LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

REVIEW OF AUDITOR-GENERAL'S REPORTS:

NUMBER 1, 1992	*Information Technology Management Policies in the ACT Government Service*
NUMBER 4, 1992	*ACT Board of Health Management of Information Technology*
NUMBER 1, 1993	*Management of Capital Works Projects*
NUMBER 2, 1993	*Asbestos Removal Program*
NUMBER 4, 1993	*Home Loans Program, Capital Equipment Purchases, Human Resource Management System, Selection of ACT Government Banker*
NUMBER 7, 1993	*Annual Management Report for the year ended 30th June 1993*

Report Number 7 of the Standing Committee on Public Accounts
December 1993

RESOLUTION OF APPOINTMENT

On 27 March 1992 the ACT Legislative Assembly established a Standing Committee on Public Accounts with the following terms of reference:

(1) Examine

(a) the accounts of the receipts and expenditure of the Australian Capital Territory;

(b) the financial affairs of authorities of the Australian Capital Territory; and

(c) all reports of the Auditor-General that have been laid before the Assembly;

(2) Report to the Assembly, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them to which the committee is of the opinion that the attention of the Assembly should be directed; and

(3) Inquire into any question in connection with the public account which is referred to it by the Assembly and to report to the Assembly on that question.

MEMBERSHIP

Mr Trevor Kaine MLA (Presiding Member)

Ms Annette Ellis MLA (Deputy Presiding Member)

Mrs Kate Carnell MLA

Mrs Ellnor Grassby MLA

Mr Michael Moore MLA (from 25 February 1993)

Secretary: Ms Karin Malmberg

CONTENTS

1 INTRODUCTION

Background

1.1 The terms of the resolution under which the Public Accounts Committee was established on 27 March 1992 require it to examine all reports of the Auditor-General which have been laid before the Assembly.

1.2 This report contains the findings and conclusions arising from the Committee's examination of six reports of the Auditor-General. The reports are:

- Number 1, 1992, Information Technology Management Policies in the ACT Government Service
- Number 4, 1992, ACT Board of Health Management of Information Technology
- Number 1, 1993, Management of Capital Works Projects
- Number 2, 1993, Asbestos Removal Program
- Number 4, 1993, Home Loans Program, Capital Equipment Purchases, Human Resource Management System, Selection of ACT Government Banker
- Number 7, 1993, Annual Management Report for the year ended 30th June 1993

2 INFORMATION TECHNOLOGY MANAGEMENT POLICIES IN THE A.C.T. GOVERNMENT SERVICE

Results of the audit

2.1 On 23 June 1992 Auditor-General's Report Number 1, 1992, Information Technology Management Policies in the ACT Government Service, was presented to the Assembly and contains the findings arising from an audit carried out in April 1992. The primary objective of the audit was to form an opinion whether an appropriate balance has been achieved between the degree of independence afforded to agencies to manage their information technology facilities, and ACT Government Service-wide information technology policy considerations; whether sound policies and guidelines have been developed; and whether agencies have accepted, and are conforming to, the policies.

2.2 Four agencies, ACT Health, Treasury, Department of Education and Training and the Department of Urban Services, were selected for assessment of their application of promulgated information technology (IT) policies.

2.3 The Auditor-General concluded that the overall impression arising from the audit was that a sound foundation for managing and co-ordinating IT across the ACT Government Service (ACTGS) had been achieved. The following general conclusions were reached[1]:

- an appropriate balance has been achieved between the degree of independence afforded to agencies to manage their information technology facilities and ACTGS-wide policy considerations;
- the policies and guidelines issued to date are comprehensive and sound; and
- the nominated agencies demonstrated commitment to and acceptance of the existing IT policies.

[1]Audit Report No. 1, 1992, p 1

2.4 The Report identified that, whilst a range of policies and guidelines have been developed and appear to adequately cover the areas which they were intended to address, there were other important areas which, at the time of the audit, policy development was in progress but not yet completed, while others had not been addressed. The Report noted that further policy development is necessary for those areas.

2.5 The Report also noted that, whilst the agencies demonstrated commitment to and acceptance of existing IT policies, action to address some policies, including the requirement for "contingency" planning, had not been undertaken at all agencies.

2.6 In general, agencies are not required to report actual compliance with IT policies, other than for planned systems (in major project proposals) within the context of their IT strategic plans. In the Auditor-General's view, if maximum commitment to IT policies is expected, more stringent reporting and review mechanisms are required.

2.7 Twenty recommendations were made by the Auditor-General, covering issues in the areas of policies, guidelines and standards, the timetable for the Major IT Policy Committee, the possible duplication of systems, post implementation reviews, the development of an ACTGS corporate data management strategy, an ACTGS-wide office automation strategy, contingency plans, the Barton computing site, computer security, a more centralised approach to management of certain IT issues and the Government Computing Service.

Approach to inquiry

2.8 On 24 June 1992 the Committee sought a submission from each Minister seeking comment on the matters raised in the Report as it related to the Minister's portfolio. A submission dated 28 July 1992 was received from the Secretary of the Department of Urban Services in his role as chair of the Information Technology Strategy Committee. A consolidated response was provided on behalf of all agencies as most of the issues raised in the Report fell within that Committee's charter.

2.9 On 19 October 1992 the Committee met privately with the chair of the Information Technology Strategy Committee, the chair of the Major Information Technology Projects Committee, members of the ITSC and officers of the Corporate Services Bureau.

2.10 On 19 July 1993 the Committee held a public hearing at which the acting chair of the Information Technology Strategy Committee, the chair of the Major Information Technology Projects Committee, members of the ITSC and officers of the Corporate Services Bureau gave evidence.

Response to Report

2.11 The Committee was interested in the response to the Audit Report in view of the timeframe within which its inquiry was conducted. The audit findings were made in April 1992 and reported to the Assembly in June 1992.

