing projections to the end of the year. It is often difficult to find out whether there are any circumstances by that stage that are going to affect the end of the year's figures. That is not to say there may not be. I am not suggesting that we do not do a September one.

Mrs BIRD: Is that your attitude to position assessments per se?

Mr Hartnett: No.

Mrs BIRD: Do you think they will be of benefit?

Mr Hartnett: Yes, I can see benefits. I know a lot of organisations have always done at least six-monthly position assessments, even before the Public Finance Standards. There were six-monthly reviews of budgets. I think they are absolutely vital.

Mrs BIRD: Is that a costly exercise for the board?

Mr Watson: It is accepted as part of the costs. We have done it in the past. There will not be much extra cost.

Mrs BIRD: What, if any, extra costs would there be? Are we talking about a substantial amount?

Mr Watson: As I said before, we have purchased a new PC network and software worth about \$150,000 all up. That will help us to streamline our number crunching and producing information in graphic form, a facility which we did not have before. That in itself will speed up the process. As far as extra costs of going into more detailed position assessments are concerned, what we have saved on one side we are going to use on the other.

Mrs BIRD: As part of the position assessment process, the Public Finance Standards require that an annual determination be made as to whether assets are being used in the best

and most efficient way possible. You touched on that briefly before. Your board has significant assets under its control. Do you have procedures in place to determine whether the board's assets are being used in the best and most efficient way possible?

Mr Watson: Not laid-down written procedures, no.

Mr Mulheron: Some of the answer to that would be incorporated in a pricing policy which would reflect the use of the assets and the value of the assets used. At the present time, our pricing policy is just on cost recovery—cash.

Mrs BIRD: But you do plan to put a process in place?

Mr Mulheron: Yes. Probably a time determinant is the fact that the board has agreements with each of its customer local authorities and those agreements are reviewed every two years, the next review coming up in October 1993. It is by then that any changed water-pricing policy would be incorporated in a review of the contract. To do that, counting back from October 1993, we believe we have got to have a pricing policy that the board feels comfortable with—perhaps February next year or maybe even towards the end of this year—to be able to negotiate with the local authorities on changing the contract. The contracts do not terminate until 1995, but they are subject to review in 1993.

Mr ELLIOTT: Is there a fixed price mechanism there until 1995?

Mr Mulheron: Yes. A cost recovery basis is there until 1995. That is the basis of the contract.

Mr ELLIOTT: So you really cannot change it?

Mr Mulheron: We are going to have to convince our customers that it is in their interests, and in the board's interests, to change it. It is going to be difficult. There will need to be a defensible pricing policy, which is transparent and saleable. We are going to have to sell it, otherwise we do not incorporate it until 1995 when the period of present contracts terminates and we negotiate completely new contracts.

Mr ELLIOTT: Will those contracts be set like any other legal and binding contract?

Mr Mulheron: Yes.

Mr ELLIOTT: Not internal?

Mr Mulheron: No, they are executed contracts.

Mr ELLIOTT: There is no way that they could be varied without consent?

Mr Mulheron: No. They were signed in 1985, and so on the second anniversary of the signing they come up for review.

Mrs BIRD: Earlier this year, Treasury conducted a series of position assessment workshops to provide some guidance as to what the Public Finance Standards require. Did a representative from your board attend?

Mr Mulheron: No.

Mr Watson: We did not know that there was one.

Mrs BIRD: That answers my next question, which was: did you know that these workshops were being held? Thank you, Mr Chairman.

Mr J. H. SULLIVAN: I am mindful of the time constraints, but I have a couple of quick questions about internal audits. You have indicated that you have appointed your internal audit consultancy.

Mr Watson: Yes.

Mr J. H. SULLIVAN: Has that function become operational?

Mr Watson: It will, from October.

Mr J. H. SULLIVAN: Obviously, we are pleased to see that you have taken that step. What benefits do you think will flow through to the board and your internal management from the fact that you have internal audit processes?

Mr Watson: It certainly gives an independent review. It certainly makes you set in train things which you thought you might not have to do or wanted to do. It certainly makes you plan

to get things done, because at the end of the day you do not want the organisation reported to the board that things have not been done. It is good to have the checks and balances. We went through quite an exhaustive process. Once we go to \$6,000, we must advertise for public tenders. We have complied with the guidelines for engaging consultants issued by the State Government. We have also advertised for those consultants. It was only at the last board meeting or the one before that the board actually approved the internal auditor. There is now the exhaustive process of evaluating the tenders. It will start in October. The benefits are that once you have got things in place with an independent review, you can get down and get the job done, otherwise my job would be on the line, I suppose.

The CHAIRMAN: I have a couple of general questions. The Committee is interested in the process by which statutory bodies are made aware of new requirements with respect to their financial administration. Could you describe for us the communication channels and consultation processes which occur when new requirements such as the Public Finance Standards or legislative changes occur?

Mr Mulheron: Generally, we have a liaison with the Water Resources Commission, through the commissioner or a liaison officer. We look to the commission to provide us with the executive or administrative decisions of Government. Legislative decisions become known to us through other sources, but for the executive-type decisions, we look to the Water Resources Commission, it being part of DPI, or DPI itself. We generally have an upward trail through the commissioner and, if need be, through the Deputy Commissioner into the management of DPI.

The CHAIRMAN: Does that line of communication function satisfactorily from your point of view?

Mr Mulheron: Not always, no.

The CHAIRMAN: What about specifically in relation to the Public Finance Standards in the Queensland public sector? Is that how you got your information?

Mr Mulheron: About the requirements?

Mr ELLIOTT: You have to battle for it yourself?

Mr Watson: Yes, you have to battle for it yourself all the time. There was trouble with the State Purchasing Policy. What happened was that there was an amalgamation. The board was clearly under the Water Resources Commission, but when the Water Resources Commission became part of DPI, the question was: whose responsibility was it to give the board the information? Just recently, we had to re-establish those lines of communications.

Mr ELLIOTT: Where does the Minister fit into it? What is the chain of command?

Mr Mulheron: The board reports to the Minister. As a bureaucratic administrative arrangement, we deal with the commission. In turn, the commission may or may not refer things to an element of the Department of Primary Industries. We have found deficiencies in the communication flow. Some of that could have been caused by the fact that the board did not employ people who, perhaps, were altogether familiar with Government processes. I think that is important. You must know what to look for, where, and when. In every organisation there is bound to be some sort of systems breakdown. We have suffered it at times, too.

Mrs BIRD: Has that changed?

Mr Mulheron: I believe that it has. There is a lot more awareness in the board as to what to look for and where to go about finding it, and there is a lot better personal communication between board members and members in Government—not only in the Water Resources Commission, but also in DEVETIR in the industrial relations area, and in DPI in catchment management. Maybe it is progressive or evolving education, but we do have a lot more intimate standing and ability to communicate with people in Government than existed when I first came to the board.

The CHAIRMAN: The Committee would like to hear your views on the process by which the Public Finance Standards have been introduced. Bearing in mind that the standards involve radical changes in management practices, could you comment on the level of consultation, training, awareness, development, etc., which has taken place to facilitate their implementation?

Mr Watson: This is an educational learning process that we go through. It really started when the new board was appointed last year. First of all, it started, probably, when John

Mulheron was appointed Chairperson, then when the new board was appointed, and then we started the organisational review. With the consultancy we really started to focus the organisation on the fact that they needed to comply with Public Finance Standards, the State Purchasing Policy and a whole range of other things which the board must do. It is an evolving process. There is certainly a lot of education happening at the officer level and at the board level. We are in the early stages of that process.

Mr Mulheron: If I could add to that in support of what the Secretary said—on the score of asset valuation, in a way that has nothing to do with Public Finance Standards. When I got to the board I tried to find out the value of our assets—nothing to do with standards of anything. I just wanted to know, and we did not know. I think some of the Public Finance Standards are not an impost in any way. In a lot of areas, they are producing or intend to produce information that is common sense, logical, that is needed by people. The asset valuation was not an exercise resulting from it. It might provide an input to it. That is the way I viewed it.

The CHAIRMAN: Are there any other issues concerning the Public Finance Standards which you would like to raise with us?

Mr Watson: The only one was the changes to the legislation. We were trying, through our sources, to get our legislation changed. There must be other statutory authorities the same as us that are affected in a similar way by the fact that Part IIB does not provide that inconsistency clause, whereas Part IIA does. If the Public Finance Standards could be changed or the F. A. and A. Act could be changed, that would be a help to us.

Mr Mulheron: One other thing. They are standards and they are goals to aim for. The fact that a standard is not achieved may not necessarily be a reflection on inadequacies anywhere—provided they are looked at as the common aim, and it is realised that every organisation for its particular reasons will have reason perhaps not to fully accept or fully pursue standards. There is perhaps a danger that we become slaves to the standard. We have met the standard somewhere, but in so doing, we have lost a good understanding or a good hold of other things that are going on in the organisation. It passes through my mind that we can become slaves to the standard.

Mrs BIRD: Could I just ask question, Mr Chairman? A little earlier, you made reference to the amalgamation of the department within the department. That did not affect the implementation of the Public Finance Standards, though, did it?

Mr Watson: It just affected the lines of communication. Previously, the Water Resources Commission clearly saw that the Water Board had a relation to the Commission. When Water Resources became part of the Department of Primary Industries, who in the Department of Primary Industries was then supposed to be the source of communication? That is where it broke down. Water Resources got done somewhere up in head office at DPI. We had an instance lately where the DPI did not think the State Purchasing Policy even applied to us, so they did not send us anything. We have gone through all that sort of process.

The CHAIRMAN: Mr Mulheron, Mr Watson, Mr Hartnett—thank you very much for your evidence.

The Committee adjourned at 10.42 a.m.

The Committee resumed at 10.59 a.m.

The CHAIRMAN: I reconvene the hearing. On behalf of the Committee, I welcome the witnesses from the Department of Education—Professor Scott, Mr Warry and Mr McNamara. Before commencing to give evidence, I am obliged to inform you that the proceedings here today are legal proceedings of the Legislative Assembly and that the Committee requires that your evidence be given on oath or affirmation.

ROGER DENNIS SCOTT, sworn and examined:

RICHARD SYMES WARRY, sworn and examined:

LESLIE THOMAS McNAMARA, sworn and examined:

The CHAIRMAN: Professor Scott, could you please state your full name, place of employment and the title of the position you hold?

Prof. Scott: My name is Roger Dennis Scott, from the Department of Education. I am the Director-General of Education.

The CHAIRMAN: Mr Warry?

Mr Warry: My name is Richard Symes Warry. I am the Deputy Director-General, Resources, Department of Education.

The CHAIRMAN: Mr McNamara?

Mr McNamara: My name is Leslie Thomas McNamara. I am the Chief Auditor of the Department of Education.

The CHAIRMAN: By way of introduction, I will read a brief statement. The Parliamentary Committee of Public Accounts is an all-party Committee of the Queensland Parliament, whose purpose is to scrutinise and provoke reform of the financial administration of the public sector and to ensure that Executive Government is accountable to the Parliament. The Committee conducts its business in accordance with the Public Accounts Committee Act and the Standing Rules and Orders of the Legislative Assembly relating to select committees.

The Committee is presently conducting an investigation into the implementation of the Public Finance Standards in departments and statutory bodies. These standards are issued under the Financial Administration and Audit Act and commenced operation on 1 July 1990. The Committee has a particular interest in the requirements of the standards relating to financial management practice manuals, position assessments, system appraisals, program management, internal audit and the move to general purpose financial reporting by business undertakings and statutory bodies. The use of private consultants in the implementation of the standards is also of interest to the Committee.

I inform you as witnesses that you are required here today to answer all questions relevant to the subject matter of this inquiry. The Committee would like you to answer its questions frankly and to provide it with an accurate and clear view of your organisation's position on the issues canvassed. Professor Scott, either I or other members of my Committee will direct questions to you, and feel free if you feel it is appropriate to refer them on.

Professor Scott, on 26 March, the Committee wrote to you seeking information about the implementation of the Public Finance Standards in your department. Did you personally see the Committee's letter and did you personally review and authorise your department's response?

Prof. Scott: I did.

Mr PEARCE: I have a couple of questions on financial management practice manuals. The Committee considers financial management practice manuals to be very important. They are to prescribe the practices and procedures, etc., to be followed by staff in the financial administration process in your department and are a key element of the overall financial management policy and principles upon which the Public Finance Standards are based. Your department's response to the Committee indicated that your department was currently developing its manual and that it was expected to be completed in mid-May this year. Could you tell us: what is the current position? Is your manual now completed?

Prof. Scott: Yes, the manual is completed. We have a copy here. We have produced 60 copies and we have also put it onto electronic systems to be available throughout the system. Perhaps Mr McNamara, who has been oversighting this, may be able to answer more fully.

Mr McNamara: There is a copy of the actual document. It has only just been completed. As Professor Scott indicated, the intention is to distribute it to all of our regional offices and to all of our major work units within the central office area and also to put it on electronic access, onto the information network.

Mr PEARCE: Your department's letter also states that your practice manual concentrates on higher-level policy and that lower-level practices and procedures are generally documented in desktop files and procedural manuals already in existence throughout the department. I presume that you take it that your higher-level policy manual, the lower-level desktop files and the procedural manuals collectively satisfy the requirements of the Public Finance Standards concerning financial management practice manuals. Is that in fact correct?

Mr McNamara: Yes, that would be correct. I would add that, with our lower-level documentation—namely, our administrative-type instructions in schools and standard practice instructions within the central office area—there is still some development to be done.

Mr PEARCE: Could you define to the Committee, please, what you mean by a desktop file?

Mr McNamara: Basically, more procedural-type manuals; whereas, the financial management practice manual is a higher-level policy document which will go across the whole department. The policy that will apply there will be the same right throughout the department, including in schools in all of our operational areas. The lower-level documentation is procedural-type manuals, systems manuals and things like that.

Mr PEARCE: Your letter indicates that your department's lower-level practice and procedures are generally documented in desktop files and procedural manuals. We would like to know precisely what you mean by the term "generally". To what extent are practices and procedures not documented?

Mr McNamara: I would suggest that they are all documented in some format. When I say "generally", I presume that it is about consolidation of all those different practices and procedures. We have sets of practices and procedures for schools. The ability to keep those up to date is generally a bit of a problem, but this is something that we are looking to address in this whole package of financial information and management practices. We also have lots of what you would call general policy files, which are in our general records section, which we would access for current and up-to-date policy.

Mr PEARCE: Did you say that they are current and up to date? Is that what you said then?

Mr McNamara: The AIs and that type of documentation in schools is not as up to date as it could be, by any means. A major flow-on from this documentation will be to update those particular documents.

Mr PEARCE: Are you finding it difficult to keep those things in a current and up-to-date position?

Mr McNamara: It has been reasonably difficult to keep that wide range of instructions up to date. That is why we have set out quite a detailed plan for the way it will be handled in the future. We have incorporated a special section within our finance and resource policy area, which will be looking at the capacity to keep policies and practices up to date and to keep them out there in the operational areas.

Mr PEARCE: You said that it is reasonably difficult. Can you tell us why?

Mr McNamara: The major problem is the sheer logistics of being able to get information to more than 2 000 centres throughout the State, bearing in mind that those centres have to be able to interpret the policy. As far as schools are concerned—you have Brisbane State High at one end of the spectrum, down to a one-teacher school in a remote location. You have to try to cope with the practice right across-the-board and the capacity in those operational areas to be able to handle the level of detail that is required. Brisbane State High has a lot of administrative support. A small remote school does not have that same level of support.

Mr ELLIOTT: What level would that be? If we are talking about the south west, would that be happening in Toowoomba, or here or both?

Mr McNamara: It is happening right across-the-board. The instructions that go out to schools are basically the same for all. The overall ability to handle it at the same level is more difficult for the smaller schools, which do not have the consistent administrative support to assist them in the process.

Mr ELLIOTT: The headmasters are having a lot of these things loaded on to them, which they did not have before. They are then required to teach in the classroom, as well. In some situations, that may be making things a bit difficult for them. Perhaps they might get criticised if they have a tendency to have more ability one way or the other. The other side may not get the full attention that it could.

Mr McNamara: Generally, I would suggest that there will not be that much change in the instructions or the procedural manuals that go to schools, as such. There will be only minimal change to the financial management instructions.

Mr Warry: We would have to acknowledge that, for the newly appointed principals, the managerial role is one to which they are not readily accustomed. We have strengthened our regional offices to provide additional support for those principals, particularly in the country regions.

Mr PEARCE: You have already indicated—and I accept what you said—that the manuals are widely distributed throughout the department, throughout the State. I would like to know how readily accessible they are to all staff who could have the need to refer to them in performing their duties?

Mr McNamara: Generally, they will be available to all the regional offices. There will be a number in each regional office, and that is where the major, let us say, volume of work and volume of need to access the manual will be needed. Generally, all the major operational areas within the central office area will all have access to the manual. It is not that every person will have a manual by any means, no. It is that all operational areas will have access to a manual, or a number of manuals, and they will be readily available to whoever might need them through their appropriate managers.

Mr PEARCE: They are aware of where they are and how to get to them?

Mr McNamara: Yes.

Prof. Scott: There is also, in relation to the financial management practice manual, a deliberate policy of not having large numbers in hard copy to encourage people to look at the electronic data, because that is more easily updated. We are not putting out large numbers there. We are hoping that people will develop a habit of going to the electronic manuals, because that is where it is most easily updated.

Mr ELLIOTT: Are all schools on line for that?