2.12 The Committee initially examined progress in July 1992 when the IT Strategy Committee's submission was received. The Committee further reviewed progress that had, or in some cases had not, been made when a further examination was undertaken a year later in July 1993 at a public hearing.

2.13 In both the submission and public hearing, the Committee was advised that there is a need to maintain a balance between the business requirements of individual agencies and "whole of Government" considerations. The need to achieve balance has impacted on certain of the IT Strategy Committee's responses to the Audit Report.

2.14 Overall the findings and recommendations of the Auditor-General have been accepted and action is in progress or completed. Areas of interest to the Committee are discussed below.

Major IT Projects Committee

2.15 The Auditor-General recommended that the Major IT Projects Committee should meet on a timetable which allowed its members to give greater consideration to projects and reduce the risk of "non-informed" decision making. The Major IT Projects Committee examines IT proposals that have initial set-up costs of more than $250,000, a whole of life cost more than $1m or require specific budget funding.

2.16 The Committee was advised that the timetable for bids to be before the Major IT Projects Committee was reviewed in early 1992-93 and as a result proposals were examined early in the budget process.[2] It was considered that the difficulty referred to by the Auditor-General had been overcome by the improved scheduling and changes to deadlines for lodgement of proposals.[3]

Possible duplication of systems

2.17 The Auditor-General commented that the operation of the IT Strategy Committee and the Major IT Projects Committee, and the cooperation of agencies, has reduced the risk of inefficient duplication in systems development and fragmentation of corporate data resources. The Auditor-General, however, raised the possibility that independent work was underway in some agencies to develop systems and applications which were also being addressed by ACTGS service-wide projects.

2.18 The Auditor-General concluded that although adequate procedures are being followed to reduce the risk of inefficient duplication, further policy development is required. He stated that where possible, careful scrutiny should be made of agency plans to develop systems which are being addressed, or are planned to be addressed, by ACTGS-wide IT projects. The Auditor-General recommended that the decision to allow duplicate agency-level projects to proceed should be made by the (now) Government Services Board.

[2]Transcript Monday 15 July 1993, p 15,
[3]Submission, Department of Urban Services, 28 July 1992, p 4

2.19 The Committee was advised of several mechanisms in place to detect possible duplication and to consider the merits of individual instances, ie the IT Strategy Committee, the Major IT Projects Committee and agencies' IT strategic plans.[4] The Committee was also advised that the Government Services Board would be an appropriate forum for decisions regarding duplicate systems.

ACTGS-wide office automation strategy

2.20 The Auditor-General recommended that consideration be given to whether or not an ACTGS-wide office automation strategy should be developed. The Auditor-General noted that office automation is considered an agency level issue although standards and guidelines have been issued.

2.21 It was also noted that whilst suggested performance indicators for the general operation of computer systems are listed in the guidelines for preparation of IT strategic plans, there is no reference to specific performance indicators concerning office automation. The Auditor-General concluded that from an ACTGS-wide perspective, a primary measure of performance in office automation would be adherence to microcomputer standards for new acquisitions at agency level, and that the only current indicator is provided in agencies' IT strategic plans and annual reports.

2.22 In response, the Committee was advised that this recommendation bears directly on the issue of a balance between the degree of independence offered to agencies and ACTGS-wide policy considerations.[5] The Committee was also advised that the framework for an ACTGS-wide office automation strategy is in place with published standards for micro computer hardware and software, guidelines for the implementation of office automation and standards for connection to Government wide area network ACTNET. The Committee notes that further standards development is planned in some areas but, in the view of the IT Strategy Committee, it is generally considered that an appropriate balance has been achieved.

2.23 The Committee is of the view that specific performance indicators relating to office automation, as suggested by the Auditor-General, should be formulated and used as a measure of performance.

[4]Transcript, p 18-19
[5]Submission, p 6

Contingency plans

2.24 The Auditor-General commented that in general, minimal progress had been made by agencies in the implementation of their "business" contingency plans. It was found that there was general agreement that such planning was important and plans should be in place, and although intentions to implement them were demonstrated, the preparation of contingency plans had not occurred. The Auditor-General noted that where contingency arrangements were in place, they tended to focus on the recovery of specific systems and IT hardware, instead of being a contingency plan as defined within the policy.

2.25 The Auditor-General also commented that confusion was common in situations where agencies use the Government Computing Service to manage their systems, as it appeared they believed that in using the Government Computing Service's facilities at Barton (now at Woden) they were protected by an ACTGS umbrella plan, when no such plan existed.

2.26 The Auditor-General recommended that contingency plans be completed as a matter of urgency for all agencies and that clarification of the role of plans be made to ensure agencies are aware that the plans address contingency for "business", not solely IT.

2.27 The Committee was advised that there is agreement with both these recommendations, and that the IT Strategy Committee shares the concern that progress in the development of plans is minimal. The submission indicated that the position would be reviewed in the latter part of 1992.[6]

2.28 The Committee followed up progress at the public hearing, and was advised that some progress has been made, although probably not as much as would have been wished. The Committee was advised that the issue of contingency plans was a progressive iterative matter that the IT Strategy Committee will be requiring agencies to continue to keep at the forefront of their agendas.[7] The Committee notes advice during the hearings that ACT Health was undertaking such planning.

[6]Submission, Department of Urban Services, 28 July 1992
[7]Transcript, p 22

Review of Auditor-General's Reports

2.29 The Committee is of the view that it is essential that comprehensive contingency planning is undertaken and regularly reviewed by agencies and it expects an indication of some commitment to the development of plans as a matter of priority from the IT Strategy Committee.

Security

2.30 The Auditor-General made three recommendations concerning security. It was recommended that the existing computer security policy should be extended, that guidelines should be developed for the preparation of computer security procedures by agencies in accordance with the computer security policy, and that consideration should be given to having a central point where security breaches are reported.

2.31 In relation to a central point for the reporting of security breaches, the Committee was advised that under the current policy, responsibility for security rests with the individual agency and that the cost and benefits of establishing a central point would need to be carefully assessed. The Committee was advised, through the submission, that the issue will be examined in a review of computer and data security arrangements.[8]

2.32 In relation to existing and proposed guidelines, the Committee was also advised, through the submission, that the existing guidelines would be reviewed in the latter part of 1992 and consideration given to incorporation of the proposed enhancements.

2.33 The Committee, however, was concerned to find during the public hearing that the issues relating to security, both in respect of guidelines and a central point for reporting of breaches, had not been reviewed, although previous advice to the Committee indicated that this would occur in late 1992.[9] The Committee was advised that a lack of resources resulted in the review not being undertaken. At the time of the hearing, July 1993, the Committee was advised that a program for the current financial year had not been completed and it was unclear to the Committee when the review would be undertaken.

2.34 The Committee views the delay in addressing the recommendations regarding security with concern and considers that there is a need for the IT Strategy Committee to demonstrate, by positive action, its commitment to satisfying security concerns.

[8]Submission, 28 July 1992
[9]Transcript 19 July 1993, p 17

Centralised management of certain IT issues

2.35 The Auditor-General noted that the adoption of a centralised approach to management of a range of issues such as training, application software evaluation, selection and implementation, purchasing and software licensing and upgrades would be beneficial. The Auditor-General recognised that adopting such an approach would require a fundamental change to current management arrangements, but stated that potential savings could be substantial.

2.36 The Committee was advised that the IT Strategy Committee sees potential for rationalisation in some areas and a number of IT issues were being considered by the former Corporate Services Management Board. The Committee's attention, however, was again drawn to the need to maintain the appropriate balance between agency business requirements and "whole of Government" considerations.[10]

2.37 At the public hearing the Committee was advised that the thrust of the recommendation had been taken on board and reference was made to arrangements in place for the acquisition of PC software, which should deliver both expenditure reductions and increased consistency between various versions of software used in the ACTGS. A more centralised approach to human resource and financial resource management was also cited as examples of benefits of common approaches.[11]

2.38 The Committee strongly endorses the recommendation of the Auditor-General regarding a study to evaluate the potential benefits of adopting a more centralised approach to management of certain IT issues.

Computer centre

2.39 At the time of the audit, alternative sites to the Barton location for the central ACTGS computer were being examined. The Auditor-General recommended that the relocation of the site should be expedited and that an independent assessment as to the suitability of the proposed computer site should be sought prior to the relocation from Barton.

[10]Submission, 28 July 1992
[11]Transcript 19 July 1993, p 23-24

2.40 The transfer to a new site in Woden was completed in May 1993. The Committee was advised that although specifications for the new site were developed by independent consultants, an independent assessment of the site was not carried out.[12]

Conclusion

2.41 The Committee believes the extended timeframe over which the inquiry was conducted provided a useful base on which to assess reaction to the Audit Report and action taken in response.

2.42 The Committee notes the statements asserting general acceptance of the findings and recommendations of the Auditor-General, but is somewhat disturbed that the balance between agency and "whole of Government" considerations may be tending towards the agency rather the "whole of Government". It is clear that a decision is required concerning this alleged need for "balance" and whether this dichotomy of opinion is in the public interest.

2.43 The Committee is also concerned that a positive approach to the recommendations of the Auditor-General was asserted in the submission, but, a year later, was not always able to be demonstrated.

2.44 The Committee is also concerned at the lack of publicly available and accessible information in relation to information technology and electronic communications within the ACTGS, and believes that this could be addressed by inclusion of information in annual reports of agencies. On 26 February 1993 the Committee wrote to the Chief Minister, as Minister responsible for foreshadowed legislation regarding annual reports, suggesting that the guidelines for annual reports include a requirement for such information to be included in annual reports.

2.45 The Committee was advised by the Chief Minister that it was inappropriate for annual reports to include such information on a mandatory basis, and the information did not relate directly to program performance of agencies and as such would be of little value to the public. The Chief Minister indicated that agencies can and are encouraged to include additional information on a voluntary basis, and in that context has drawn the attention of all agencies to the views of the Committee.[13]

[12]Supplementary information, Corporate Services Bureau, 10 August 1993
[13]Chief Minister, 29 April 1993

2.46 The Committee would like to see something more than simple assertions of intent in respect of the Auditor-General's recommendations, and will be looking for more positive and tangible evidence of support in terms of implementation.

3 A.C.T. BOARD OF HEALTH MANAGEMENT OF INFORMATION TECHNOLOGY

Results of the audit

3.1 On 24 November 1992 Auditor-General's Report Number 4, 1992, ACT Board of Health Management of Information Technology, was presented to the Assembly. The Report contains the findings arising from an audit of the management and organisational controls surrounding the operation of ACT Health computing systems. The audit reviewed three major applications used within ACT Health, Medilinc, Payroll, and FI$CAL.

3.2 The objectives of the audit were to establish whether:

- management exercises effective control over computer resources;
- there are effective organisational controls over the computerised functions within the data processing environment at ACT Health;
- there are effective controls over the systems development and maintenance activities; and
- ACT Health is complying with the Information Technology (IT) policies and guidelines issued by the ACT Government Service (ACTGS).[14]

3.3 The Committee notes that the audit did not specifically extend to an evaluation as to whether the information produced by the systems was adequate for effective decision making and control.

[14] Audit Report No 4, 1992, p 1

3.4 The audit was conducted following a preliminary review and assessment of the computing controls associated with the Medilinc and payroll systems conducted as part of the external audit for the year ended 30 June 1991, when a number of deficiencies were noted, and a review of the FI$CAL accounts payable system for the year ended 30 June 1991, where several deficiencies in automated controls were also noted.