Prof. Scott: There are some small single-teacher country schools which we have not got them on line, but the expectation is that all school support centres will have access to them and the bulk of primary schools—

Mr ELLIOTT: The Apple Macintosh system is quite capable of being on line all the way across?

Prof. Scott: Yes.

Mr PEARCE: Your department's letter indicated that your department hired a consultant to develop its financial management practice manual and the estimated value of this engagement was \$90,000. Why did you hire a consultant rather than use your own departmental staff? The Committee believes that your staff should possess a thorough knowledge of your department's financial administration systems and procedures whereas a consultant, presumably, would need to acquire that knowledge from scratch?

Mr McNamara: Just on that point—the way we looked at it was that we employed, basically, casual labour through Centacom, which is basically a staff placement agency. We did not go out and basically ask for a consultant to do the job. We specifically went out and asked for three people with specific qualifications to do the job. We then hired them on the basis of an hourly rate, and we supervised it through a steering committee and a working party all the way through. So we had, basically, total control over the process all the way through.

Mr PEARCE: What was the final cost?

Mr McNamara: The final cost was in the vicinity of \$100,000.

Mr Warry: Could I just make one addition to that: the other part of that strategy was designed to involve the line managers in working with the people we had engaged. It became a cooperative effort between the experts brought in from outside and the ongoing line managers, but we took the view that if we relied on line managers to accept the responsibility, it would have taken us a much longer time to complete the manual than it actually did.

Mr McNamara: Again, it was also at a time when this major restructuring was going on. I would say that we had staff with the capacity to handle it. They had the knowledge and the skills to handle it, but not the capacity to handle it.

Mr PEARCE: Do you anticipate a need to continue to use consultants, or do you believe that you will be able to keep it maintained and updated within the department?

Mr McNamara: We had no intention of maintaining consultants to keep the manual in order. That is part of the duty statement of a particular area in the finance and resource policy area.

Mr J. H. SULLIVAN: Professor Scott, the response to the questionnaire that was sent out came back from you with some information about the audit functions and the audit positions, indicating that a number of positions were yet to be filled in regional office. In fact, 6 of 11 senior internal audit positions and 9 internal auditor positions needed to be filled. Has that happened yet?

Prof. Scott: It has not completely reached finality, but we are in the process of appointing those people.

Mr McNamara: At this particular point, we still only have the five appointments and we have about three nominations in the process, and there are about another three interviews. We conducted some last week and we will continue and, hopefully, finalise the rest of them this week.

Mr J. H. SULLIVAN: Of the 31 positions in the internal audit establishment, how many are yet to be filled?

Mr McNamara: There is a position within the central office area, there are the 6 positions to bring us up to 11 in all the regions, and the other 9 and 4 that we talked about are yet to be even called.

Mr J. H. SULLIVAN: When do you expect regional office internal audit functions to be fully operational?

Mr McNamara: At this stage, I have asked for the nine positions. We are going for them, and we have asked for funding for the nine positions with a view to them being appointed probably later on this year. There is an issue of resourcing of the department generally, which has to be taken in context.

Mr J. H. SULLIVAN: To whom do the senior internal auditors at regional offices report directly? Is it yourself as Chief Auditor?

Mr McNamara: The senior internal audit positions in the regions report only administratively to the Executive Director, and that is basically for their office space, their leave, and straight administrative reporting. As far as their audit program and everything is concerned, they report to me as Chief Auditor.

Mr J. H. SULLIVAN: Professor Scott, could I ask you whether your Chief Auditor reports directly to you?

Prof. Scott: Yes, he does. Perhaps I could indicate the structure we operate, because I think it is helpful to set it in context. Beneath me there are two Deputy Directors-General, one in the resource area, Mr Warry, and one in the programs and the human resource management area. That is Deputy Director General Frank Peach. In addition, there are three other staff who report directly to me on a regular basis. That includes the Executive Director, Review and Evaluation, and he has reporting to him the Chief Review Officer, the Chief Auditor and the Chief Research Officer. That is the formal organisational arrangement, but in terms of the function of

audit, the Chief Auditor has regular access to me, and would report to me directly on those issues that affect my role as the accountable officer for the department.

Mr J. H. SULLIVAN: Does that fulfil section 36?

Prof. Scott: Correct.

Mr J. H. SULLIVAN: Perhaps Mr McNamara might be the best person to whom to direct the next question. Are your audit staff qualified in accountancy?

Mr McNamara: Yes, they all have qualifications. One has a Bachelor of Science degree, one has a teaching qualification, and the balance have commerce qualifications.

Mr J. H. SULLIVAN: Your response to us indicated that the internal audit unit was combined with the education, review and research functions in the departmental restructuring. Will the duties related to the education, review and research functions be undertaken by the internal audit staff, or will a separate pool of staff be performing those duties?

Mr McNamara: Generally, as Professor Scott indicated, it is a three-pronged directorate. Basically, we will be providing some additional, let us say, multiskilling for the review team, but the review of programs generally would be more the responsibility of the review and research area within the directorate. So we are going to be involved in some of those reviews, but only as many as we can handle within our program.

Mr J. H. SULLIVAN: What proportion of time do you think the audit staff will spend performing education review and research functions?

Mr McNamara: I would suggest no more than 20 per cent.

Mr J. H. SULLIVAN: Your internal audit function operates under the charter established in 1980 for the internal operation audit service in the Queensland Public Service. Do you see a need to develop an update charter for your internal audit functions?

Mr McNamara: Yes, I would say that we probably do need a review charter, and we have thought about that. Basically, we were awaiting the outcome of the EARC report on the public sector auditing to see what Government-wide initiatives there would be in that regard.

Mr J. H. SULLIVAN: Public Finance Standard 610(3) prescribes a range of tasks which are required to be incorporated into the internal audit annual work plan. Your response indicated that whilst your annual internal audit work plan addresses many of the requirements of Public Finance Standard 610 (3), not all areas are fully covered by the work plan at this time. That response was in April. Could you tell us precisely what internal audit functions required to be undertaken by Public Finance Standard 610 (3) are not being performed in your department?

Mr McNamara: Generally—and I think we will get into this a bit later—things like the systems appraisal and position assessment we have not got involved in at this particular time.

Mr J. H. SULLIVAN: What are you going to do about ensuring full compliance with the requirements of the Public Finance Standard? When will it be achieved?

Mr McNamara: Generally, when we address the issues of systems appraisal and position assessments. We have processes in place looking at those at the moment. When those activities are in place, I would see that we would have more an overview/monitoring role in those kinds of activities.

Mr J. H. SULLIVAN: Have you got any wild guesses about when they might be in place?

Mr McNamara: I would suggest probably about the end of this year, maybe earlier.

Mr J. H. SULLIVAN: Who develops the annual audit work plans for the regional internal audit units, and who approves those plans?

Mr McNamara: The senior internal auditors in the regions.

Mr J. H. SULLIVAN: They develop them?

Mr McNamara: They develop them in consultation with myself and with the executive directors in the regions. If they want a particular area looked at, they are given an opportunity to have an input into what the plan might entail.

Mr J. H. SULLIVAN: Who has the approval process?

Mr McNamara: The approval process is through me. I basically ask for a plan which I then review and, on the basis of that review, determine whether it is appropriate and approve accordingly.

Mr J. H. SULLIVAN: How do you monitor progress against the internal audit work plans? To what extent have you found plans have been achieved to date?

Mr McNamara: Generally, with the senior internal audit ones—and there are only five of those going at this particular point in time—I require monthly reporting against the plan. Internally, we have a number of programs. We have set out time spans for when they will be done. To date, I have found, particularly this year, with the amount of restructuring going on in the department, that we have been called on to be involved in a lot more investigative type of work, so our time plans have probably blown out a little bit.

Mr J. H. SULLIVAN: Professor Scott, how beneficial have you found internal audit to your management of the department?

Prof. Scott: It has been very significant in giving me reassurance that I am meeting my formal obligations as the chief accountable officer. I am kept regularly informed of any problems that might emerge and in particular the difficulties associated with staffing. They are the issues that I have been well informed about, and I regard it as a highly successful arrangement. There is an important philosophical underpinning of the notion of having a chief auditor in close association with general education review and research because we want to make sure that we are looking at the total effectiveness of our operation rather than just the financial efficiency.

Mr J. H. SULLIVAN: Are you able to give the Committee a specific example of improvement in the administration of the Education Department which arose from a recommendation of the internal audit unit?

Prof. Scott: I think the most important ones have taken us into the areas of school management, school-based budgeting and the arrangements that are appropriate between schools and school support centres and regional offices. There are a number of issues of accountability which have been explored with the internal audit section, which certainly required my attention as the formal accountable officer.

Mr J. H. SULLIVAN: To what extent have recommendations made by internal audit been actually implemented in the department?

Prof. Scott: In almost all cases. I need to have very strong arguments as to why we would not implement them. In most cases, that might relate to resources not being available in staffing terms, but in general the recommendations are accepted.

Mr J. H. SULLIVAN: Public Finance Standard 400 requires that the internal audit function be consulted when computerised accounting systems are in the specification and development phases and before implementation. Is this the case with the Department of Education? Let the record show that Mr Warry nodded.

Mr Warry: Yes, that is so, at both stages.

Mr McNamara: Generally, those systems developments have come past the internal audit at an early stage. We have moved to formalise that even more so by sending out a directive to the effect that that does have to occur.

Mr J. H. SULLIVAN: Professor Scott, my next question also might be better handled by Mr McNamara, but I will leave that to you. Are internal audit staff ever taken away from audit duties to do other work, for example, to relieve in vacant line positions or to fill other staff shortages?

Mr McNamara: Generally, the answer has been that, in recent times, the staff have not been moved from the area at all, but that is mainly because of the level of restructuring that has been going on and the need to maintain a viable internal audit. In the past, people have been moved out on odd occasions to relieve in positions. We see that as probably being a good thing because it exposes them and the area that they are relieving in to a different perspective on how the department should be operating. Again, it is dependent upon what is on the audit program at the moment and the priorities in that particular instance.

Mr ELLIOTT: When you say you move them out, do you move them out into the regions?

Mr McNamara: They have relieved in the regions, but mainly in the Brisbane-based regions in the past and generally within central office areas. It is not a real common occurrence by any means.

Mr J. H. SULLIVAN: I understand that it is not common and that there are some pluses in exposure to other areas. Do you feel that that may also serve to curtail or weaken the effectiveness of the internal audit team or function?

Mr McNamara: That is why I say that we have to really look at our priorities at the particular point in time when we consider whether we will or will not release a staff member to a particular area. We have to consider what the impact will be of that staff member going into that area—just how well that area is going to be able to operate if it has not got somebody with the right expertise in it to do the particular management function.

Dr WATSON: I would like to turn now to the area of program management. Obviously, the Committee's questions are based on the information you provided earlier in response to the Committee's questionnaire. You have brought along a corporate plan and some other documents. Would you like to begin by discussing those and then we will see how relevant the questions are that remain?

Prof. Scott: I would like to make just a couple of comments about the context of corporate planning in this department because it is very easy to assume that all departments are much the same in the structures that they have to operate within. I think there are three problems for us. One is the scale of our operation. We have 2 000 locations to operate within and to meet the various standards that have been required in terms of accountability. We have of the order of 28 000 teachers. We issue about 70 000 group certificates. That is really an important element in the way in which we can operate the system, the speed with which we can respond to changes in expectations.

The second point I would want to make is the concern over the impact of reorganisation. We are one of many departments that have undergone reorganisation. We are one of those departments where particularly we have introduced some new people from outside in the total organisation down to AO7 level, which is our senior line managers. We have had 42 appointments from outside the system. All of them have had to learn their jobs. The time taken to bring people in from outside has often generated a hiatus where we have not had staff in place on the ground. In addition, there are some teachers who have moved into administrative roles or into support roles such as school support centres. Those changes, I think, have also influenced our capacity to respond quickly in terms of the corporate plan.

The third point to make is that we have been given lots of advice from central agencies which has not always been consistent either with our own views or with each other. That has generated delays as well, particularly the impact of the Public Sector Management Commission review of the department and obviously our dealings with Treasury in developing an appropriate corporate structure. The result of all that has been that our process towards a formal system driven by a program budgeting structure has been slower than we would have desired and had planned. In 1992, we did develop a development plan which was widely circulated. In April/May this year, that was recast into the program format. The document you have with you now is the recast version of the development plan, called the corporate plan, which has within it statements of the new program structure on page 6 and has within it also a commitment to program descriptions, strategies and performance indicators. This is a new document, but it does not give new goals. Rather, it casts those goals in terms of programs. With that sort of background, the document that you have constitutes a very important base line which we will move towards quite rapidly for the next planning cycle. We have in mind a series of workshops with our senior management team to bring this forward into a general public document, which it currently is not at the moment.

Mr ELLIOTT: On the graph, in the shaded areas, you put things into place, but what is the significance of some of those areas not having any shading at all? I have not been able to follow it yet.

Prof. Scott: Across that long column which ends "schools" you have a description of our organisation units which includes, obviously, a very large number of schools, 52 school support centres and 11 regional offices, and the next group are the units within central office. What you have down the left-hand side is the description of programs and where those are located in

terms of the units. That is keyed in to a description of programs and subprograms on the previous page.

Mr ELLIOTT: For example, under “Corporate services”, there is no shading going right across. What is the significance of that? That also applies to “Assistance to non-Government schools” and “Assistance to tertiary institutions”.

Prof. Scott: You will see that “Corporate services” in small print in the italics is broken into a series of subcategories.

Mr ELLIOTT: I have picked that up now.

Prof. Scott: So “Corporate services” is a broad heading which is incorporating all of those.

Mr ELLIOTT: Why has “Assistance to tertiary institutions” got nothing?

Prof. Scott: It is a separate program which is required because of the special relationship between the Ministry and the department.

Mr ELLIOTT: Is that the same for “Assistance to non-Government schools”?

Prof. Scott: Correct.

The CHAIRMAN: They are physically not located under the auspices of the department?

Prof. Scott: Yes.

The CHAIRMAN: Non-Government schools do not belong within your—

Prof. Scott: Yes.

Mr ELLIOTT: You do not have an input.

Mr Warry: We have input, as Professor Scott said, through the Minister and the Ministry. We also have—which is not shown on that chart—two small offices, one an office of non-State schooling and one an office of higher education which have particular responsibilities to overview in those areas, but because the Department of Education does not have a direct responsibility over universities or non-Government schools, we are somewhat cautious about how we represent them on organisational diagrams.

Dr WATSON: With regard to advice from central agencies, can you refresh my memory as to when the PSMC review was completed?

Prof. Scott: I think it was in September 1991.

Dr WATSON: What about interaction with Treasury?

Prof. Scott: That has been an ongoing discussion over quite a long period. We have had working parties with Treasury representation. There have been individual discussions. That has been continuing up until the last couple of months. Discussions have been going on for over a 12-month period.

Dr WATSON: Basically, resolution has occurred between you and Treasury?

Prof. Scott: Correct.

Dr WATSON: Was it amicable or did you just come to a resolution that you would go a particular way?

Prof. Scott: No, it has been amicable. The issue that was in contention was whether we should report on the levels of structures of schools, whether there should be a separate program for preschool, for primary, for special education, for secondary education, for distance, and continuing education. It was Treasury’s preference that we should move in that direction because it was perceived that that was how the public viewed the education system. We had some problems with that, which we are discussing with Treasury. They relate to our own restructuring where we are trying to deliver school operations in total to encourage integration. The resolution of those discussions was that the separation preferred by Treasury with preschool, primary etc., would be as subprograms, very large subprograms, and we would report information on them at subprogram level, and that met their concerns about having some sort of formal reporting mechanism at that level of the organisation.

Dr WATSON: I might come back to that issue, because a couple of things occurred to me when I looked at the document. Do you have anything more to say about that?

Prof. Scott: No.

Dr WATSON: How available is your department's corporate strategic plan to your staff? Are they aware of the goals of your department? What part they have to play in achieving those goals?

Prof. Scott: The department developed a corporate strategic plan for 1992 to 1996. This was made widely available. It was a printed brochure which went to every school and every p. and c. association. Every organisational unit received one. The full text of the development plan, as we were calling it, was on view. Wall charts were produced and featured in most staff rooms and in most organisational offices. The goals of that plan were recast into the program format in April/May of this year, but the goals are themselves consistent with the earlier document. In future, the resultant document will be called the corporate plan, and that will reflect the restructuring into a program format. The essential goals of the organisation have been widely distributed throughout the school system.

Dr WATSON: Is anything done to ensure that people actually absorb the material?

Prof. Scott: There was a series of workshops and the creation of forums and planning committees right through the organisation down to the school support level. They were designed to encourage discussion of original drafts. The process of developing the development plan consisted of expecting input from regions, from school support centres and from schools. We were hoping that that would have generated an expectation of people reading it. The final point, perhaps, is that in the context of our appointments and promotions we are emphasising the importance of understanding the goals and being able to talk about that in the context of selection criteria.

Dr WATSON: In your department how is service delivery by program incorporated into your regional organisational structure? Are there separate managers in each region responsible for each program? I can see the linkages, but I do not see how the regions map into the programs.

Prof. Scott: There is a process answer and a content answer. The process answer is that we are putting together a workshop on 17 and 18 August which will involve all the senior management teams, and one of the tasks of that workshop will be to generate program management teams which will operate regionally as well as centrally. The substantive comment is that we have already identified teams which will look after the various programs, and they are teams which mix both regional and central office staff. Each of those programs will have involved within them senior regional managers, whether it be the regional executive director, for example, or the assistant executive director, human resources, or the assistant executive director, resource and administration. They will be members of a team which will be responsible for an individual programs.

Dr WATSON: So that is a member from each region?

Prof. Scott: Not from each region, but there will be regional representation. Otherwise, we would have a very large team, because there are 11 regions, plus central office. There will be a coverage of all regions in some of those teams. Each region will have some presence in some of those teams.

Mr ELLIOTT: You mentioned earlier the difficulties in relation to the 42 appointments that were made. Were they new people who were coming from interstate or somewhere else who did not understand where you were coming from and had to learn the ropes?

Prof. Scott: That is correct. There were two factors. One was that there were sometimes delays in those people arriving. Sixteen people came from other State Government departments, and 26 came from outside the system. They might be outside the system but within Queensland or in similar jobs in other jurisdictions. There was a delay in some of those people arriving.

Mr ELLIOTT: They were management people?

Prof. Scott: Yes.

Mr ELLIOTT: Over what period has this occurred?

Prof. Scott: We are talking about the last two years, particularly the last 18 months.

Mr ELLIOTT: Is that still going on, or is that bedded down now?

Prof. Scott: That is now virtually finished. In only a small number of positions have we still not formalised the new structure. In some cases, the PSMC made recommendations in its report which caused us to recast our structure.

Mr ELLIOTT: The business of re-advertising a person's position and asking that person to re-apply for these positions—is that still going on?

Prof. Scott: That is virtually finished. In just a couple of areas in central office, that is not true. In areas such as the publications and the open access support centre, it is still being finalised. Predominantly, it is 95 per cent finished.

Mr ELLIOTT: You were saying that you had not progressed as fast as you would have liked. Has all of that upheaval or that process of change caused some delays in this program?

Prof. Scott: Yes, it has caused delays. I think they are productive delays, in the sense that we are getting access to outside wisdom and thinking. People from other departments have had some very valuable contributions to make, particularly in the program management area.

Dr WATSON: I would like to go into a little bit more detail on the issue of program management in regions. First, I will ask some preliminary questions. The principles of program management as set out in the Public Finance Standards require resource management systems which focus on outputs—that is, goods and services provided—and also, of course, on outcomes—that is, desired results—as a primary concern. The standards require departments to have management information systems in place to deliver this output and outcome information. What systems exist in your regions to ensure that performance information on the outputs and outcomes of each of your department's programs is reported to you to enable you to monitor service delivery performance and justify your budget allocations?

Prof. Scott: In this document, if you go to individual programs starting from page 8, you will find statements about performance indicators. To take one at random—page 11, secondary education. A series of indicators is listed there about levels of student achievement being measured, the percentage of students who complete Year 12 and the levels of student satisfaction. That is an area in which you would be looking at that data being collected on a school base, then regionally, and allow for comparisons once those indicators are available. Similarly, if you go through any of the subprograms that are listed there, the same applies. Indicators are being identified.

Dr WATSON: I was just looking at that. A couple of things strike me on that. Take the schools operation program, which is the program that you just picked—first of all, there is no overall performance indicator for the program. Performance indicators are only at subprogram level. I am interested in how you intend to integrate it and make an overall judgment. Secondly, when talking about some of the performance indicators, you are saying that those will be collected on a school basis. Will they be aggregated into the region? Can you tell us how you see that occurring? As an example, take the secondary program. You talked about levels of student community satisfaction with teaching and other support provided. In a region that is fairly diverse—for example, the region covering my own area, which you well know about—you might get some quite diverse opinions if you look at the schools across the region, let alone across the State.

Prof. Scott: You undoubtedly would.

Dr WATSON: I am interested in how you are to aggregate those. As you would know, obviously the aggregation mechanism will determine how you view the performance outcome.

Prof. Scott: The aggregation will essentially be in the hands of our review and evaluation directorate, as will the implementation of performance standards. That will give a reading at regional level, which would clearly need to recognise that it is an uneven set of performances across that region. The region itself would be charged with looking at that through its own forums, with the capacity to comment on success or lack of success in particular areas. I do not think I can give you a more specific answer on that. I do not know whether Mr Warry wants to comment further.

Mr Warry: Only to add that we really have two bases of aggregation. One is where we in fact seek to aggregate totally across the system for information from each source; for example,

schools. The other one is where in fact we choose to sample, and in fact the sample enables us to generalise across the total system again. I think that the difficulties we have with both of those mechanisms——

Dr WATSON: What do you mean by “sample”?

Mr Warry: For example, just in the last two years, we have sampled populations of students at various year levels, and those samples of students have been given tests in literacy and numeracy. We are able to make some observations about standards of literacy and numeracy at Year 5, Year 7 and Year 9, for example, without having to go to the expense and the trauma of trying to test every child in Year 3 or Year 5 or Year 7.

Dr WATSON: If you sample in that way, you can make a statement at the program level. That is interesting, because the first point I raised with Professor Scott was the fact that there are no performance indicators for the program. The performance indicators you will get are at the subprogram level. A sampling such as that does not allow you to address that issue, because you cannot disaggregate.

Mr Warry: That is true.

Dr WATSON: Professor Scott knows something about performance evaluation, and I am sure he would understand that.

Prof. Scott: I think that is a fair comment. It relates to the desire to break up that single schools operation program into manageable chunks, which is very much the largest of our operations, and to report it in those terms. I agree that you cannot then aggregate all of that and say, “Here is a performance evaluation for the whole of schools.” I think that would be a very difficult task, and probably not even a meaningful index.

Dr WATSON: The original basis of the Committee’s concerns was that you have a regional structure, and we were interested in what kind of program evaluation is in place. You have responsibilities in reporting to the Minister. We will address that issue in a moment. Obviously, there was not a lot of detail in that first example. Just looking at this example, I am not quite sure how it then answers the questions with which we would have been concerned with. You start off at the school level and start collecting the information at that level. I do not say that it cannot be done in that way, but the question is then how you put it together. Your performance indicators are at subprogram level——

Prof. Scott: Subprogram level in this case, in schools.

Dr WATSON: How do you go from one to the other?

Prof. Scott: I think you that you do it with difficulty, because of the complexity that I started off talking about. We have so many different components in a region. It makes it very difficult to sensibly bring all that information together when there is such diversity in the size and structure within regions as well as between regions.

The CHAIRMAN: If I could just ask one more question about the performance indicators on page 11 for the secondary education subprogram. Basically, you have listed four performance indicators there. You have indicated that the school will be the base for the collection of that information. Perhaps some information would be statistical, which is available at the school level and, in other cases, perhaps sampling might need to be done.

Prof. Scott: Yes.

The CHAIRMAN: You put that together, which gives you an evaluation for that particular subprogram. Are systems currently in place for you to be able to gather that information now, or is it still something you are working towards?

Prof. Scott: It is something we are still working towards. Some of it would be relatively simple to gather, like a percentage of students who have completed Year 12. The levels of student achievement in key learning areas is itself an evolving system where we are identifying the key learning areas and developing a system of sampling which will allow us to give some cogent analysis of performance of students.

Dr WATSON: Who is responsible in each region for ensuring that program performance data is compiled and forwarded to your head office?

Prof. Scott: The executive director of the region.

Dr WATSON: One of the important principles of program management is the need to have an appropriate set of performance indicators for evaluating program effectiveness and efficiency. These performance indicators should link in with the strategic plan. The practice statements to the Public Finance Standards require that programs be reviewed in terms of key performance indicators annually and at such other times as appropriate. Your department's letter stated that your current strategic plan does not include performance indicators but said that the operational plans of most work units include them. Your letter also stated that key performance indicators are currently being developed. Have you determined the key performance indicators? Is this document the definite set of key performance indicators?

Prof. Scott: Yes. This document is subsequent to that letter and it has been developed as a basis for the workshop that is going to occur later this month. These are the definite set. The implementation is going to be discussed at a meeting of regional and central office staff in an intensive development so that we can then produce a 1993 version of this document.

Dr WATSON: Do you intend not to have any performance indicators for programs as a whole?

Prof. Scott: At the moment, that is the intention, yes.

Dr WATSON: Despite the sampling answer given by Mr Warry before?

Prof. Scott: It comes back to our discussions with Treasury as to what is the appropriate way in the schools program to report and the concern that we do it on a subprogram basis. Clearly, there will be a capacity for aggregation. The point you just raised casts some doubt about the virtues and even the credibility of total aggregation.

Mr Warry: It does highlight the sort of interesting dialogue that occurred between ourselves, Treasury and the PSMC in relation to this program structure and the levels of reporting that were attendant on choosing a particular structure.

Dr WATSON: Do you intend to publish these performance indicators in your strategic plan?

Prof. Scott: Yes.

Dr WATSON: Will you report these in your annual report, together with performance against—

Prof. Scott: The intention is that the annual report will reflect these program structures in a way that it clearly does not at the moment, because we have not had them in place up till now.

Dr WATSON: That begs the next question. Without the key performance indicators having been developed in the past, how have you been assessing the effectiveness, efficiency, achievement and the outcomes of services provided by your department's programs?

Prof. Scott: We have had a director of review and evaluation and, preceding that, a chief inspector and a series of reviews of particular programs and activities. Clearly, we have not had a baseline that can carry on in the future. This is why we have been keen to progress this so we do get a baseline.

Dr WATSON: The practice statements to the Public Finance Standards require that all programs be comprehensively evaluated by 30 June 1993. They also require the accountable officer to prepare a report to the Minister detailing the results of all reviews and assessments conducted during the year and that appropriate evaluation comments be given in the annual report to the department. Your department's letter stated that many of the program reviews and assessments have been reported to your Minister. This response suggests that you have not reported to your Minister in all cases. Is this correct and, if so, what have you done to ensure that your Minister is fully informed about the reviews on a timely basis?

Prof. Scott: I have tabled a second document today which is a summary of where we have got to in the area of review and evaluation. Clearly, we are seeking to meet that deadline. The late start poses some challenges for us in terms of meeting that deadline.

Dr WATSON: Have all of these been forwarded to the Minister?

Prof. Scott: Yes. That document you have with you has gone to the Minister.

Dr WATSON: As I stated earlier, the Public Finance Standards require that all programs be comprehensively evaluated by 30 June 1993. Your department's letter indicates that some

components of your programs have been reviewed and that, while not all components of all programs will have been reviewed by 30 June, all programs will have been addressed to some extent by that date. Your proposed evaluation schedule quite clearly does not seem to satisfy the requirements of the standards at the moment. Is that because of re-organisation, or is there some other reason why you are unable to have all programs fully evaluated by 30 June?

Prof. Scott: It is basically the issues that I addressed earlier on. We are a very complex undertaking. We have had significant changes in staffing and there is a need for those people to maximise their understanding of the organisation. They are the reasons for the delay.

Dr WATSON: Your department's programs are large, and we accept that. They involve a very substantial commitment of public funds. You have had ongoing discussions with Treasury over a 12-month period. Is Treasury aware of the problems? Has it expressed particular concerns about the fact that comprehensive program evaluations have not been performed?

Prof. Scott: Yes, we are aware of their concerns and we have sought to allay their concerns as far as we can.

Dr WATSON: What do you mean "as far as you can"?

Prof. Scott: Within the constraints of time which I talked about. Certainly there is now an agreed structure, which was not agreed until relatively recently. That agreement will allow us to get on with performing the task.

Dr WATSON: Could you tell us how you are able to effectively evaluate your programs when the various component parts of these programs are being evaluated over a protracted period? We all know that they evolve, if you like, as a variation of the goalposts being shifted.

Prof. Scott: I do not think there is any easy answer to that. We are always going to have a problem of differing bits of information coming in at differing times. Given the size of the organisation, I think that is going to be an inevitability. Over a longer period, we will be able to get some baselines and see what changes are carrying through in particular areas. Given the relatively small number of people involved in the review process, we are going to have to learn to live in the short term with some bits being reviewed earlier than other bits. Over time, we will have those baselines in place and be able to make some sensible comparisons on achievements over 1, 2, 3 and 5 year periods.

Dr WATSON: One way of going about this would be to look at some kind of process and desired process outcomes.

Prof. Scott: That is where we are going. The emphasis is upon getting a common set of processes and working through them in a systemic way.

Dr WATSON: What benefits are you expecting to achieve from the comprehensive evaluation of your department's programs?

Prof. Scott: The biggest benefit will be a certainty that the resources are being used as effectively as possible and to examine the actual performance in relation to the stated objectives. Up until now, we have not had that linkage nearly as clearly spelt out as it should be in the context of a program management structure.

Dr WATSON: Obviously, you have been involved in a fairly extensive process already. Can you identify any benefits that you have had by adopting the program management techniques so far?

Prof. Scott: I think it has shown up the potential for duplication in some areas.

Dr WATSON: For example?

Prof. Scott: In the curriculum area, in particular. We have now been able to get a much more lean curriculum activity at the centre. People who were previously involved in curriculum at the centre are now often moved back into schools as education officers. Already we have seen, with a rather broad brush review, some potential savings, in particular aiding numbers of teachers, who were previously occupied in central office going back into schools.

Dr WATSON: Are there any substantial costs or negatives to that process?

Prof. Scott: There are always some negatives in disruption when people are learning to operate in a new environment. On balance, though, the benefits have outweighed those costs.

Mr ELLIOTT: Of those people who have gone out of the office and back into teaching in classrooms, what sorts of numbers have been involved in that?

Prof. Scott: I would not have a number to hand—a couple of hundred.

Mr ELLIOTT: Are they all age ranges?

Prof. Scott: Yes, they will have been selected from various levels, probably more towards people who are subject masters and beyond in the system. However, relatively junior people with special expertise have come in and then gone back. In the past, the problem was that many of those people became permanent fixtures in central office, and projects were extended to keep people there. We have now broken that fairly effectively and we have arrangements whereby people do not come in and expect to build a career in central office. They see themselves as going back into the school environment. That they have had the experience of working on different projects enriches the school.

Mr ELLIOTT: At regional level, what structure changes have been made?

Prof. Scott: The major structural change does not relate so much to programs as to the formal bureaucratic organisation. We now have significant delivery of resources and administration, human resources, audit and accountability all being developed around a core of regional staff rather than all being done centrally. School support centres have been developed to provide support that is more localised than the regional office. That is the big change that is a product of the reorganisation. There were generalists who were inspectors. There are now specialists in particular areas.

Mr ELLIOTT: Is that whole principle of inspectors going out and inspecting schools basically dead?

Prof. Scott: Yes, it is. Schools now develop their own review structure. They develop a school development plan, which is authorised and assisted by review officers at the regional level. The old notion of the inspector coming and having some punitive role rather than some support role is certainly gone.

Mr ELLIOTT: Who decides whether or not teachers are performing?

Prof. Scott: Essentially, the principal is now held accountable for what goes on in the school, including the quality of the teaching performance.

Mr ELLIOTT: Who determines whether those head teachers are performing?

Prof. Scott: The regional office review staff. The idea is to develop a performance plan, which will link the principals through a peer system to the regional office. Their performance would be evaluated at that level.

Dr WATSON: Obviously, you believe that the programs are being delivered more efficiently and effectively?

Prof. Scott: I believe so, yes.

Dr WATSON: Can you demonstrate that in any way?

Prof. Scott: It is still very early to give a lot of hard data, and I am not sure what the data would look like. There are some subjective measures about people's commitment to the organisation and the enthusiasm with which people are grasping opportunities which were not there in the past. There are a series of changes that are substantial in the way we are organised. The school support centre system is delivering better support and has the potential to grow into a very significant component in supporting teachers' activities. In the end, the quality of education will be the measure of our achievements. Significant progress is also being made with the significant initiatives by the Government in the equity area in terms of both the provision of support for changes in that area and the visible growth of appointments from disadvantaged groups, including women. There is substantial evidence in the reports that are coming through.

Dr WATSON: Do you have any idea of the costs associated with the implementation of program management within your department?

Prof. Scott: We do not have any detailed costing on that because it is still in progress. We do not think that we can do a sensible costing until we reach the end of the process.

Dr WATSON: Do you have any idea of the number of man-hours, or person-hours, involved?

Mr Warry: Not really. At this stage, it would be difficult for us to disentangle those specific demands from the more general demands of the restructuring process. Moving from one set of protocols to another inevitably involves some cost, but we would not be in a position to quantify it.

Dr WATSON: You would not be able to make a statement about whether the costs outweigh the benefits or vice versa?

Prof. Scott: In light of our previous answer, it would be difficult.

Mr ELLIOTT: In respect of systems appraisals—the Public Finance Standards require that all your department's revenue, expense, asset and liability systems be appraised each financial year to determine the proper functioning of controls and the appropriateness of the procedures followed. Your department's letter of 15 April to the Committee indicated that you will be creating a new and separate unit within your Finance and Resource Policy Branch to undertake your department's system appraisals. The letter also stated that your department was in the process of filling the positions involved. What is the current position?

Mr Warry: One of those positions now has been filled and work has commenced on clarification of the demands of the systems appraisal area. Looking back on our response in the letter in the first instance, we probably should have indicated a little more comprehensively the view that we have. We believe that the lodgment of this responsibility in the finance and resource policy area is one element of our strategy. We certainly envisage that it will be a continuing responsibility for the line managers and also for the internal operational audit group. The only concern we have at the present time is that we really believe that systems appraisal as a concept in terms of what precisely travels under that banner still seems to be a little confused across the service. We would hope that we have embarked upon the right course of action by placing the responsibility with a particular group. It is a little unwise to vest it exclusively in either the line managers or the internal operational audit group. We believe that we need that distinct capacity. We are certainly not denying that the others also have a contribution to make.