3.5 The audit found that significant problems had been experienced in the management of information technology at ACT Health. It was noted in the Report that the then Board's senior management had identified the problems and major changes had been made to the information technology management structure to address the deficiencies. The impact of those changes was not able to be assessed at the time of the audit.

3.6 The significant findings of the audit were:

- *Management and organisational issues* - there was a lack of organisation and strategic management of information technology resources leading to inefficient work practices, delays in tasks and unclear lines of responsibility, with many changes in organisational structure over a period of years. The most recent change, although at the time of the audit it was too early to assess its impact, was considered to be an effective step towards ensuring that information technology resources are effectively managed. It was recommended that a follow up review be carried out.

- *Access security* - there was a lack of clear logical security infrastructure policy and the subsequent procedures needed to implement that policy, making it difficult to assess whether resources were being used in an unintended way and had resulted in poor password management practices and a lack of accountability of users. In respect of Medilinc, there was poor password management and a lack of user awareness of good security practices. An internal audit of the payroll system identified a lack of controls, which were being actioned by ACT Health. In addition, the Report noted several concerns in relation to the security administration of the FI$CAL and payroll systems.

- *Documentation* - there was a lack of documentation of procedures regarding security administration, change management, the responsibilities of owners of ACT Health data and network monitoring.

- *Management of the ACT Health network* - there was no one area responsible for the ACT Health IT network, which could lead to incompatibility and duplication within the network.

- *Physical security* - there was a lack of consistent physical security standards within the ACT Health network especially in the hospital environment.

- *Service bureau management* - the service level agreement being negotiated with the Government Computing Service had omitted certain issues.

3.7 The Auditor-General made twenty-four recommendations across the issues noted above.

Approach to inquiry

3.8 On 21 December 1992 the Committee sought a submission from the Minister for Health seeking comment on the matters raised in the Audit Report. A submission dated 8 February 1993 was received. The Committee was generally satisfied with the progress to that date in implementing the recommendations of the Auditor-General, but the Committee sought a further, updated submission on 13 July 1993 to assess progress. That submission was received on 11 August 1993.

3.9 On 20 September 1993 the Committee held a public hearing at which the acting General Manager, Resources and the Manager, Information Systems appeared.

Response to Report

3.10 The Committee found that the response by ACT Health to the findings and recommendations of the audit was positive. The Committee notes that action has been completed or is well underway in relation to all but one of the recommendations of the Auditor-General.

3.11 The recommendation that has not been accepted was that, if viable and practical, Health should implement a separation of duties between the programming staff and the staff capable of placing code into the production environment. The Committee was advised that the small size of the Systems section will preclude this arrangement being implemented in the immediate future, but that the intent of the recommendation is noted and the need for independence of functions acknowledged.[15]

3.12 The Committee was advised that the Report was examined in detail by the General Manager, Resources and senior Information Systems staff, a project manager appointed and a detailed action plan prepared which addressed the implementation of the Auditor-General's recommendations.[16] The Committee was provided with a copy of the action plan and the current status of implementation.

3.13 The Committee notes that in relation to access to and security of computer systems, apart from some system administration tasks running on the mainframe computer, all users have unique identifiers and passwords and an overall logical security infrastructure policy is being progressively developed. A project to develop policies and procedures has been initiated to improve user access security and specific applications security will also be addressed.

3.14 The Committee was advised that changes suggested to Medilinc security had been implemented, including strict control over the number of user identifiers with all functions capability, as had all but one small change to FI$CAL security. The Committee was advised during the hearing that the outstanding matter relating to FI$CAL was expected to be included in the next set of changes to that system.

[15]Submission, Minister for Health, 11 August 1993, p 8
[16]Submission, 11 August 1993. p 1

3.15 ACT Health advised that network management had been reviewed and a new structure implemented. A consultancy review has also been undertaken to identify areas of further improvement in network management and support and the Committee was advised during the hearing that work was underway to implement the recommendations of that review.

3.16 In relation to documentation, new policies and procedures are now documented and ACT Health was developing a concise set of IT policies, procedures and standards to cover the full range of IT activities.

3.17 ACT Health advised the Committee that the Auditor-General has been invited to undertake a further review of information technology to assess progress made since Audit Report No. 4, 1992.[17]

Conclusion

3.18 The Committee is of the view that ACT Health has responded positively to the findings and recommendations of the Auditor-General. It looks forward to a future Audit Report reflecting the improvement.

[17]Transcript 20 September 1993

4 MANAGEMENT OF CAPITAL WORKS PROJECTS

Results of the audit

4.1 On 30 March 1993 Auditor-General's Report Number 1, 1993, Management of Capital Works Projects, was presented to the Assembly. The Report contains the findings arising from an audit to evaluate the economy, effectiveness and efficiency of the management system for capital works construction. The audit specifically focussed on a review of the policies and procedures in client agencies for the selection and planning of capital works projects, and an assessment of the efficiency and effectiveness of the design and construction of capital works projects by Public Works.

4.2 The audit examined a sample of projects selected from the Department of Education and Training, the Department of Urban Services and the Department of the Environment, Land and Planning. Projects selected from these agencies were then reviewed through Public Works which is responsible for the design, construction and handover of the project.

4.3 The overall conclusions drawn by the Auditor-General in relation to the processes are[18]:

- *Identification of need and evaluation of options and project feasibility* - the procedures generally being adopted for determining the need for capital projects, evaluation of various options and project feasibility appeared to be effective in selecting essential capital works to be undertaken. The processes identified as lacking and which should be adopted are the introduction of "through life cost liability" estimations (as recommended in Report 4 of the Standing Committee on Planning, Development and Infrastructure) and the implementation of more rigorous cost/benefit analyses.