Mr ELLIOTT: When will the systems appraisal be fully functional and in a position to enable your department to comply with the system appraisal requirements of the Public Finance Standards?

Mr Warry: We would hope by the end of this year, certainly by the culmination of the financial year. However, we need to have some further dialogue with a range of other players, including Treasury, about whether what we propose will meet the requirements of the Public Finance Standards.

Mr ELLIOTT: How many staff will be attached to that systems appraisal unit?

Mr Warry: It is only a very small number—two. We would supplement them from time to time.

Mr ELLIOTT: How many are currently working there?

Mr Warry: One.

Mr ELLIOTT: What qualifications and experience levels are staff employed in your systems appraisal unit required to have?

Mr Warry: They are people whom we would appoint at the AO6 and AO5 level. We would expect them to have appropriate graduate qualifications in areas such as economics, commerce and public administration and to have demonstrated some expertise in a multi-disciplinary area.

Mr ELLIOTT: Do you have people such as that now?

Mr Warry: Yes.

Mr ELLIOTT: Why did you decide to establish a separate systems appraisal unit rather than to have these appraisals completed by the individual line managers? Mr McNamara commented on that earlier.

Mr McNamara: We have heard recently that there might be a different line of thought on it. We get the view from Treasury that it is more a line management responsibility. As I said, we

had some reservations about their ability to handle it and about their objectivity in doing such a thing.

Mr Warry: There were two reasons for us reaching that view. One was that our experience is that line managers get overwhelmed by their line responsibilities and that something like a systems appraisal might be the first casualty of excessive work demands. The second one is that there is the concern that you are asking a person to conduct an appraisal of the very wherewithal with which they constantly work day in and day out. Certainly, they can make a contribution to that appraisal, but we need a little bit of distance to give us the capacity and also to give us that enhanced objectivity.

Mr ELLIOTT: What additional cost will the systems appraisal process create in the department as it now stands?

Mr Warry: Again, we would be hard pressed to quantify that at this point in time.

Mr ELLIOTT: You have indicated that you have two or three staff there.

Mr Warry: Yes, but that may well be only a component of the cost. We would be looking at the frequency with which we have to do it other than on an annual basis and the things that flow from it. I suspect that it is not the act of appraisal that ultimately incurs the cost, it is what sort of corrective and remedial action you have to undertake.

Dr WATSON: That is taken not by the appraisal system but by the line managers, is it not? It is interesting, because I notice in the documents that came with the letter, which came from one of the project officers up past yourself to the Director-General, you wiped out using chartered accounting forms, which is a thing that obviously struck me. You eliminated using outside consultants because you argued that the cost was too great, and yet you do not seem, in answering the question here, to understand what the costs of your current system are. I would have thought that was——

Mr McNamara: At the end of the day, when that determination was made about the use of outside accountants or chartered accounting firms, that was as a result of some research etc. that we had done. We were looking at the internal audit function in the regions and looking at school audits and things like that.

Dr WATSON: It was to do with the systems appraisal, I think.

Mr McNamara: Yes, but when we looked at it from the other angle of looking at the internal audit function within the schools, that came forward from there also. It was consistent that the cost was substantially higher than internal staff.

Mr ELLIOTT: Are you happy with what is going on? Do you see benefits that will be to the good of the management of the department in respect of it, or do you think that the whole thing is a bit of a ho-hum yawn?

Mr McNamara: Can I just answer that the internal audit function at this stage does, as part of its audit of the central office and regions, concentrate on basically systems appraisal to a degree in looking at how systems are operating and whether the controls etc. are there. We do not see it as being a totally new function. It is not a totally new function. We have always reviewed systems to see whether the controls are there and, if necessary, either instigate additional control or relax, depending on how managers are handling their system. So we do not see it as a totally additional cost. We would see it as being beneficial to the department that we are aware of what is happening with our systems and where we need to pick up speed on areas that might be falling behind. At the end of the day, as Mr Warry indicated, we have allocated two people, roughly, in the financial and resource policy area to become involved, but it is still reasonably early days as far as, let us say, even the Treasury review on what a systems appraisal really means and whether we really need to appraise major systems like HRMS or the financial management system of the whole of Government on an annual basis.

Mr ELLIOTT: Is there an expectation that there are going to be benefits that will outweigh the cost within the whole of the department, or is that not necessary?

Mr McNamara: I would suggest that there certainly would be benefits.

Mr ELLIOTT: Has Treasury provided any seminars, training or any other guidance to the department regarding systems appraisal requirements?

Mr McNamara: Not particularly on systems appraisal. We have had dialogue with them.

Mr ELLIOTT: Will that be beneficial to you, or are you just going to throw them all in the deep end and let them swim?

Mr Warry: That was really the clarification that I was referring to earlier. I think Treasury concentrated initially, as I recall, on the position assessments, and ran workshops there. I think their intention was to move on to the system appraisals. I think we would certainly find that valuable, even if it only serves to identify a whole range of other issues that we may not have taken into account at this point.

Mrs BIRD: A little earlier, Mr McNamara, you made comments concerning position assessments. The Public Finance Standards require departments to undertake position assessments. You said that you have not yet completed that, that the process is in place and you will have it completed by the end of the year. Is that correct?

Mr McNamara: Basically, the financial and resource policy area will also be picking up issues like position assessments. We already do conduct a degree of position assessments within our monthly reporting against revenue expenses and those types of things. We do not do it on the same basis with things like our major assets.

Mrs BIRD: So you have not done anything in terms of position assessments that comply with the Public Finance Standards?

Mr Warry: No.

Mr McNamara: Not particularly, no.

Mr Warry: Could we just indicate there that systems appraisal and position assessments are sort of generic banners that we have not travelled under previously. In relation to position assessments—we have got a range of things that are in place and have been for some considerable time which fulfil, essentially, the same function. What we are addressing at the moment is the extent to which they fulfil those functions completely or where, in fact, they are slightly deficient. There are a whole range of processes that provide for that regular monitoring of the sort of things that the position assessments are getting at.

The CHAIRMAN: Are you fully in agreement with Treasury as to what constitutes a position assessment for the Department of Education? Are there still any grey areas, or is there now a very definite understanding?

Mr McNamara: I would suggest that the workshops probably raised more grey areas. They raised more questions than they probably answered as far as position assessments were concerned. Again, it comes back to this issue of the perception that Government generally has very good management information systems that allow you to tie all these things together. Generally, management information systems in the Government, I would suggest, leave quite a bit to be desired, and in our department there is a lot of development needed in that area.

The CHAIRMAN: What would be the main areas then? You say that for some time you have had a monthly position assessment of expense, revenue and so forth. What would be the main deficiencies at the moment in your information systems or in what you can put together for a quarterly position assessment that is required by the standards?

Mr McNamara: I would say mainly in the assets area.

Mr Warry: Yes, I think that we now have responsibility for the asset management collectively. As you would appreciate, we have a fair range of assets the length and breadth of the State. We have undertaken some preliminary work in looking at an integrated facilities and asset management information system, but by drawing on those Government-wide registers that are already there, depending on which sort of option we elect for, we would hope to have something in place over the next two years which will draw all of that together. I think on the recurrent side of our expenditure, in terms of the monitoring of our establishment and personnel, the systems that are there, while they are in some cases not overly sophisticated, are at least adequate for the monitoring task.

The CHAIRMAN: You could come up with information relating to future employee entitlements or relevant inventories and things like that relatively easily for a quarterly assessment?

Mr Warry: Inventories, yes, but we would have to acknowledge that the present system used to drive the inventories of equipment and materials has seen better days, and it has some major deficiencies. In the personnel area, the issue, for example, of accrued leave entitlements presents us with a major problem. We believe that we can really only address that through the future development as it occurs in the human resources management system and our EdPERS11 teaching personnel system.

Mr ELLIOTT: In a department like that, where you have all these children whose education is crucial and you are trying to keep as great a continuity in the classroom as you can, and you have all these people with this accrued leave, how do you propose to handle that situation? Obviously, that is something that is of concern out there in the marketplace.

Mr Warry: It is. We have relied on our regional staffing officers to manage it for us in the past. We would have to acknowledge that it is becoming increasingly complex. Certainly, we have had, for reasons of resourcing, to ask regions and teachers, for example, to negotiate times of taking long service leave. I think that one of the problems is that even if we had a very sophisticated management information system in relation to that, it still would not resolve for us of itself the problem when the maths/science teacher for Year 12 at Toowoomba High School wants to go on long service leave for Semester 2.

Mr ELLIOTT: That is where you have real dramas.

Mrs BIRD: I am still interested to know about the when and how. In your response to the questions—in your paper you suggest that you have not done the position assessments but there is the intention of having “the first stage of position assessments in place by 3 June 1992.” What do you mean by “first stage”, and has that happened?

Mr Warry: That was meant to be 30 June 1992, by the way. The first stage there, really we would envisage it being an assessment of the extent to which those things presently in place met the requirements of position assessments; in other words, just retailoring them and putting them under that generic heading. That work is still proceeding. It has not been completed.

Mrs BIRD: Can we go back to the asset side of things? We talked before about that. Professor Scott, you have significant assets spread throughout the State. As part of the position assessment process, the Public Finance Standards require that an annual determination be made as to whether assets are being used in the best and most efficient way possible. Where is your department at in terms of being able to undertake assessments as to the most efficient use of its assets?

Prof. Scott: Perhaps Mr Warry can answer in detail. As I understand it, there is a development of a management information system which will provide us with the data that is needed and would overcome some of the shortcomings in our current arrangements. The expectation is that that will—provided we can afford it—be introduced relatively rapidly. But we still have not got that on the ground yet.

Mrs BIRD: Can you be more specific about where you are at with it?

Mr Warry: In terms of the assets that people see most visibly, that is, schools and classrooms, we have to rely on a series of personally driven systems through our regional offices and principals of schools about information on the extent to which schools are adequately supplied with classrooms of a particular type and the extent to which they are being utilised to the best possible extent. We have no mechanism that generates data independently of that which would enable us to review the judgements that have been made at those other levels. Now, part of the facilities and asset management system project that we have been talking about is designed to give us that capacity. It presents us with some problems that are not addressed by a system solution. For example, it may well be that we have a school that once had an enrolment of 800 and now has an enrolment of 650, and it may on one dimension have surplus capacity. But if you go to that school you will find that the school would argue that the capacity that was once used for normal classroom accommodation has been converted to other educationally valuable and defensible purposes. Again, it becomes a matter of judgment and negotiation.

Mrs BIRD: You are talking about suitable asset replacement.

The CHAIRMAN: And you cannot pull it down, anyway.

Mrs BIRD: Do you assess that? Do you have a way of assessing whether it is suitable or not?

Mr Warry: Yes, we rely on an annual advice from the principal of each school of the status of their accommodation, whether they have sufficient permanent accommodation of the type needed, whether they have needs for additional space of a particular sort in the coming year, and whether they have plans that they want to suggest in relation to refurbishing adjustments and so forth. We do that on an annual basis. We rely on our regions to provide comment and additional input in relation to the circumstances at each school, and then we aggregate it and collate it centrally, and we use that information as the basis for our capital works program both in respect of new constructions, upgradings and refurbishing.

Mrs BIRD: What benefits do you expect the position assessment process will be to the management of the department?

Mr Warry: I suppose that we would see them providing a more formalised mechanism to some of those that we have already had in place. It will do two things: one, focus the attention of managers more specifically and, two, give us more precision in the information that comes out. I think that that simply should lead to improved program management and improved operation over all.

Mrs BIRD: Have you any idea of the cost of position assessment?

Mr Warry: We would have to reiterate the answer we gave a little earlier about our inability or reluctance to attempt to quantify it. I pick up the point that Mr McNamara made, that many of these things are not new functions exclusively. They have been an ongoing part of the management for some considerable time. Whether we could identify, say, in 12 months' or two years' time whether in fact there was an overburden that had been put there because of the Public Finance Standards, I am not sure at this stage. I think that certainly all of the press for more accountability has meant that we have had to pay more and more attention to that issue. What I am saying is that clearly, under the Public Finance Standards, we cannot rely on saying that operational needs take priority and we cannot meet these other requirements. I think in the past sometimes operational requirements have had to take precedence.

Mrs BIRD: You mentioned earlier that someone had attended the workshop put on by Treasury in position assessments, and you indicated that you saw many grey areas that came out of that. Would you like to elaborate on that?

Mr McNamara: I personally did not attend the workshops, but I gathered that they did raise more questions than they answered, and maybe that was a good thing, bearing in mind that the Public Finance Standards are all about different types of organisations being able to live within that, and with there being a certain degree of flexibility there.

Mrs BIRD: Has that been taken up in dialogue with the Treasury since then?

Mr McNamara: We usually talk on a reasonably regular basis with officers in the Treasury Department about our perceptions on these types of things, and we continually seek advice, and we have dialogue with them on those types of issues.

Mrs BIRD: I get the impression that you are not really happy about the system for position assessments.

Mr McNamara: No, I would not say that is correct at all. No. 1, we see that we already have them in some format; maybe not the formalised kind of concept.

Mrs BIRD: Is that significant enough? Do you feel it is essential enough for what you are doing already?

Mr McNamara: As I think we have identified, with things like assets there is a need for better information, but we need the systems to be able to provide that. As Mr Warry indicated, I think it makes you focus on that this is what we need to do to be able to provide this information. So I have no problem with the concept.

Mrs BIRD: And the quarterly requirements?

Mr Warry: Again, we would not have a problem with that. We have run the department's management of resources on the variety of bases, but if we take ongoing recurrent expenditure, we expect of all our line managers a monthly reporting against anticipated expenditure. That is

reported regularly to the senior executive of the department. We expect quarterly reviews as well, and we participate in the half-yearly reviews with Treasury under the Cabinet Budget Review Committee process. So we do not have any difficulty with it. We believe it is appropriate for that to be continued. Certainly at critical times of the year, some of those frequencies are upgraded from monthly to fortnightly or weekly.

The CHAIRMAN: In his report to Parliament for the year ended 30 June 1991, the Auditor-General commented upon deficiencies in controls exercised by the Education Department over its plant and equipment, which at that time had a recorded value in excess of \$180m and included over 400 000 individual items. The Auditor-General reported that reconciliations were not being performed between your Edquip register and the acquisitions and disposals as recorded in your departmental accounting records. Are these reconciliations now being performed?

Mr Warry: No, they are not being performed as comprehensively as we would like. The system to which I referred earlier that enables us to run the inventory of plant and equipment materials in schools is a somewhat aged system. We are endeavouring to keep that surviving until we can replace it with the facilities and management information system that we also mentioned earlier. In the light of the Auditor-General's comments, we have attempted to strengthen the linkage between the recording of items in those equipment registers and the acquisition and disposal activity. We will be reviewing the success of that over the next couple of months.

The CHAIRMAN: What does that mean? Does that mean a sampling procedure? It means that you are not able to reconcile every transaction? What does strengthening the linkage mean? Does that mean more tests?

Mr Warry: Yes, basically more tests and making sure that there is another conscious set of processes that officers in those areas look at. We hopefully are tying this together as part of our restructuring in the area we now call asset management. But I would have to acknowledge that until we can replace the present Edquip system, we are going to have some difficulties in satisfying the Auditor-General that we can effect those reconciliations perfectly.

The CHAIRMAN: My next question follows on. The Auditor-General also reported that as the Edquip system did not identify plant and equipment by class, and as various descriptions had been ascribed to similar type items, it did not provide a basis to verify the existence of groups of assets in total. These are obviously the deficiencies that you are aware of. Comment was also made that the system did not suitably provide for depreciation calculations. The Auditor-General further stated that it is imperative that positive steps are taken to address the shortcomings of the Edquip system and to place the recording, identification and management of these assets on a proper basis as early as practicable. You are trying to strengthen the linkages in some of those?

Mr Warry: That is in the first instance. The Auditor-General's comments were quite correct. The only problem is that we are now asking of a system that is 10 to 15 years old things that were not quite envisaged at the point at which it was generated. What we have done is go further in this investigation of this facility and asset management information system that I mentioned earlier and we now have a report on the development of a comprehensive and integrated system. As Professor Scott mentioned, we are grappling with what basis we can implement that on. That will be driven by our resourcing capacity and that will dictate the time frame.

The other thing that we would dearly like to have as part of this is a process throughout the department where there is only one point of data entry for any transaction. At present, that does not occur and it is a major inefficiency.

The CHAIRMAN: The Committee would like to hear your views on the process by which the Public Finance Standards have been introduced. Bearing in mind that the standards involve radical changes in management practices, could you comment on the level of consultation, training, awareness development, etc., which has taken place to facilitate their implementation?

Mr Warry: I suppose the observation we might like to make at the outset is that we think it is a bit unfortunate that they came along at a period of major organisational change and

restructure. It would have been far preferable, in terms of efficiency and achievement, if that had not occurred. But that is water under the bridge.

I think the other comment we would want to make is that we believe that the three-year target date for implementation was probably questionable at the outset. Why three and not five? We certainly believe that what happened was that with the promulgation of the Finance Standards the clock started ticking but some of us did not start running in a meaningful sense until well after that had gone on. I suppose we would also want to say that we were a little disappointed that we did not get stronger reaction and comment, even if it was of a negative nature, in the first instance from Treasury when we responded to initial documentation. But there are probably good reasons for that. I think Treasury would be the first to tell you that probably each department claims to be different and has its own particular needs. I think that some of the uncertainty that we have perceived may well have been overcome had there been more dialogue at the outset. As the process has unfolded, I think we have acknowledged that Treasury has particularly sought to assist departments. I think also we would want to acknowledge that we appreciate that it is a whole new dimension in some cases for people and that you cannot really have certainty and clarification in those instances.

I suppose the other disappointment we had in the process was that the failure to reach consensus on our program structure has caused us some particular difficulties. Again, given the nature of our undertaking, it is not surprising that there was a variety of pretty strongly held views about the best program structure.

The CHAIRMAN: When was consensus reached, if you like, on this program and subprogram format?

Prof. Scott: Not less than three months ago. We have continued to have discussions on smaller points. I think the basic structure was agreed probably in March or April.

The CHAIRMAN: Gentlemen, is there anything further that you would like to raise with us in relation to the Public Finance Standards?

Prof. Scott: No.

The CHAIRMAN: In that case, thank you very much, Professor Scott, Mr Warry and Mr McNamara for your evidence. You are now discharged. I now adjourn this hearing. We will recommence at 1.30 p.m.

The Committee adjourned at 12.36 p.m.

The Committee resumed at 1.36 p.m.

PETER HENRY STANLEY, affirmed and examined:

PETER FREDERICK READ, affirmed and examined:

ANTHONY GERARD HAYES, affirmed and examined:

ALAN VERNON DAVIS, affirmed and examined:

The CHAIRMAN: Dr Stanley, could you please state your full name, place of employment and the title of the position you hold?

Dr Stanley: Peter Henry Stanley, Director-General of Queensland Health, 147-163 Charlotte Street, Brisbane.

The CHAIRMAN: Mr Read, could you please state your full name, place of employment and the title of the position you hold?

Mr Read: Peter Frederick Read, from Queensland Health, and I am the Executive Director of Policy and Planning.

The CHAIRMAN: Mr Hayes, could you please state your full name, place of employment and the title of the position you hold?

Mr Hayes: My name is Anthony Gerard Hayes, from Queensland Health, and I am the Director of Internal Audit.

The CHAIRMAN: Mr Davis, could you please state your full name, place of employment and the title of the position you hold?

Mr Davis: Alan Vernon Davis, Queensland Health, Director of Finance.

The CHAIRMAN: The Parliamentary Committee of Public Accounts is an all-party Committee of the Queensland Parliament whose purpose is to scrutinise and provoke reform of the financial administration of the public sector and to ensure that executive Government is accountable to Parliament. The Committee conducts its business in accordance with the Public Accounts Committee Act and the Standing Rules and Orders of the Legislative Assembly relating to select committees.

The Committee is presently conducting an investigation into the implementation of the Public Finance Standards in departments and statutory bodies. These standards are issued under the Financial Administration and Audit Act and commenced operation on 1 July 1990. The Committee has a particular interest in the requirements of the standards relating to financial management practice manuals, position assessments, system appraisals, program management, internal audit, and the move to general purpose financial reporting by business undertakings and statutory bodies. The use of private consultants in the implementation of the standards is also of interest to the Committee.

I inform you as witnesses that you are required here today to answer all questions relevant to the subject matter of this inquiry. The Committee would like you to answer its questions frankly, and to provide it with an accurate and clear view of your organisation's position on the issues canvassed.

Dr Stanley, either I or other members of my Committee will, in the first instance, direct questions to you and then you may feel free to hand them on if somebody else has more specific knowledge or expertise. Dr Stanley, on 26 March, the Committee wrote to you seeking information about the implementation of the Public Finance Standards in your department. Did you personally see the Committee's letter, and did you personally review and authorise your department's response?

Dr Stanley: Yes, I did.

Dr WATSON: Dr Stanley, I would like to start by asking some questions on the program management area. Firstly, the Committee would like to know how available your department's strategic plan is to your staff? Are they aware of the goals of your department and what part they have to play in attaining those goals?

Dr Stanley: The corporate plan of the department is widely available, and has even been summarised into brochure form to make it even more widely available. Some thousands of copies have been distributed right across the State. Extensive consultation with interested

parties, both staff and the community, occurred during the preparation of the corporate plan. Mr Read might be able to expand even further on that.

Mr Read: We undertook a very extensive public and staff consultation process in the development of our strategic plan. In fact, we produced a document called the draft strategic plan, of which we produced 20 000 copies. We circulated that document as widely through the system as we could, bearing in mind we have nearly 34 000 employees, so we could not guarantee that everybody saw it. In addition, we undertook to provide each of the regions with a video in which the then Minister and the Director-General talked about the corporate planning process and explained what was intended and how it was to be developed throughout Queensland Health. As the Director-General has just told you, on receipt of the feedback from that draft strategic planning process, we then produced a corporate plan which was endorsed or noted, I should say, by Cabinet. We produced 10 000 copies of that corporate plan. It is a rather glossy-looking document. Those 10 000 copies have now been fully distributed. We also have a summary plan, which is also available in large numbers.

Dr WATSON: How many responses did you get on the draft?

Mr Read: It is a little difficult to say in actual numbers, because we did our consultation through the regional health authorities, and they conducted large numbers of workshops and public meetings. I could not actually give you a number of how many individual responses we received, but there certainly was widespread input.

Dr WATSON: Dr Stanley, we have a copy of your 1992-97 corporate plan. We also have a copy of the State budget papers for 1991-92. The Committee has noted that the program structures for Queensland Health do not align in these two documents. Could you tell us why that is so?

Dr Stanley: I am not aware of the document to which you are referring.

Dr WATSON: The program budget papers that are released——

The CHAIRMAN: It might assist you if I show you our copy.

Dr Stanley: Mr Read will expand on that point.

Mr Read: I think it might be helpful for all Committee members if I could just take a moment to put in context the development of program management. The regionalisation of Queensland Health came into place on 1 July 1991. At that time, we had a new executive in the department and 13 regional directors had all been recently appointed. There was some discussion about the then program structure, which was public health, social health and personal health care services. The general feeling was that it would be very difficult, in an operational sense, to make that program structure work within Queensland Health. As a result of that, we embarked upon a fairly extensive discussion process about our program structure. In doing that, we took information from around Australia and collected from every health department in Australia and in New Zealand their program structures. Two things were highlighted in that process. The first was that no two health departments had the same program structure, and every one of them without exception was then under review. So the development of a program structure for health is a very difficult process. As a result of our consultations at a management level within the department, we decided two things. One was that, from an operational point of view, we needed to change the program structure. Secondly, we felt that it would be better if we could better match the program structure to our stated corporate mission, which is to maintain, improve and advance the health of Queenslanders. Those decisions really led us into the new program structure that we developed, which was endorsed towards the end of last year.

The CHAIRMAN: I presume that this new program structure as described in your corporate plan would also be the program structure format in the 1992-93 budget papers.

Mr Read: It will appear in that form in this year's budget papers, yes.

Dr WATSON: In your department, how is service delivery by program incorporated into the regional organisational structure? Are there separate managers in each region responsible for each program, or is there some other organisational structure?

Mr Read: I think you have really hit on what is the most difficult issue for us in program management. We have a very large department, which has a huge number of employees and a very large budget. That of itself is not a reason why program management should be difficult.

However, the organisational structure that we work with within the central office and, in particular, regionalisation and the high level of autonomy that regional directors have in the operation of their services means that an exact fit between organisational structure and program structure is effectively impossible. That certainly seemed to be the case in every other health bureaucracy that I have looked at throughout Australia. If I can use an example to highlight what I mean. If you look at the provision of mental health services in the Gold Coast region, there is a Director of Mental Health, who is responsible for all mental health services, be they provided in the community, whether they are preventive services or whether they are in-patient services. If you go to the other end of the State, in the peninsula region, you find that a Director of Community Health Services will be responsible for the community aspects of mental health, but that the person responsible for in-patient care will be responsible for in-patient aspects of mental health. When there is such a high level of autonomy given to the regional directors, it is very difficult to get an exact fit between program structure and organisational structure. This is an area that we have acknowledged, and we are trying to work our way through it. I do not pretend that we have an exact answer for it yet, except to say that we do not believe that it is necessary to have that exact fit. We believe that we can make program management work in Queensland Health without an exact fit between program structure and organisational structure.

Mr ELLIOTT: Are you basically saying that the regional management concept is not working?

Mr Read: No, far from it. In fact, quite the opposite.

Dr WATSON: Do you have people in each region who are specifically responsible for the program, or are you saying that will not be the case? The exact fit means that, in some regions, some programs do not have an individual responsible for them; is that the implication?

Dr Stanley: The fundamental problem with program management is the way it cuts across the line management structure. With very few exceptions—whether here or anywhere else—you cannot get the two to line up or it is very difficult to do so. In a regional setting, in which all services are responsible to the regional director, some regions will have an assistant regional director responsible for a program; others will have a Director of Mental Health or a director of some other thing responsible for a program. Ultimately, each of the programs will be given to someone to mind at the regional level. There may not be the same equivalent position in each region, but somebody will be responsible for the particular program in the region.

The CHAIRMAN: It seems to me that there are a couple of issues in this mismatch, or it is less than an exact fit—whatever term you want to use. One issue is how you make sure, when you are budgeting under program management, that those programs are being overseen. As you say, perhaps the exact components in each program might vary slightly from place to place. The other issue is how you gather information on the effectiveness of the program. Dr Watson was probably going to move onto that next.

Mr Read: When we had set up our program structure, we developed a mechanism in which we had program management groups which consisted of an executive director from central office and a number of regional directors—three or four, depending on the program area. The idea was that those groups would be responsible for managing the programs so that we would have input from both the policy level and an operational policy level in the regions. We found that that did not work as effectively as we had hoped it would, mainly because the time commitment involved in proper program management was really beyond the scope of getting those people together on a regular basis to do all the work that was required. We took a fairly critical look at our own performance in program management over the 12 months of regionalisation. We produced a document which is called “Making Program Management Work in Queensland Health”. It was a fairly honest and critical look at where we had been and what we had been able to achieve. The bottom line was that we did not think that the structure that we had put in place was capable of really implementing the spirit of program management that was intended. We could have devised a system to just operate at the technical reporting level of program management, but that would not have done any of us any good.

We could have, for example, called a program “regional health operations”, in which you would have found \$1.8 billion. That would have been divided between the 13 regions. I do not think that that would have told the Government, the Parliament or the people of Queensland a great deal about what was happening and what the health outcomes were. We have taken

program management very seriously. The extent to which we are finding some difficulties in making it work within Queensland Health is the fact that we are doing it seriously and we are trying to do it properly. There are these organisational line management issues that we have found along the way.

Dr WATSON: We accept that. The Department of Education also had similar kinds of problems for similar kinds of reasons. It might be useful for the Committee to have a copy of that document. The principles of program management as set out in the Public Finance Standards require resource management systems which focus on outputs—goods and services—and outcomes—the desired results—as a primary concern. The standards require departments to have management information systems in place to deliver this output and outcome information. What systems exist in your regions to ensure that the performance information on the outputs and outcomes of each of your department's programs is reported to you to enable you to monitor service delivery performance and justify your budget allocations?

Mr Read: Can I go back one step and determine performance indicators and outcomes? This is a very difficult area.

Dr WATSON: I was going to refer to that soon.

Mr Read: The reason I would like to talk about it is because we have the philosophy in Queensland Health that the collection of information is really subsidiary to identification of the outcomes. I think that really does need to precede the technology of collecting the outcomes.

Dr WATSON: Let us look at the outcomes, and I will tell you the particular things in which the Committee is interested so that you can answer the question fully. We are interested in the appropriate set of performance indicators for evaluating program effectiveness and how these performance indicators link into your strategic plan. We would like some examples, because you indicated that they were going to be finalised by 30 June this year. We would like some examples of the performance indicators that you are going to be using to assess the effectiveness and efficiency of your department.

Mr Read: If I miss something, please pick me up. Nowhere in the world that I am aware of does anybody have a well developed set of outcome indicators for health. By way of example of that, I will offer two bits of information. Firstly, there is a document that was recently produced, which is a progress report on the review and revision of the national health goals and targets. Here is a very substantial body of work conducted by Professor Nutbeam, Professor Leader and others from New South Wales on behalf of the Commonwealth, in which we have some input. There are, for all the good work that has been done in there, some acknowledged deficiencies which still have yet to be overcome. The deficiencies relate particularly to two areas. One is goals and targets in the social health area and the other one is goals and targets for health service and service delivery type areas. If you go through this document you will find literally hundreds of goals and targets about health outcomes in terms of reduction in morbidity rates for cancers and for obesity, increase in breastfeeding and for all those sorts of things. There is a whole range of them in there and they can only take it so far. The point of raising that issue is to say that a lot of work is going on nationally, and to the extent that those sorts of goals and targets can be incorporated into our program structure, we will certainly be using the national goals and targets approach.

I mentioned to you two deficiencies, which are the health services and the social health. We will be working to develop our own goals and targets to go into our own performance indicators specifically related to our program structure. The second point I want to raise with you is a letter which we received from the Australian Health Ministers Advisory Council just recently, which invites Dr Stanley and myself to what is called a health outcome seminar. On 8 and 9 October this year, the Australian Health Ministers Advisory Council is undertaking a seminar on just this very issue. I will read part of the background to this. It states—

“There is, as yet, no internationally or locally accepted definition of health outcomes. We do not even have a common language to describe what we mean. For some health outcomes relate to population health and could be seen as a product of multiple factors and interventions on societies. A time frame of 10 to 20 years is necessary to understand impact”.

I think that is saying that this is a very difficult area. While we may be in Queensland at the forefront of a lot of things—and I think we are, in organisational issues, in Queensland Health—I am afraid that in this area of health outcomes, we have some way to go.

Having said that, we have some performance indicators which we have developed for our program structure. For the eight programs we have a number of performance indicators here, but they are at a fairly general level, and they certainly do not represent the end point that we would like to get to. I think we have a lot more work to do. These performance indicators that we have developed to date certainly need a lot of refinement and a lot more detailed work done on them. Realistically, we are looking at a couple of years before we can really get down to a set of performance indicators for all of our programs which embody the sorts of outcomes that I would like to see for Queensland Health.

Dr WATSON: Could you give us an example?

THE CHAIRMAN: I was going to pick in-patient care. What sorts of things would you try to assess there?

Mr Read: At the moment, the in-patient care program has a number of goals—three in particular. One is to improve the utilisation of in-patient resources, one is to improve the quality of hospital services and one is to improve access. If we take, say, the improvement of the quality of hospital services, key performance indicators there would be the proportion of hospitals that are accredited. We do not have any public hospitals accredited at the moment. Another indicator is the proportion of clients satisfied with services received. We have a process developed to get some client information feedback, which I will get to later. The number of patients readmitted within 28 days of discharge is another one that we have highlighted. You could take that a lot further and look at infection rates and readmission to operating theatres. There is a whole range of things that you could put into that. The level to which we have them developed at the moment is a little superficial. I would like to see us hone those down over time and become more detailed.

The CHAIRMAN: For each of those eight programs, you have developed some specific program indicators?

Mr Read: Yes.

The CHAIRMAN: Obviously, that has been done fairly recently?

Mr Read: Yes.

Mr ELLIOTT: When the fellow from Treasury wrote to you, what was the basis of that? Was it a misunderstanding?

Dr Stanley: Yes, it was. I had discussions with Henry Smerdon, the Under Treasurer, a couple of months ago now about the fact that the traditional program format was being applied with some difficulty in Queensland Health, similar to the Education Department with the regionalised structure. I had a very friendly discussion with Henry about making some modifications to make it work in our department. He agreed to those modifications. There was a misunderstanding between some of my officers and some Treasury officers about what that meant. Unfortunately, a miscommunication went back to Treasury that we were not implementing program management at all, which was completely untrue. The letter was taken out of context. We have made significant progress in a relatively short period. From discussions with the Under Treasurer, they are fairly pleased with the level of progress that we have made. That proposal with the green cover on it that Mr Read mentioned about making program management work in Queensland has received favourable endorsement by Treasury. It was a misunderstanding.

Dr WATSON: Has that been resolved satisfactorily?

Dr Stanley: Yes. I spoke to Henry Smerdon on the day when it was made public by the Leader of the Opposition. He said that, as far as he was concerned, it was a misunderstanding and a non-event. He was not at all worried about it.

The CHAIRMAN: For each of your programs, you have performance indicators. As you say, future modification and development is needed. Are you ready in 1992-93 to gather information so that you can use those performance indicators?

Mr Read: I guess this is the second part of the story about the information systems.

Dr WATSON: Before we get to the second part—are they tied in with specific goals of your strategic plan?

Mr Read: Yes.

Dr WATSON: We can look at the goals that you put out and then we can map those performance indicators into those goals?

Mr Read: Yes, generally. They are not a one-for-one match. Certainly, the goals in the corporate plan are reflected in the sorts of things that we are trying to do, yes.

The CHAIRMAN: You have performance indicators. Obviously, the task is to try to gather some information relevant to those performance indicators in the next 12 months. Is that achievable?

Mr Read: In some cases, it will be. In others, it will not be. The reason it will not be is that the state of information technology and information systems in Queensland Health is fairly primitive. That would be the best way to describe it. We have commissioned a review of information technology, which was undertaken by an independent person towards the end of last year. He described information systems outside of the Brisbane metropolitan area as being at a subsistence level in some areas and below subsistence in other areas. We have a very long way to go in terms of putting into the regions proper management, accounting and information collection procedures.