[18]Audit Report, No. 1, 1993, p5 - 7

- *Planning and functional brief preparation* - in relation to the Department of Urban Services and the Department of the Environment, Land and Planning projects, planning and functional brief preparation were quite effective. However, in the case of the Department of Education and Training, each project revealed some less than satisfactory features which should be addressed promptly to reduce the possibility of similar occurrences in the future. Of particular concern was the "generous" amounts being authorised in the ACT Budget for school construction projects. Review of the Education projects also disclosed cases of incomplete or imprecise functional briefs being provided to Public Works.

- *Design and specification* - generally these activities were managed effectively and efficiently.

- *Project delivery and construction* - generally this was managed well, though aspects which were identified for improvement were within Education projects. The Auditor-General found that the major and potentially most costly matters have arisen due to Public Works being required to work within shorted timeframes to construct schools to meet opening deadlines, which on occasion precluded Public Works adopting their usual 'lump sum' tender approach and 'construction management' methods were implemented. The Auditor-General stated that, although it is arguable, there is opinion that the construction management approach can be 5 to 10% more costly than the lump sum method. In response, Public Works disagreed and stated that, overall, it is not appropriate to say that because lump sum contracts are generally preferred they are automatically cheaper.

- *Handover* - this was generally satisfactory except in relation to one Education project where the contractor went into liquidation after the project was completed and the cost of repairing damage arising from actions of the builders could not be recovered from the contracting company. The ACT Government Solicitor was taking action to recover the costs.

4.4 The Auditor-General made a series of recommendations based on his findings. In summary these are[19]:

- all ACT agencies who undertake projects with Public Works should negotiate an Agency Agreement;
- all ACT agencies should ensure that a policies and procedures manual is developed which documents the planning process for projects;
- a review should be undertaken to determine the adequacy of funding for feasibility studies provided to agencies;
- all budgets prepared by ACT agencies should be realistically formulated and not based purely on the last project undertaken;
- in assessing the need for a particular project, cost benefit analysis should be undertaken to demonstrate the best "financial" option;
- Public Works should adopt the principles of life cycle costing;
- Public Works should formulate a policy on the financial assessment of contractors that specifically addresses under what circumstances contractors with liquidity problems may be awarded contracts;
- through an agency agreement, the issue of sequential delivery of projects should be addressed so that ample lead time is allowed to undertake consultation with working parties, planning and design and allow projects to be delivered using the most suitable financially viable method from the range of delivery methods possible;
- Public Works should examine the relative cost of lump sum versus construction management methods of project delivery; and
- the consultation process must be managed by agencies to ensure that it is conducted in an efficient and timely manner and that comments and suggestions from working groups are reasonable and do not require unnecessary and excessive changes to the design.

[19]Audit Report, p 37 - 42

Response to Report

4.5 On 4 May 1993 the Committee sought submissions from the Minister for Urban Services, the Minister for Education and Training and the Minister for the Environment, Land and Planning on the matters raised in the Audit report that related to their portfolios.

Department of Education and Training

4.6 The Auditor-General examined four projects undertaken by the Department of Education and Training and found that planning practices generally are applied and operating reasonably effectively. The audit however found several instances where, in the Auditor-General's opinion, the projects could have been managed better.

4.7 The most significant and potentially costly matter noted was that as a result of timeframes determined by the Department of Education and Training, Public Works used a project delivery method, which, in the Auditor-General's view, is more expensive than the 'lump sum' tender approach usually adopted. As referred to earlier in paragraph 4.3, the Department of Urban Services disagrees with this view.

4.8 Other areas identified where the Auditor-General considers that improvement was possible were inadequate budget preparation, lack of formal cost benefit analysis and progressive functional brief preparation. It was also noted that there was a lack of documented policies and procedures and a lack of an agency agreement between the Department and Public Works.

4.9 The Report also notes instances where management improvement could be achieved in Public Works when dealing with Education and Training projects, although the overall impression is that the projects have been managed reasonably well.

4.10 In relation to the findings and recommendations contained in the Report as they relate to the Department of Education and Training the Minister, in his submission, responded in a reasonably positive manner although disputing several of the contentions put forward by the Auditor-General.

4.11 The Committee notes the comments of the Minister regarding the responsibility for preparation of project budgets. The Minister stated that the Report carried an implication that the Department prepares project budgets, when the Department actually relies on Public Works for budget estimates and views the advice and guidance currently received as a formal part of the process.

4.12 The Committee decided not to proceed to public hearings.

Department of Urban Services

4.13 The Auditor-General examined four projects undertaken by the Traffic and Roads Section of ACT City Services and concluded that the capital works projects were being managed efficiently and effectively.

4.14 The submission from the Department of Urban Services commented in some detail on the matters raised in the Report, including a general description of project delivery systems, their main features and appropriate use as well as a description of the systems used for the projects referred to in the Report. The submission also commented on the Report's recommendations.

4.15 In relation to the costs of construction management method as compared to lump sum method of construction, the Department stated that no substantiation had been provided to support the assumption in the Report that construction management methods are 5 to 10% more costly than lump sum. It was also stated that the assertion as a general statement is contrary to the Department's understanding and experience.

4.16 The response to other findings and recommendations contained in the Report is positive. As a result the Committee decided not to proceed to public hearings.

Department of the Environment, Land and Planning

4.17 The Auditor-General examined two projects undertaken by the Estate Development Branch of the Department of the Environment, Land and Planning and found that the projects were generally well managed. The Committee received a submission from the Minister for the Environment, Land and Planning addressing the issues raised by the Auditor-General.

4.18 In view of the nature of the comments raised by the Auditor-General and the satisfactory response from the Minister, the Committee decided not to proceed to public hearings.

Conclusion

4.19 The Committee found that the responses provided to it were generally satisfactory and, whilst the Committee did not proceed to public hearings in relation to this Report, found several issues to be of particular interest.

4.20 The Committee makes the following observations regarding the management of capital works:

- the question of which agency, Public Works or the sponsoring agency, is responsible for the preparation of the estimate of the cost of a project and the inclusion of the estimate in the Budget bids needs to be clarified;

- a comprehensive and agreed functional design should be prepared prior to committing to a project;

- Public Works needs to be involved at the beginning of the process;

- project designs should be 'frozen' when the project commences, and changes to the design should only be approved with the agreement of the agency, Public Works and Treasury, with budgetary considerations being a primary decision factor when changes are deliberated on;

- projects should be designed with functionality in view, rather than designing with the aim of winning an award;

- Treasury guidelines on cost/benefit analysis, if not already circulated to agencies, should be circulated as a matter of urgency; and

- life cycle costing should be undertaken for all projects

4.21 It is the last point above, life cycle costing, that the Committee views with particular interest. The Committee notes that the Auditor-General, in his report tabled in March 1993, referred to the recommendation of the Standing Committee on Planning, Development and Infrastructure, made in its Report No. 4 dated August 1992. The Committee is concerned that a year later in Report No. 16 of that Committee, dated August 1993, it was stated that the 1993-94 Capital Works Program contained no information showing the through life cost of projects, despite the recommendation contained in the previous year's report.[20]

4.22 The Committee notes that in the Government's response to Report No. 4, it agreed with the need for better cost/benefit assessment of projects and that beginning with the 1993-94 program, major projects over $1m should have an assessment of costs and benefits wherever practicable. The Committee also notes that the Standing Committee on Planning, Development and Infrastructure again recommended whole of life costings in its Report No. 16.[21]

4.23 The Committee notes the Government's response to the Standing Committee on Planning, Development and Infrastructure Report and the Chief Minister's comments when making that response in the Assembly. The Chief Minister stated that the Government supports the recommendation that a clearly defined user brief should be developed by the agency concerned, together with whole of life costings, and where necessary, a cost benefit or cost effectiveness analysis prior to inclusion in the Capital Works Program.

4.24 The Committee expects that the capital works program for 1994-95 will be formulated on the basis recommended by the Standing Committee on Planning, Development and Infrastructure and agreed by the Government.

---

[20] Standing Committee on Planning, Development and Infrastructure, Report No. 16, p 6
[21] Standing Committee on Planning, Development and Infrastructure, Report No. 16, p 9

5 ASBESTOS REMOVAL PROGRAM

Results of the audit

5.1 On 11 May 1993 Auditor-General's Report Number 2, 1993, Asbestos Removal Program, was presented to the Assembly. The Report contains the findings arising from an audit of certain aspects of the Asbestos Removal Program: the tender selection processes, the nature of the contracts, the management of the performance of the contracts and the amounts paid under the contracts and the settlements of the contractors' claims.

5.2 The main aims of the audit were to determine whether[22]:

- the tender selection processes were open and fair and the most appropriate tenderers were selected;
- the asbestos removal contracts were comprehensive and protected the interests of the ACT;
- there was effective management of the performance of the contracts and of the amounts paid to contractors under the contracts; and
- the settlements of the contractors' claims were appropriate.

5.3 It is noted in the Audit Report that the Asbestos Removal Program was nearing completion and that at the end of February 1993, 995 of the 1082 houses in the Program had been cleared of asbestos. The Committee has since been advised that the Program has been completed.

5.4 The Report noted that the Program's objectives related to the protection of the health of the residents of the properties affected as well as that of the workers involved in the removal process, and, with the serious health issues involved, priority was given to the effective and prompt completion of the Program. The Auditor-General notes that services and expenditure were driven to a large extent by the need to meet the health issue priorities rather than being controlled by conventional management and budget issues.

[22] Audit Report No. 2, 1993, p 1-2

5.5 The Audit found that the initial selection of tenders was conducted fairly, the two lowest tenders were selected, and that the contract dispute settlements with the contractors were appropriate and were in the ACT's best interests. It was also found that the objective of removing all visible and accessible asbestos from houses in the Program was being achieved effectively and the staff employed directly on the Program have shown a high degree of dedication and thoroughness in carrying out the aims of the Program. The overall cost of the Program was estimated as being $99.8m including administrative costs (an average of $92,000 per house), of which the ACT's share will be $44.1m (approximately $41,000 per house).[23]

5.6 The Audit also found a number of other matters that the Auditor-General stated should be judged in the context of the unique and sensitive health issues involved in the Program. These included:

- the Government deliberated on and approved the standards in the technical specification and the consequent unexpectedly high level of costs after tenders had been received;
- there was a delay between the closing of tenders in mid-July 1989 and the offer of contacts to one contractor on 31 October 1989 and another on 3 April 1990 which is estimated to have cost at least $82,000;
- the tender specification was satisfactory to achieve the objectives but has been costly to implement due to the high standards incorporated in the specification;
- there was insufficient trialing before the calling of tenders to test the practicality of the specification and to be able to estimate the associated costs;
- Asbestos Branch management, in some aspects, lacked sufficient commercial and technical experience for the decisions which had to be made;
- where quantifiable, successful negotiations would have saved a minimum of $1.0m;
- the contract agreed with one contractor was not fully consistent with the Government's decision to award the contract;
- a "Commercial-in-Confidence" clause included in the settlement agreement for one contractor was not essential to the public interest and the clause in the agreement with the other contractor was only beneficial for a short period; and

[23]Audit report No. 2, 1993, p 3-4

- possible savings in certain Asbestos Branch activities were not pursued because of the high priority given to maintaining the Program's occupational and public health standards.