Mr ELLIOTT: You are probably aware of the situation in the northern region. As I understand it, they have just implemented a pay system that works through Melbourne. Is that correct?

Mr Read: Not to my knowledge. I understood that they were on MLC, but I stand corrected on that.

Mr Davis: Certainly, at the latest time when we did a questionnaire, which would have been a couple of months ago, that was not the case.

Mr ELLIOTT: I understood that they had implemented a computerised pay system, which operates out of a computer in Melbourne.

Mr Davis: You could not be specific as to the region?

Mr ELLIOTT: It is the northern region. It comes under Mr Hicks.

Mr Davis: I am certainly not aware of that. We will follow it up.

Mr ELLIOTT: You could get back to us on it. I am interested to understand where that thinking is coming from.

Mr Read: The issue about computer pays in particular is that most of them are done on a bureau basis. With technology advancements the way they are, if you are in Townsville it matters little whether you use a computer that is situated in Brisbane or in Melbourne. Having said that, I certainly was not aware of anybody going to Melbourne. I know the particular system that you are talking about. A number of regional directors have looked at that system with respect to implementing it in Queensland. As I understand it, they had all moved to MLC.

Mr ELLIOTT: My understanding is that it costs \$2.50 a pay to do it. It goes from Mount Isa to Melbourne and then back up.

Mr Read: If it is \$2.50 a pay, that would be——

Mr ELLIOTT: Is that cheap?

Mr Read: I would have to get the figures. I would not like to say off the top of my head. It sounds a bit on the high side to me, if it is true.

Dr WATSON: I want to get back to the question about the gathering of information by region, if we can. That is what I was getting at earlier and what Dr Flynn was getting at. You have the goals and the indicators. You have a regional structure. We would like to know how you will collect that performance information by region.

Mr Read: Following on from the review of information systems and information technology to which I referred, we restructured the organisational arrangements for information systems within Queensland Health. We have developed a very senior level committee, which is

chaired by the Director-General, called the Information Strategy Committee, in which major decisions about strategic information systems are made for Queensland Health.

We have two strategic systems at the moment, if we leave aside financial systems and HRM systems. I am talking about health-type systems, the sort you would need to gather the performance indicators. We have two major strategic systems at the moment. One is referred to as HBCIS. It is a hospital-based corporate information system on McDonnell Douglas technology. It is being implemented mainly in the south-east corner at the moment on a trial basis, although we are through most of the trials now. We would be looking to extend that. That provides a very comprehensive range of integrated software for hospital-based systems and has some potential to move out to regional systems, instead of only hospitals.

The other system that we have is what we refer to as a regional-based system. It is an in-house software development that we have undertaken since about 1985. It has provided fairly basic information for things such as patient admission and discharge, pharmacy and those types of things. It has clear limitations, particularly as it is an in-house development product. We would be looking to enhance that to the extent that we can, but to look at other strategic systems for Queensland Health in the regions over the next few years. The degree to which any of that can be undertaken, of course, is largely a function of how much finance we have.

We believe that, once we have the proper information systems in place, we will be able to determine a process for gathering the information on these performance indicators. The whole of the organisational arrangements for information systems and information technology is that the program managers will determine what information is required, and the information technologists will then be required to deliver a system to give us that information. In the past, it tended to run the other way around. The technologists took the lead and developed a system and then we had to get from it whatever information we could. We are changing the focus to say that we will, through the program management process, identify our information needs and the technologists will have to provide us with the solutions.

Dr WATSON: You are saying that, at the moment, you do not have a system whereby you are reporting to Dr Stanley the outcomes on the performance indicators according to the program structure that you have right now?

Mr Read: That is essentially correct, with a couple of exceptions. We have financial reporting systems and HRM reporting systems.

Dr WATSON: It goes beyond financial things.

Mr Read: I accept the fact that we need to move towards a much better outcome focus. It is a reflection of the range of problems that I have talked about: first of all, the lateness in finally deciding on a new program structure for the regions that I mentioned, and the difficulty in identifying appropriate goals and targets and appropriate outcomes, which is another set of problems. The technology to deliver that information is a bit compromised at the moment. I certainly accept what you say. As of today, we would have some difficulty in responding to information needs for all of the indicators that we have.

Dr WATSON: Let me go a bit further on that question: right at the moment, who is responsible for developing this information? Is it the responsibility of the regions, or is it the responsibility of someone in head office who is then going to make someone in the region responsible for actually communicating the data?

Dr Stanley: The fundamental distinction between head office and the regions is that the central office sets the policy and the region is the operational arm. The determinates of policy, what the Treasury requires, the other central agencies require, what we require for our own program managing of other financial systems, is determined centrally, and the regions are obliged to collect it. They may decide to collect additional information for their own in-house needs, which they are free to do, but we centrally determine what information we need for the department.

Mr ELLIOTT: For argument's sake, in Toowoomba where you have closed a couple of wards and closed the outpatients, is that something that is happening right around the State as directed from here, or is that a regional decision?

Dr Stanley: Firstly, they have not actually reduced any services at Toowoomba Hospital.

Mr ELLIOTT: They have closed two wards——

Dr Stanley: What they have done is rearranged existing services. That is what has been happening in Toowoomba—like some other hospitals in the State where it is good management practice. They have had some wards with less than 50 per cent occupancy rates and you have a whole series of wards throughout the hospital with very low occupancy, but with their staff sitting there. What they have done is that they have collapsed the wards back into fully occupied wards, closed a couple down, transferred the staff, and reorganised the patients. The same number of people are still being treated, exactly the same throughput is occurring and everything else, but they have made considerable efficiencies by reducing the way they work their hospital. That has been ploughed back into new initiatives and new things in the hospital. It is just an internal rearrangement of how many people are being treated. That has been, in fact, good management practice.

Mr Read: In answer to your specific question about whose responsibility that is—it is a regional director who takes those decisions within the policy framework of the program.

Dr WATSON: Once you have set the policy and you have decided on the performance indicators and what information is required, then it is the regional director who is going to be responsible for ensuring that information is communicated to the central office for the ability to be able to evaluate the effectiveness of programs across the State. Is that what you are saying?

Dr Stanley: That is right. All the individual service units throughout the region can get their data, and it comes back to the regional office. They consolidate the data, analyse it themselves for their own particular needs, and then feed it on to us.

Dr WATSON: If regions have got this flexibility for deciding organisational structure and things like that, how are you going to aggregate that? For example, you talk about satisfaction as one of those particular issues of in-patient care. How are you going to aggregate that information from the regions to be able to arrive at a definitive answer that the program is working, or not working?

Mr Read: When I say the regions have a high degree of autonomy, that is certainly true. They do not have absolute autonomy. They are required to adopt corporate behaviour in a range of areas. This will clearly be one of them, and it is particularly why we organised the information strategy committee in the way that we did, with the chief executive chairing it, so that where issues come up that require a whole of department response so that we get 13 sets of identical information, then that would be mandatory.

Mr ELLIOTT: Who would control it? For argument's sake, out at the Royal Brisbane Hospital, 300 beds have gone, as I understand it. Is that a decision that they make themselves? Are they an autonomous body there or does everything in Brisbane actually happen here at head office?

Dr Stanley: In terms of North Brisbane, I think the number of beds have been rationalised, and have been rationalised over a long period of time. Regionalisation has only been going for one year, and a lot of those beds disappeared prior to regionalisation with the new block that opened. Some of the old substandard wards have progressively closed.

Mr ELLIOTT: Do you have anything to do with that?

Dr Stanley: The regions make that decision, as to how they are going to meet their budgets and also meet their particular client workloads. We basically give them a global budget. They have a particular clientele that they have to service, and how they actually do it is up to them so long as they meet the predetermined outcomes that we have set. Flexibility is how you do it, so long as you reach the final outcome.

The CHAIRMAN: You explained before that you attempted to set up one structure consisting of some people from central office and some regional directors to oversee each program, and that has not worked, because of the difficulties in getting those people together. Now that you have your program structure and your performance indicators, have you now allocated responsibilities to program managers? If so, how?

Mr Read: Yes, we have. That decision has been taken relatively recently. The document I refer to went to departmental executive only a couple of weeks ago. Essentially, we have allocated program management responsibility to the executive staff in Queensland Health. For

example, I am the program manager for ambulatory care and in-patient care. The Director of Corporate Services is the program manager for the corporate services program. We require some resourcing of that. I think that was one of the issues that we really did need to address. We need to resource program management in a way in which we have not in the past. We are currently looking at staff numbers and resourcing issues so that we will be in a position to announce this to the regions in the not-too-distant future. Certainly, the program management responsibility is a central office function of Queensland Health.

The CHAIRMAN: You have actually allocated particular programs to particular people?

Mr Read: Yes.

Dr WATSON: Have you established the process of collecting data in the regions on each performance indicator?

Mr Read: No, that process has not started—sorry, I should say—except to the extent that a lot of information which will satisfy these requests is routinely collected, anyway. I would not like you to think that we do not have any information at all.

Dr WATSON: The information has to be collected in such a way that it can be put together with respect to the performance indicators.

Mr Read: Yes.

Dr WATSON: That process is being done, I guess?

Dr Stanley: Apart from collecting financial data, which we collect routinely, we have been collecting non-financial data for years in terms of the numbers of patients treated, operations done, babies born and the bed days. All of that sort of stuff is routinely collected, anyway. In terms of community health programs, how many clients they see, how many occasions services are rendered, is the sort of information that has been collected historically for many years.

Dr WATSON: In the next annual report that comes out for 1992-93, are you going to be able to report actual performance against these indicators in that report?

Mr Read: That will certainly be our intention. I guess the extent to which we are unable to achieve that will be a reflection of one of two things: either we have not been able to refine down the goals and targets and the outcomes measured sufficiently, or the information technology is not available due to budgetary restraints.

Dr WATSON: What the problem is will be indicated in the report.

Mr Read: Yes, we certainly will be advising where our difficulties lie.

Dr WATSON: The Public Finance Standards require that a comprehensive evaluation of all programs be completed within a three-year period ending 30 June 1993. Your department's letter included a schedule of proposed evaluations. I would just like to go through that schedule with you and ask you a series of questions with respect to that. First of all, your ambulatory care program evaluation commenced in March this year, I understand. Can I ask what the current position is with respect to this evaluation?

Mr Read: As yet not completed is the current status of it.

Dr WATSON: When will it be finalised?

Mr Read: We are hopeful within the next month—perhaps two months would be our goal.

Dr WATSON: And what proportion has been done?

Mr Read: It is a bit hard to put a percentage figure on it. I guess it is certainly over halfway finished, anyway.

Dr WATSON: So somewhere between 50 and 100 per cent?

Mr Read: Something less than 100 per cent, yes.

Dr Stanley: We did finalise the dental program review with Treasury.

Mr Read: If I said 60 per cent, if you would not hold me to it—

Dr WATSON: I just want a rough estimate. Evaluation of your health promotion program is also scheduled to commence in March of this year, although I gather that it was not in process when you wrote the letter to the Committee. Is this evaluation now in progress?

Mr Read: No, it is not. Perhaps I could respond about evaluations generally, because the program that was sent to you was based on the expectation that the program management groups and the structure we had in place to implement program management would in fact deliver something more than it actually did. The schedule of evaluations was written at a time when we were a little more optimistic about what we could achieve. I do not think that list of evaluations is now relevant, and I guess that I would like to retract that and put something else in its place.

Dr WATSON: Are you saying that that answer is going to apply for the residential care program, public health program and in-patients care program?

Mr Read: Not the in-patient care program.

Dr WATSON: So the residential care program was scheduled for May, but it has not started yet.

Mr Read: We certainly have not achieved in the revaluation area anything like the outcomes that we had hoped. I guess that is a reflection of the fact that the structure we had in place was not actually developing the documentation or the detail in order for any sort of evaluation to take place.

The CHAIRMAN: What structure do you mean?

Mr Read: This is the old program management groups. They did not develop the goals and the targets and the performance indicators in anything like a timely fashion to enable the evaluations to be undertaken. What I am discussing with the Director-General at the moment is a revised process to undertake evaluations. What he hope to achieve is that, by the end of 1993, which is the relevant period, we would have completed a comprehensive evaluation of dental, which was already done when it was a program in its own right—ambulatory care and in-patient care, as proper in the Treasury defined sense of the word, evaluations. Of the other programs, what I would be putting to the Director-General is that we undertake partial evaluations of one aspect of each of the other programs, which is the Government policies and responsibilities. My thinking in putting this solution forward is that, first of all, ambulatory care and in-patient care together account for 86 per cent of our budget. If you then add corporate services, which we have routine evaluations of through a range of other processes, usually a monthly financial one, the bulk of the finances will be adequately evaluated, in my view, if we do that.

Dr WATSON: By 30 June 1993?

Mr Read: Yes. While I certainly do not want to imply anything about the lack of importance of the other programs, in dollar terms and in the development of outcomes for those programs, we are some way back and I do not believe we can sensibly do what Treasury is defining as an evaluation before 30 June for those programs.

Dr WATSON: So we can look forward to the ambulatory care, in-patient care and corporate services programs being fully evaluated by 1993. The dental one has already been done.

Mr Read: Corporate services, in my understanding of the Public Finance Standards, is not normally evaluated in its own right. It is spread across the others. The point I was trying to make is that to the extent that corporate services represents central office and the regional health authority offices, that is under constant review anyway, so that the \$200m-odd involved in that process is fairly well evaluated, not necessarily on an outcomes basis. You have a valid point there. But yes, as of 30 June next year, comprehensive evaluations of ambulatory care and in-patient care, being 86 per cent of our outlays, and partial evaluations of the others.

Dr WATSON: You mentioned the dental care. What was the outcome of that review?

Mr Read: I have a copy of that here. I do not know whether you have seen that evaluation of the dental care program.

Dr WATSON: No, I have not.

Mr Read: I will leave a copy of it with you. The dental care evaluation was undertaken when dental care was a program in its own right, and it was a cooperative venture with Treasury, as we intend all of our valuations to be. A comprehensive set of fairly extensive recommendations—I cannot remember the number, but there were some 60-odd recommendations that came out of it—are all in the process of being implemented with, I think,

one or two exceptions. I cannot recall what they are. One on co-payments, for example, I think there is a recommendation there about examining the possible use of co-payments, which is one that we are not proceeding with. But of all the other recommendations, the overwhelming majority of them are being implemented by the Director of Dental Services in consultation with his executive director.

Dr WATSON: From the evaluations you have already done, what kind of benefits have you derived from that?

Mr Read: I think any organisation that spends \$2 billion worth of public funds has a fairly high level of accountability to achieve. I think that the extent to which these sorts of evaluations are going to concentrate on outcomes—I support them 100 per cent, and am very enthusiastic about this evaluation process. In the past, the task has been essentially to count beds and bed days, numbers of operations and things, and they are at best intermediate inputs into a process. We really do require to deliver something better in terms of public accountability. I see enormous benefits, particularly in addressing what we are doing with the existing budget, not about the new initiatives. To the extent that we get any new initiatives money, there are fairly rigorous processes in place to ensure that that goes on services that are high priority and have specified outcomes. At the moment, we have \$2 billion worth of public funds being spent with not a lot of accountability about what outcomes it is meeting. So to the extent that we can start to identify outcomes and see how well we are achieving them and where we are not achieving them and put them into other high priority areas, I think it is terrific.

Mr ELLIOTT: In regard to the various ways through your program management, which way would you look at the cost of setting up? Obviously, somewhere down the track, you must be going to have a look at the cost of regionalisation, for argument's sake, and what it has cost to set those offices up. Do you see an ongoing cost that was not there before in respect of the actual running costs?

Dr Stanley: The running costs of regionalisation are cost neutral, because it was offset by the reduction in the central office. Following the PSMC review, we have shed something like 300 positions in central administration, and the positions we have created in the region were some 240 positions. So it was actually 60 fewer administrative people than we had before. Apart from one-off costs of setting up the offices, furnishing and equipment which will not be repeated, it is largely cost neutral. In my view, we have achieved a better standard of administration and a more responsive service on a cost-neutral basis.

Mr ELLIOTT: Were the waiting lists continuing to get worse? Is that just a sign of the times, or is that something for which you can or cannot see a reason? For argument's sake, if you look at the coronary/artery bypass waiting list at Prince Charles, there are supposed to be 400 of them waiting there. How do you evaluate your processes as to whether you see the various processes you are going through as being successful or otherwise?

Dr Stanley: I see the waiting list as being somewhat outside the terms of reference of what I am here today to appear on in terms of the Public Finance Standards. If you would like to correspond with the Minister, I am sure that he will deal with that.

Mr PEARCE: I will ask some questions on financial management practice manuals. The Committee considers financial management practice manuals to be very important. They are to prescribe the practices and procedures etc to be followed by staff in the financial administration process in your department and are a key element of the overall financial management policy and principles upon which the Public Finance Standards are based. I note that in June this year you issued a practice manual for Queensland Health which documents your department's higher-level policy and practice statements. Your department's letter to the Committee indicated that this manual will need to be supplemented with a standard procedural manual for your 13 regional health authorities and central office. What stage is the development of this standard procedural manual currently at?

Dr Stanley: I will refer the matter to Mr Davis, who deals with finance.