5.7 The Auditor-General also made the following four recommendations. In making the recommendations, it was stated that the purpose of recommendations is to provide some direction on best practices which could be adopted in similar situations in the future and, in the context of the one-off nature of the Asbestos Removal Program and the near completion of the removal operations, the recommendations which can be usefully made are limited. The recommendations are[24]:

- only in the most exceptional circumstances (eg natural disasters) should major projects be announced and committed before:
    - there has been a full examination of costs and the likely project expenditure; and
    - Government approval to the project and the likely level of expenditure has been provided;
- contracts section of the Department of Urban Services or a group with similar expertise should be consulted in the drafting and negotiating of all large contracts;
- senior managers should ensure that there is appropriate documentation of decisions and the reasoning which supports those decisions. During the Asbestos Removal Program there were changes in the management of the Asbestos Branch. Availability of more complete documentation would have assisted new managers to understand better the reasons for the existence of certain procedures and standards; and
- a review should be undertaken to assess the frequency with which "Commercial-in-Confidence" clauses are included in ACT Government contractual arrangements. Procedures should be put in place to ensure that they are used only where the clauses are essential in the public interest.

[24]Audit Report No 2,1993, p 4-5

Approach to inquiry

5.8 On 23 June 1993 the Committee sought a submission from the Minister for Urban Services. The Committee also decided to advertise the inquiry in the local press, with advertisements calling for public submissions appearing in the Canberra Times on 11 September and in the Chronicle and the Valley View in the following week.

5.9 In response to the advertisement the Committee received one submission, which addressed concerns arising from the removal of asbestos from a home, rather than the matters raised in the Audit Report. The Committee referred the submission to the Minister for Urban Services for his consideration and advised the submitters accordingly. The Committee has received advice from the Minister in response.

Response to Report

5.10 The submission from the Minister for Urban Services in the main addressed the findings and conclusions contained in the Report, which are specific to the Asbestos Removal Program, rather than the recommendations in a more general and broad sense.

5.11 The Minister stated that as a general observation many of the criticisms contained in the Report are easy to make with the perfect vision of hindsight and the uncomplicated setting of a review, however, in the actual circumstances many of the decisions were sensible and appropriate.

5.12 The Minister referred to the peculiar and specific circumstances surrounding the Program, including considerable community pressure to have the project completed, which weakened the Department's position when negotiating with tenderers or contractors, as did the fact that the tenderers and contractors had a good understanding of the Government's alternatives, which the Minister stated were not great or attractive.

5.13 The Minister also commented on areas in the Report which appear to be contradictory. The Minister noted that the Report acknowledged that developing the specification was a major task with no precedents to follow and the Department had to proceed as quickly as possible, but is critical of the lack of trial removals to test the specification before the calling of tenders and to estimate the associated costs. The Minister also noted that the Report is critical of senior management delaying the awarding of contracts while examining the specification in an effort to reduce the costs. In the Minister's view both criticisms cannot be valid, and he believes both actions were justifiable in the circumstances.

5.14 The Minister was also critical of the comments in the Report which stated that the specification was inadequate in respect of certain issues relating to roof spaces, when the Report later recognises that higher prices could possibly have been tendered if the specification had been strengthened in areas which led to disputes.

5.15 The Minister also rejected criticisms of the analysis of tenderers' costing, stating that the comments overlooked normal commercial practice as followed by public and private sector organisations in Australia when dealing with lump sum contracts. Comments that one contract became similar to a schedule of rates contract rather than a lump sum contract and therefore required different management approaches were also rejected.

5.16 Criticisms of the experience of the Department's negotiators was considered to be unfair and failed to recognise the staff's competence as well as the unique nature and unusual circumstances of the project. The Minister also commented that as a result of the unique nature of the project a number of new issues arose and suggested that negotiators on both sides would have been feeling their way.

5.17 The Committee was also advised that, in the Minister's opinion, references to "additional" payments of $1.3m lead readers of the Report to the incorrect, and it was assumed, unintentional conclusion that there was possible impropriety or negligence. The Minister advised that the payments were a variation to the contract price required by the contract if the mix of houses differs between the various parts of the contract.

5.18 In relation to the lack of a planning budget, the Minister considered the criticism to be unfair as it ignored the urgent and novel nature of the project. He stated that whilst the program had elements similar to a works project it was more in line with a project to recover from a disaster, in that the object was to complete the project quickly and in a safe manner. The Minister stated that it was not to imply that costs were unimportant, as considerable effort was put into ensuring that the desired standards were met at the lowest cost, but highlights the fact that particularly in the early stages, it was not practical to set a budget for the removal process on a per house basis. It was noted that the project's budget was prepared, managed and reported as part of the normal departmental budget.

5.19 The Minister was of the view that a review of the general use of "Commercial-in-Confidence" would be worthwhile and stated that account should also be taken of the interests of all parties, including those in the private sector, so that their privacy or legitimate commercial interests are given appropriate protection.

Conclusion

5.20 Following consideration of the matters raised in the Audit Report and the response in the Government's submission, the Committee decided not to proceed to public hearings.

5.21 The Committee notes the comments of both the Auditor-General and the Minister regarding the unique and unusual nature of the Program. Whilst there is disagreement on certain aspects of the carrying out of the Program, the Auditor-General commented that the Program met its objective of removing asbestos effectively.

5.22 The Committee is of the view that as the combination of circumstances leading to such a Program are unlikely to occur again there would be little benefit in reviewing the matters raised in the Report in detail, including the holding of public hearings.

5.23 The Committee does, however, consider that there is merit in the recommendations of the Auditor-General as they apply to general projects carried out by the ACT Government and supports the adoption of those recommendations.