Mr Davis: Following the completion of the financial management practice manual, which we certainly endorse as being very important to the strategic direction of Queensland Health, the next level that we had to look at was the procedural manual. To conduct that, an oversight committee has been established which is chaired by one of the assistant regional directors

(finance and administration) and reports to me. On that committee is representation of the central office as well as other regions. At the moment, the committee is in the position of putting out a specification to get quotes from consultants as to what the next step will be. Following that, it is intended that the procedural manual be finished by 31 December this year.

Mr PEARCE: It is my understanding that very significant financial functions occur within Queensland Health at the hospital level, that is, where the bulk of regional health authority expenditure is processed, where patient fees are controlled and where assets are employed. Are the detailed accounting practices, procedures, controls and systems which your hospital staff need to follow in performing their duties currently documented in a manual or will that be taken care of in the proposed procedural manual.

Mr Davis: At the higher level, the high policy is certainly in the practice manual that has been distributed. The procedures that have to be followed within regional health authorities as well as facilities will be in the procedural manual.

The CHAIRMAN: How much detail is covered in the higher policy manual, say, at a regional office level?

Mr Davis: You probably need to understand where we have come from, particularly with the Treasurer's Instructions, when they were first implemented in procedural manuals or accounting manuals, and how they were first established. We had standard practice instructions that were distributed within central office and they were very bulky. The problem that occurs from that obviously is the day-to-day compliance with those manuals. Certainly what I tended to see was that they were a good reference document for auditors in doing their reports and saying that a particular thing was not done. The problem was with continually updating those manuals—certainly at a central level, the resource intensity of doing that. You have to appreciate the day-to-day compliance, whether that occurred, certainly when the auditor went through an assessment and referred back to it. What we are trying to do with financial management in Queensland Health is to focus on the best business practice. Also, prior to regionalisation, it needs to be understood that doctors, nurses and allied health professionals had no ability to incur expenditure; it was the administrative side of the structure that incurred expenditure. So what we are trying to do with a practice manual for finance is to start with a high policy document that we consider is easily read and can be understood at all levels. It is not just the finance people who are spending the dollars; it is the health professional who is spending the dollars and who is responsible to get those outcomes through the use of dollars. We consider that we have achieved that in the financial management practice manual that we have here as far as the policy. The next level, being the procedural manual, takes the practice statements that we have more to a defined process, and with this oversight committee that we have at the moment, and a working party that will come from that, will be the development of a model procedural manual to start with that will be available to all regions. From there, they will be able to modify the procedural manual to suit their own circumstances. Again, we do not see the procedural manual standing that high. What we consider is that it will take the practice statements to the next level; but when you get to day-to-day operations, they will really be in the desk files of the individual people who are performing the tasks.

Mr PEARCE: How difficult is it to maintain accounting and procedure-type manuals in an up-to-date situation?

Mr Davis: To maintain the practice manual?

Mr PEARCE: Yes, or any accounting practice?

Mr Davis: Now that we have the high policy manual out, we do not see that there will be difficulties in maintaining that. There is a change control process that has been incorporated into it where any new policies or changed policies can be updated or advised. What we are going to have is a financial management committee that will meet probably on a quarterly basis for change. That change should be distributed on a six-monthly basis. With the procedural manual, once it is implemented within regions, there should be a similar change control within the regional health authority. What I do not think anyone wants is to be overburdened by an administrative process that will only look good in practice but be very difficult to implement and maintain on a day-to-day basis.

Mr PEARCE: You have answered this in some form, but could you tell us how widely the manuals are distributed throughout your department and how readily accessible they are to all staff who could have a need to refer to them in the course of performing their duties?

Mr Davis: Three hundred and fifty copies of the manual have been printed. To date, we have issued 318 of those. To give a profile of that, there have been about 73 distributed within central office and the rest are to regions. We are looking at about 250 that have been distributed to regions. On average, that is about 20 to each region. Obviously, it would be at the regional health authority and it should be at the chief executive officer level and should go down to facility management. We have also made available through electronic mail access to the financial management practice manual. That is not to an online system at this stage but that access is there.

Mr PEARCE: Your department's letter indicated that you had engaged a consultant to assist in the development of your department's financial management practice manual. Why did you hire a consultant rather than use your departmental staff? We believe that your staff should possess a thorough knowledge of your department's administrative policies and procedures, whereas a consultant would presumably need to acquire that knowledge.

Mr Davis: There was certainly a dilemma at the time. Once regionalisation occurred and restructuring of the central office occurred, I had the responsibility of managing a new structure. I certainly believed that there was expertise within the branch to develop a practice manual. The experience side of it was not so much a problem; it was the resource side of it, particularly when there were so many other tasks that were on the agenda at the time. It became a decision experience—a resource. One thing we did not want to do was simply give it to a consultant and say, "Go away and give us a manual that will satisfy the Public Finance Standards." We wanted to use staff that would complement a consultant so that the benefits of preparing a financial management practice manual were there at the end of it, and that experience would reside with us.

We set up an oversight committee that included people from the divisions of central office and the regional office—a regional director and assistant regional director—virtually to give the vision of what we wanted from the financial management practice manual and, as it evolved, to make decisions on whether it should be modified, changed or moved in a different direction. Underneath that oversight committee was a working party. We did not want a financial management practice at the end of the day that satisfied us but was not accepted by central agencies. At the working party level, we got Treasury and the Auditor-General involved, as well as central office and other regional representation. A consultant was engaged that would report virtually through the working parties, through the oversight committee, and that would have access to staff within central office. Once drafts of the manual were prepared, again it was not worth while getting a manual that was just going to be issued to regions to sit on a desk and never be used. After that, we started focus group meetings where we got generally all regions involved saying, "This is the draft. This is our direction. Do you have concerns with that? Should we modify it?" There were further focus group meetings as the final product became finalised.

Mr PEARCE: What about in the future? Do you think you will need consultants or will you be able to do it from internal resources?

Mr Davis: Certainly as far as the policy manual is concerned, we do not believe that we need consultants. The next step is the procedural manual. Again, there will be an element of consultants but, similar to the policy manual process, it will not be a job that will be given to them to say, "Go away, come up with a product." Consultants will be used with a fairly good blend of staff within central office and the regions.

Mr J. H. SULLIVAN: Dr Stanley, I would like to explore the area of internal audit, if I may. Firstly, referring to your letter to the Committee, it indicated that since July 1991 regional health authorities have been establishing internal audit units. Could you let me know whether internal audit units have now been established in each regional health authority?

Dr Stanley: Internal audit was not in the structure for the two smallest regions. They get their internal audit supplied from the neighbouring region because of their very size. The two small regions based at Roma and Longreach have only got about six or seven staff. They have to get their audit from adjoining regions. But from all the other regions, I understand that they

have now all been established and there are some 23 staff doing internal audit, including our central office people as well.

Mr J. H. SULLIVAN: Except for those smaller regions which share——

Dr Stanley: That is right.

Mr J. H. SULLIVAN: —they are all fully staffed and fully functional?

Dr Stanley: Yes.

Mr J. H. SULLIVAN: Are you able to run through the establishment for each regional office internal audit unit?

Mr Hayes: I can. When you say “establishment”, you just want the number of people?

Mr J. H. SULLIVAN: Yes.

Mr Hayes: Brisbane North, four; Brisbane South, four; Sunshine Coast, one; West Moreton, one; Darling Downs, one. South West will be covered by Darling Downs, as Dr Stanley has alluded to. Wide Bay is with an accounting firm—an external party. Mackay is one; South Coast is one; Central is three, which also covers the Central West; Northern is with an external accountancy firm, and Peninsula is two.

Mr J. H. SULLIVAN: When you wrote to us, you had indicated that some of the regions were considering using external consultancies. Is there any reason why Wide Bay and Northern have gone to external consultancies as opposed to appointing your own staff?

Mr Hayes: I think that the internal audit role for some regions has been yet another issue they have been struggling with in the reform process. I think that, to a certain degree, the use of external consultants or accountancy firms can in fact provide them with a service which might be more cost effective in some cases rather than have someone on as an internal auditor full-time. You might find that the audit of that particular region or otherwise might only be 0.5 or 0.7 of a person and therefore you might find it is more cost effective that way.

Mr J. H. SULLIVAN: If I can pursue that a moment longer—the South West and Central West have shared facilities with neighbouring regions.

Mr Hayes: That is right.

Mr J. H. SULLIVAN: Might that not also have applied in the instance of Wide Bay and the Northern region?

Mr Hayes: It is possible that could happen. At this point in time, the reason why they have gone that way is clearly because a decision was made that that was probably the most cost-effective way for them to go and they wanted to retain that control within their own region.

Mr J. H. SULLIVAN: Are you able to tell us what kind of qualifications the internal audit staff hold? In this instance, I refer to central office and regional.

Mr Hayes: In central office, all staff are graduates in accountancy. In the regions, the majority have degrees and, to my knowledge, a couple are studying towards their accountancy degree.

Mr J. H. SULLIVAN: When the Committee wrote to you, we asked whether a charter had been established for the internal audit function and we requested a copy. You sent us a one-page document—this one here—which stated goals, objectives, strategies and performance indicators. That is not exactly what we were seeking. We were rather hoping that you would furnish us with an internal charter that establishes free access to accounts, records, personnel and assets of the department; that establishes the independence of the unit and that defines internal audit's authority and its role. Public Finance Standard 610 requires the establishment of such a charter. Does it exist in the department or not?

Mr Hayes: There is a charter. The charter that you have there is basically a brief summary to give people an understanding of the direction which audit pursues in delivering its services. In terms of delineating independence and things of that nature, the Public Finance Standards are fairly clear about what the charter of the group should be. That document there is viewed as being a summary of that.

Mr J. H. SULLIVAN: Is there any chance that we may be furnished with a copy of the full charter?

Mr Hayes: We can get you a copy of that, yes.

Mr J. H. SULLIVAN: Who do the regional health authority internal audit units report directly to?

Mr Hayes: The auditors in the region report to the regional directors. From a quality assurance, coordination and Statewide monitoring role, they have a dotted line across the director of internal audits' central office.

Mr J. H. SULLIVAN: Who does the central office internal audit branch report directly to?

Mr Hayes: Directly to the chief executive.

Mr J. H. SULLIVAN: Your department's letter stated that your central office internal audit branch has a monitoring and coordinating role over each of the audit functions established in the regions. Could you outline more specifically what the function of the central office unit is in this respect? I suppose that probably has something to do with the dotted line that you were talking about.

Mr Hayes: The chief executive officer is the accountable officer under the Financial Administration and Audit Act. The central office group acts as the eyes and ears of the chief executive in that sense in that there needs to be a monitoring role in terms of ensuring that audit services within each region are offered and delivered consistently; that they are delivered in the appropriate standards that are set by the profession; that we do not end up with basically 13 separate companies operating out there in an audit sense; that there is a consistent approach; that reporting is consistent and that the methodologies used and working papers are consistent as well.

Mr J. H. SULLIVAN: You indicated in your letter in April, which is a while ago now, that the regional audit units were in the process of developing audit plans and work programs.

Mr Hayes: Yes.

Mr J. H. SULLIVAN: Have all of these been done for 1992-93 as required?

Mr Hayes: The audit plans for 1992-93 have been submitted to central office. Part of that arrangement we spoke of before with the quality assurance monitoring role is that all audit plans are submitted to the Director of Internal Audit at the commencement of each financial year.

Mr J. H. SULLIVAN: That would mean that the director is the person who approves the audit plans and work programs?

Mr Hayes: From an approval point of view, you could say that, yes. If you are looking under the umbrella of the accountable officer being accountable in every sense of the word across the State, the Director of Internal Audit would in fact provide that endorsement/approval that those plans are meeting the requirements.

Dr Stanley: At the start of each year the Director of Internal Audit reports directly to me and discusses the proposed program of compliance and efficiency auditing that he proposes to undertake in the year. He also brings to me the work programs of the regions. If he has got any particular problems and he considers the program is inappropriate, I will deal with the regional director and say to him, "I suggest you revise your program to conform." He brings those concerns to me and then, if necessary, I can go and talk to the regional director.

Mr J. H. SULLIVAN: So, in essence, the approval rests with yourself?

Dr Stanley: I am the accountable officer.

Mr J. H. SULLIVAN: Dr Stanley, the department has had an internal audit function for some years. To what extent have recommendations made by internal audit been actually implemented in the department?

Dr Stanley: I have only been in the job for some 20 months. To my knowledge, all of the recommendations that came to me have been implemented, but, perhaps, Mr Hayes can answer that.

Mr Hayes: If you look at compliance-type audits, without doubt, all recommendations would have been implemented. When it comes to efficiency effectiveness style audits, from time to time there is some negotiation that takes place across the table, because sometimes we are

dealing with issues that may be subjective or they may be opinion based, but going back to the requirements of the legislation——

Mr J. H. SULLIVAN: Dr Stanley, how beneficial have you found internal audit to the management of your department?

Dr Stanley: I find it to be of good value because the Director of Audit acts as an extension of our eyes and ears to the regions in terms of compliance auditing and knowing what is going on out there, and more particularly now in the area of performance auditing and efficiency reviews. Some significant gains are being made in terms of efficiency and reallocation of resources. I find that they are exceedingly valuable.

Mr J. H. SULLIVAN: Are you able to give us a specific example of significant improvement in the administration of your department which arose from an internal audit recommendation?

Dr Stanley: I think that Mr Hayes has a couple of good examples of that.

Mr Hayes: I can talk to a couple of examples. Statewide there has been a number of efficiency effectiveness reviews that have come under the umbrella of the Director-General or the Minister of the day which, I suppose, have returned savings to the organisation in the vicinity of some millions. Those funds have been redirected into the organisation for new services and/or reallocation of services as well. There has been a tightening of controls in various areas such as payroll services which, in a number of instances, have led to criminal charges being laid against staff. There have been examples where fraud has been uncovered with regard to Federal funds that have been granted to the department and which have subsequently been granted to organisations in the community. Those matters have been pressed through to the Supreme Court as well.

Mr J. H. SULLIVAN: Are the internal audit functions in your department dedicated solely to internal audit work or do they also have an involvement in other review processes such as program evaluations?

Dr Stanley: They undertake a mandatory program compliance audit. They also do efficiency reviews for me as well. They do not do any of the performance indicator work except in the financial sense.

Mr J. H. SULLIVAN: Public Finance Standard 400 requires that the internal audit function be consulted when computerised accounting systems are in the specification and development phases. Is that the case with the Health Department?

Mr Hayes: As I highlighted earlier on, Health has a long way to go as regards information technology. If we break the systems into two pieces, we have the regional based systems that were developed in the early and mid eighties—they were evaluated by the Auditor-General's Office, which was back in the Treasurer's Instructions' days and there was some involvement, but not complete involvement, by the internal operational audit section, as it was called. With regard to the HBCIS system, the latest development in our hospital system, there is a full-time auditor from the internal audit branch acting as an officer with the specifications and/or development of those systems.

Mr J. H. SULLIVAN: Are internal audit staff ever called upon to relieve in non-audit areas, perhaps on a line position, within your department?

Mr Hayes: It is not common practice. However, on occasions it has happened where staff from the branch have relieved elsewhere. They have usually been in positions where in fact those officers have been able to remain at arm's length to the process of transactions and so forth. The instances where it has happened have been where there is a need requirement in the department or to develop that auditor in other areas where there might be a skills requirement as well.

Mr J. H. SULLIVAN: I appreciate that it is not common and that there are some benefits such as you have mentioned. Do you not think that it might curtail and weaken the effectiveness of the internal audit section to have people out there?

Mr Hayes: If you put someone into a line position that requires him to be accountable for such systems that they may be appraising at a later stage, without doubt, but if you are not, and he is going into a purely advisory-type role, I do not see a problem with that.

Dr Stanley: It is also very useful from a staff development point of view. People sitting solely in internal audit will get very narrow and not expand. They must be moved from the point of view of staff development.

Mr ELLIOTT: They get some benefit from going around.

Mr J. H. SULLIVAN: Mr Hayes alluded to that earlier on.

Mr Davis: Could I just make a comment about the internal audit charter that you mentioned. Section 9 (1) of the Financial Management Practice Manual is headed "Internal audit". The reference is 610 of the Public Finance Standards. It refers to interpolicy control objective and practice statement, and in particular about accessibility to documents. There is a section that says—

"Such activity may cover any subject matter or function. In this connection all records, correspondence, contracts and other data must be made available to the internal auditor, subject only to any restrictions deemed warranted by the accountable officer."

I do not know whether that assists.

Mr J. H. SULLIVAN: I will have to think about it.

Mr Hayes: We can forward you copies of that document, plus the other information as well. That document you have is a summary document.

Mr J. H. SULLIVAN: It is an executive summary document.

Mr ELLIOTT: As regards system appraisals, the Public Finance Standards require that all your department's revenue, expense, asset and liability systems be appraised each financial year to determine the proper functioning of controls and the appropriateness of procedures followed. Your department's letter indicates that your department has yet to implement procedures to satisfy the system appraisal requirements of the Public Finance Standards. What is the current position and what is your department doing about implementing the system appraisal requirements of the Public Finance Standards? I think that we touched on some of that before.

Mr Davis: As far as system appraisals go, we are a big organisation. It certainly would not be right to say that we do not do systems appraisal. The reporting of that evaluation actually occurs. The areas that you mentioned, revenue and expenditure, are just part of the normal budgetary process on a monthly basis and reports are sent to the executive advising of those positions. With regard to liabilities, anyone who signs a voucher actually makes a certification that funds are available when they authorise the purchase of any goods or services. There is a process that has to be followed as to whether you have sufficient funds before you incur a liability. Assets are probably our biggest concern. For the first time this financial year the Minister has approved financial statements that will include the recording of values of plant and equipment. That will be the first time that that occurs. It means that you need a register in place and also a valuation.

Mr ELLIOTT: Who actually carried out that evaluation? Did outside consultants do it?

Mr Davis: There is a mixture with that. In the central office, it has been done by internal staff. I think there is probably a mixture amongst the regions as to which way it has been considered appropriate, based on the activities upon them at this time of the year.

Mr ELLIOTT: Has it been left to the regions to decide which is the best method?

Mr Davis: As far as a process goes, it has been left to the regions to decide. As far as a policy on how plant and equipment are valued, that comes centrally.

Mr ELLIOTT: I presume that the system appraisal process will involve all levels within your department and include, for example, the chief office, regional health authorities, each hospital, etc. You have already touched on some of that, but you might like to take that a step further.

Mr Davis: To get an understanding of where we are at in the Public Finance Standards—when going through regionalisation and restructuring, we thought the most important thing to set the framework for the next step to take was the financial management practice manual. We really have to focus now on systems appraisals and position assessments;

firstly, what needs to be done for compliance and, secondly, where we are at the moment, the usefulness of going through the requirements of systems appraisal and position assessments, what the cost of it is, and what is the best way to optimise the implementation. We have prepared a questionnaire that is fairly thorough on both those topics, and the questionnaire is to go out to all the regions and those elements within central office to really assess the Public Finance Standards and move through to a final question of, "Do you consider them to be cost effective? Do you consider them to be beneficial? How much will it cost?", not so much in dollar terms, but as far as will it be extensive, medium or low.

Mr ELLIOTT: When will your department be in a position to annually appraise the operations of all its financial systems, as required by the Public Finance Standards?

Mr Davis: There will be a degree of formalising appraisals to occur on a fairly regular basis by line management, as occurs at the moment. It is a matter of formalising that in some type of reporting format, I would say.

Mr ELLIOTT: You have pretty well answered the next question when you talked about line management. What benefit do you perceive the system appraisal process will be to the management of your department? Do you think they understand those benefits?

Mr Davis: The benefits of systems appraisal comes down to the information that we are getting—how reliable, relevant, accurate and timely it is. We need to take into account assessment on that basis, so that we are not being overburdened by systems appraisals that we are not going to get any benefit from. If we are going to get a benefit, how much is it going to cost to do an appraisal on a day-to-day basis or on a monthly basis? We are concerned about providing service delivery, and what has to occur is that the systems appraisal really has to complement that provision of service.

Mr ELLIOTT: Have you got details to establish the extent of the additional costs?

Mr Davis: The purpose of getting that questionnaire out to the regions is to assess that.

Mr ELLIOTT: Has Treasury been of help and assisted with seminars, training and other guidance as far as your department and staff are concerned?

Mr Davis: It has. There was a particular seminar on position assessments, as I understand it, and representatives of regions as well as central office attended those meetings. What you sometimes find with Treasury is that it will come out with a pro forma position assessment. At least that is a start. It might not be a practical way of implementing it, but it is a start so that a department can assess, "What do we want and in what format?"

Mr ELLIOTT: What feedback are you receiving from your staff? Do you think they feel that Treasury is backing them up, or that Treasury needs to back them more?

Mr Davis: With the Public Finance Standards in general, the feeling is that the standards in themselves are extremely good—they are certainly succinct—but the problem that we found was that you had to comply but there certainly was not any funding or resources to assist in compliance with the Public Finance Standards. For example, with the financial management practice manual, I considered that we had a very good process with that, when we involved central agencies as well as the regions and came up with a document that was very well accepted. In fact, we have just got recent responses to questionnaires on what has been the biggest achievement of our branch in Queensland Health over the last 12 months, and the financial management practice manual is certainly the one that is stated as No. 1 in all those responses. The problem with Treasury is that every other department has gone off on its own way to get a financial management practice manual, whereas if an oversight committee had been established to overview a model financial management practice manual and involved the relevant departments, then they could adapt that model—similar to what we are doing with the procedural manual for regions. Compliance with the Public Finance Standards has been very difficult without any resourcing, particularly through regionalisation and restructuring, when there is so much activity on everyone's agenda.

Mrs Bird: I understand from your response to the questionnaire that was put out by the Public Accounts Committee that you do have in place some position assessment criteria that partly satisfy the Public Finance Standards. Have you gone any further than when you presented that letter to us?

Mr Davis: Yes. Primarily, we would have been focussing then on revenue and expenditure and liabilities. The other one is the asset side of position assessments. The step that we have taken at this stage is the distribution of the regional and central office financial statements for this year, which will have the values in more an asset/liabilities statement, whereas in the past we have not.

Mrs Bird: How long will that take? This letter came through in April.

Mr Davis: The first thing we have to understand is whether it is worth while. Simply because legislation says that that has to occur—I think we have a responsibility to assess the cost and the benefit of that. That is the purpose of this questionnaire going out on position assessments. In the hospital setting, we have fairly extensive ranges of plant and equipment as far as assets go. On a service delivery level, they will be focussing on the actual operation of that asset.

Mrs Bird: But can you give me a time scale? Can you give me a length of time? September?

Mr Davis: No, I do not think we can, because it depends upon the replies as to the benefit we will get out of it. At this stage, all we can say is that we are certainly intending to find out the position right across the State as to where we are on position assessment. To the degree that it is beneficial to us all and the costs are not exorbitant, the next step will be assessing what we have to do to comply with position assessments.

Dr Stanley: The biggest problem with position assessments is the assets and the liabilities. We report monthly on finance. The assets and the liabilities is the one where quarterly reporting on assets would be, in my view, ridiculous, because it is a very slow or non-changing situation. Assets should only be reported on annually, in my view.

Mrs Bird: Do you see the requirements as being extreme for the position assessments?

Dr Stanley: I think they are okay for the revenue and expenditure, but I think assets and liabilities, particularly assets, ought to be on an annual basis. Anything less than annual is just not on for assets. There is just too much work involved and it is a non-changing situation in many cases. It is very hard even to get a view on how much we actually own. On part of a national survey that was done recently, the estimated net value of our buildings is about \$3.3 billion. We will have to refine that shortly. It is the first time that it has actually ever been valued. I do not see any point in reporting on assets at less than annual intervals.

Mr Davis: It depends on the particular type of asset that you are talking about. For example, if it is debtors, you would be reporting on that on a monthly basis, assessing your compliance with normal revenue collection. As for plant, equipment and buildings, certainly the reporting structure that we are trying to introduce focuses on an annual compliance with that in a reporting framework, and that should be cost effective.

Mrs BIRD: Dr Stanley, the Public Finance Standards require you as accountable officer to examine personally your department's position assessments. With your regional structure, how is the necessary detailed information provided to you to enable you to fulfil your obligations as accountable officer?

Dr Stanley: I have instituted a system whereby I get monthly expenditure given to me on a region by region basis for the month of the expenditure, the year to date and the projection for the year. That is discussed at our monthly executive meeting, and any abnormal variations are immediately queried through the director of finance. In terms of revenue and expenditure, that is monitored routinely in a set format to me every month. In terms of assets and liabilities, it has not really been recorded in the past. This will be the first year that it will be done. I am in the process of getting that in place.

Mrs BIRD: Your letter said that an asset position assessment was undertaken for the first time on a state wide basis for assets held on 1 July 1991. What process did you follow in undertaking this exercise? How did you go about it and, specifically, what did you look at?

Mr Davis: That related to regionalisation of Queensland Health and the transfer of functions from central office to the regions. It was very similar to the process that we are going through now with financial statements in that they had to identify the plant and equipment, the inventories, their debtors, their creditors and employee entitlements in detail.

Mrs BIRD: When was it done before then? Had it been done before?

Dr Stanley: Basically, we did a stocktake as at 30 June 1991 when the old board system finished and the regions started. We wanted a baseline to work from when the regions took over. It was a stocktake of all financial assets at that date. In terms of the valuation of the assets, most are using the administrative services department.

Mr Davis: There was not really a requirement before then. There certainly was not a requirement to go to that detail. It is just that the time of regionalisation and the hand—over of what was there before to the new structure was considered required. As far as Treasury's requirement for reporting is concerned, it was really only invoices that you had on deck at 30 June and employee entitlements, as I understand it. There were no requirements to comply with greater detail.

Mrs BIRD: Did you design a process for yourself?

Mr Davis: Yes. We designed a process and distributed guidelines. They were similar to where we are at the moment with our regional annual financial statement guidelines. The detail of the financial statements is probably only about a third of it, but the rest of it is guidelines as to how you comply with the preparation of those financial statements.

Mrs BIRD: Has that been valuable?

Mr Davis: What has been more valuable is not so much the preparation of the financial statements and the guidelines but the associated training that has gone with it. It was not just a matter of coming up with financial statements and guidelines and distributing them out and saying, "Well, you go away and do it." What we found particularly over the last three months has been the visits to the regional health authorities where training has occurred in compliance. As far as understanding positions are concerned, we will, probably for the first time and from now on, improve that information so that we have that on a regular comparative basis.

Mrs BIRD: So you did not get a great deal of benefit out of knowing what assets you had?

Mr Davis: Yes, that is what I am saying. We will, but it depends what type of benchmark you are matching your assets against. For example, with plant and equipment you might get a value of plant and equipment, but what does that really mean? You have to have an understanding, and a system our size, as to what are appropriate levels of plant and equipment when expenditure on a recurrent basis is compared with what your value of stock actually is. That will be the benefit down the track—as Mr Read said earlier—trying to get an understanding of national standards and where we should possibly be heading.

Dr Stanley: In terms of the valuation of assets, we can apply set depreciation to it. We know how much money we really need to set aside to maintain the asset base.

Mrs BIRD: Or whether it has been used in the best direction?

Dr Stanley: In fact, by using two different methods we have actually come out surprisingly close. We need \$124m a year just to maintain the assets.

Mrs BIRD: In his report to Parliament for the financial year ended 30 June 1991, the Auditor-General commented upon problems with asset management in regional health authorities. The Auditor-General stated that particular attention still needs to be given to the complete verification and valuation of all property, plant and equipment held by the regional health authorities and to the establishment and maintenance of suitable subsidiary registers to enable proper financial and physical control over the assets. Has all regional health authority property, plant and equipment now been verified and valued? If not, what has been done to date and when will this be finalised?

Dr Stanley: Firstly, the Auditor-General would have been referring to 30 June 1991. The regions had not come into operation. What I referred to before was the stocktake and what was left to them by the former board system, so the regions only came into effect on 1 July 1991. The Auditor—General was referring to the stocktake and effectively what was handed to them. We are in the process now of doing that valuation.

Mr Davis: There should be a significant change based on that, which simply means that you are not going to have asset values if, firstly, you are not going to have a register. The control through the register and, hopefully, the valuation of the assets—we will be complying with that.

Those are the instructions. We have to go through the procedural process of ensuring that happens. Once that occurs, then you have a starting base to introduce some financial control through your ledgers. Again, it comes back to the finance systems that are in Queensland Health and the need to improve those. I am finding with QGFMS—the Queensland Government Financial Management System—that there are some concerns about inventory control through that system. Hopefully, that is very close, which means that once you have the valuation of the assets, you then move to financial control through your finance systems.

The CHAIRMAN: Basically, that stocktake that you took last year represents a stocktake for 1 July, but then there has to be work done to value a lot of those things?

Mr Davis: Yes. The primary focus will be the complete valuation for 30 June 1992 and the inclusion of that information in financial statements.

Mr Read: Can I add a word or two about the valuation of land, buildings and equipment? It has not been done very extensively throughout Australia. I do not think that any health authority has a very detailed understanding of the current value of all its land and buildings or its equipment. Dr John Deeble from the National Centre for Epidemiology and Population Health in Canberra recently undertook a nationwide study of about 30 hospitals in which he developed a protocol for valuing the buildings and the major infrastructure equipment, such as the lifts and the boilers, and also the high-tech equipment, such as linear accelerators and X-ray equipment. That is the first time in Australia that that has been undertaken. Six of the hospitals out of his sample of 30 were Queensland hospitals. We intend to employ that Deeble methodology to extend through a range of hospitals in Queensland so that we could get a much better estimate of our capital equipment.

The CHAIRMAN: So the consolidation of that information at this stage is being proceeded with but still does not exist?

Mr Read: It exists for the six hospitals that he did. That information is available. We would need to undertake the task ourselves separately, if we do that, borrowing his methodology. That would be a fairly lengthy process. The alternative would be to get Dr Deeble to do it for us. Then it becomes a resource issue. It is fairly expensive to get him to do that for all hospitals in Queensland.

The CHAIRMAN: So the stocktake is a list? Everything is in a register?

Mr Davis: Everything is in a register, but the value is for anything greater than \$2,000. We are so big that it was certainly acceptable to Treasury that it was a fair limit to add to it. That is only plant and equipment. There is no valuation that will occur at 30 June this year. It is not a requirement of Treasury at this stage.

Mrs BIRD: You said earlier that your staff attended a workshop.

Mr Davis: Yes, a position assessment workshop.

Mrs BIRD: Did they get anything out of that position assessment workshop?

Mr Davis: Yes. The staff to whom I have talked about it said that they did. Again, model statements came out on position assessments. Some modification of that would be needed. It is very hard to come up with a standard for everyone, but I would like to see Treasury at least starting to come up with a standard that can be adapted by departments rather than saying that all departments should go away and do it all themselves.

The CHAIRMAN: As part of the position assessment process, the Public Finance Standards require that an annual determination be made as to whether assets are being used in the best and most efficient way possible. Have you started to grapple with that?

Dr Stanley: We have some information that you might like to distribute. It does not directly address the point of usage of assets. However, this graph shows cash assets that we have and existing plant, buildings, etc. We have had some spectacular increases in productivity in the last five or six years. The graph shows the increase in population growth in Queensland and also shows that the admissions to hospitals are increasing faster than population growth. The number of operations being performed is growing even faster again, whilst the money has remained very modest, declining at one stage. It has been increasing in the last couple of budgets. It shows that, with the assets that we possess and given a fairly static situation with money, notwithstanding the last two budgets, we have had a real increase in productivity. In

general terms, we could say that Queensland Health has done very well in terms of managing its assets to get that productivity increase out of existing assets.

The CHAIRMAN: Which one is the money? That is real growth, is it?

Dr Stanley: It is the one that dips in 1987, 1988 and 1989. It crosses in 1990. The money is virtually running horizontal, but everything above the line is going up at a very rapid rate. The only way that we could have done that was by efficient management of assets and our staff. It demonstrates that our productivity in the department has been very, very acceptable.

The CHAIRMAN: The Public Finance Standards also require that the position assessment process include an annual determination as to whether suitable asset replacement programs have been approved and are in operation. Is this done on a central or regional level?

Mr Davis: It would be done at the local level. A more clear understanding is needed of the lifetime of the asset vis-a-vis spending money on maintenance compared with replacement. A fair bit of work needs to be done on that.

Dr Stanley: From the Deeble study that was done on the small sample of six hospitals in Queensland, they estimate our value of buildings and plant and equipment to be about \$3.3 billion. Using accepted depreciation and replacement of our assets, we need about \$124m a year to maintain those assets. It is a fairly large amount of money, that is both capital and recurrent funds, to stand the assets still and maintain them. We know at least roughly what we are worth in terms of that and how much a year we need to maintain it.

The CHAIRMAN: Is that what would be being spent at the moment?

Dr Stanley: We would not be spending that amount, no. There is no doubt that we would not be meeting that standard.

The CHAIRMAN: The Committee would like to hear your views on the process by which the Public Finance Standards are being introduced, bearing in mind that the standards involve radical changes in management practices. Could you comment on the level of consultation, training, awareness development, etc., which has taken place to facilitate their implementation?

Mr Davis: It has been a resource issue not only for us but also for Treasury. To a large degree, the implementation, particularly in Queensland Health, had to await the finalisation of regionalisation and restructuring. The issue of resourcing was mentioned before. If Treasury went back to day one to start again, they would have been better to put some type of funding into assisting departments to comply with the Public Finance Standards, as well as an overview and maybe some oversight committees to focus on each of the individual aspects to bring a better understanding to the departments as a whole, so that everyone did not go their own way and virtually reinvent the wheel. That could have been handled better.

The CHAIRMAN: Are you satisfied with the role that Treasury has taken concerning implementation of the standards?

Mr Davis: To the extent of what was just said about the funding and probably better management through oversight committees.

Dr Stanley: Might I say in conclusion that the department's relationship with Treasury is certainly immeasurably better now than it was in the past. Treasury and Queensland Health are cooperating on very real terms at the current time. It augurs well for the future.

The CHAIRMAN: Are there any final points that you would like to raise with us regarding the Public Finance Standards?

Dr Stanley: In general terms—in the last 18 months, Queensland Health went through the largest single reorganisation in its history of 55 years. We have had to grapple with enormous reorganisation and management issues. That is why we had a late start on program management, but we are rapidly making up the ground. Many of the issues that we had to grapple with in terms of reorganisation were to review things in the process, to put up new systems, etc. In terms of the enormous change that we have been through, it has been beneficial to our system. It has also delayed some things, such as program management. Nevertheless, I believe that we will meet the targets by 30 June next year.

The CHAIRMAN: Thank you very much Dr Stanley, Mr Davis, Mr Read and Mr Hayes. You are now discharged. That concludes the Committee hearing. Thank you, Hansard.

The Committee adjourned at 3.29 p.m.