6 HOME LOANS PROGRAM, CAPITAL EQUIPMENT PURCHASES, HUMAN RESOURCE MANAGEMENT SYSTEM, SELECTION OF ACT GOVERNMENT BANKER

Background

6.1 On 19 August 1993 Auditor-General's Report Number 4, 1993, Home Loans Program, Capital Equipment Purchases, Human Resource Management System (HRMS), was presented to the Assembly. The Report contains four individual reports on the outcomes of performance audits in the following areas:

- Home loans program
- Capital equipment purchases
- Human Resource Management System (HRMS)
- Selection of ACT Government banker

Home loans program

Result of audit

6.2 The aim of the audit of the Government home loan programs was to review the policies and operations of the programs operating in the ACT in order to assess the financial risk to the Territory. The audit reviewed the Home Loan scheme administered by the ACT Housing Trust concentrating on the exposure to risks associated with the method of funding adopted in respect of the implementation and operation of the schemes. The audit did not assess the performance of ACT Treasury in managing the operation of the Territory's borrowing program.[25]

[25] Audit Report No. 4, 1993, p 1

6.3 The overall opinion of the Auditor-General was that, on the basis of the information available, the financial risks to the ACT associated with the current home loans arrangements are low. It was also considered that sound planning and research occurred in the designing of the off-budget funding scheme, introduced in February 1993, and proven procedures are operating for individual loan approvals.

6.4 The Auditor-General noted that the continued maintenance of a low level of risk depends on frequent monitoring of the ACT's economic climate and movements in property values and employment, and prompt adjustment to the scheme when required by changed circumstances. The Report noted that the scheme is sufficiently flexible to allow this.

6.5 The Report contains findings and recommendations which in the Auditor-General's view are intended predominantly to address the maintenance into the future of the low level of risk.

Response to Report

6.6 On 8 September 1993 the Committee sought a submission from the Minister for Housing and Community Services on the matters raised in the Report, including all findings, comment and recommendations.

6.7 The Auditor-General made ten recommendations in the areas of guidelines, instructions and policy manuals, risk management and financial reporting and management.

6.8 The submission indicates a positive response to the two recommendations relating to improvements in the availability and contents of guidelines, instructions and policy manuals.

6.9 Of the four recommendations made in relation to risk management, two, which recommended that there should be a regular reviews of the validity and relevance of key variables in the financial decision making economic model and the performance of loan origination procedures, were being actioned.

6.10 A recommendation suggesting a change to the interest rate policy to ensure a minimum level of interest rate gap is maintained by providing that the interest rate on mortgages must always be, for example, 2% more than the prevailing rate payable on borrowings, is not supported by the Government.

6.11 Whilst it is acknowledged in the submission that the proposal is a valid method of avoiding risks (and passing them on to the mortgagor), the Minister stated that it runs counter to the purposes for which supported home loan schemes are established and operated. It was also stated that as mortgagors are low income households, it is appropriate for the Government to manage the risks associated with interest rate changes and not pass the burden on to mortgagors.

6.12 The Committee supports the Minister in relation to this recommendation.

6.13 The Auditor-General also recommended that default and reserve margins should be regularly reviewed and maintained at levels determined by independent assessment and that a policy should be established whereby amounts reserved can only be invested outside of the Housing Trust.

6.14 In response, the Minister advised that external advice will be sought on the first element of the recommendation. In relation to the investment of reserve funds, the Committee was advised that current practice is to invest these in new loans and that these remain sufficiently 'liquid' to meet contingencies. It was stated that the appropriateness of this practice will be examined in conjunction with Treasury.

6.15 The Committee disagrees with the recommendation of the Auditor-General in relation to the investment of reserve funds and is of the view that the current practice of the Housing Trust is appropriate.

6.16 The Committee notes the acceptance of the four recommendations made relating to financial reporting. The Committee, however, notes the comments of the Minister that the presentation of monthly reports on an accrual basis is not supported, although appropriate on an annual basis.

6.17 The Committee will further consider this issue as a principle to be applied across the ACT public sector as part of its review of accrual accounting and government reporting.

Conclusion

6.18 The Committee is of the view that the submission indicates a broad ranging acceptance by the Minister of the matters raised by the Auditor-General in relation to the home loans program and, as a result, decided not to proceed to public hearings.

Capital equipment purchases

6.19 The Government Audit Office carried out a review of the procedures used by three agencies, the Department of Urban Services, the Department of the Environment, Land and Planning and ACT Health, in the selection and purchase of capital equipment. The objective of the audit was to form an opinion on the effectiveness of those procedures to ensure that the equipment which was acquired was needed, suitable and good 'value for money'.[26]

6.20 The Auditor-General made some general comments about the control over expenditure. The audit found instances where items costing less than $50,000 (the threshold for the Major Plant and Equipment appropriation) were charged to the Major Plant and Equipment appropriation using funds intended for the acquisition of minor equipment, and equipment included in a capital project approved as Major Plant and Equipment was purchased using recurrent funds from the Minor Plant and Equipment appropriation because of spending overruns.

6.21 The Auditor-General noted that appropriations for major plant and equipment acquisitions are based on defined needs and predetermined cost estimates, and are approved specifically by Government whilst appropriations for minor plant and equipment acquisitions are loosely determined on past expenditure.

[26] Audit Report, p 31

6.22 The Committee agrees with the view expressed by the Auditor-General that where agencies are able to arbitrarily purchase equipment using funds approved for other acquisitions, the original decision and approval to purchase must be questioned. The Committee notes with concern the Auditor-General's comments that the apparent ease with which funds can be drawn from the incorrect appropriation suggests that agencies may be failing to account properly for public funds.

6.23 The Committee endorses the recommendation of the Auditor-General that clear guidelines be developed promptly by Treasury regarding the need to ensure that capital and recurrent appropriations are expended for the purpose for which they were provided and to issue those as a Treasury Direction.

Department of Urban Services

6.24 The Auditor-General reviewed a sample of major plant and equipment purchases by the Fire and Emergency Services program of the Department of Urban Services for the year ended 30 June 1992. The overall conclusion of the Auditor-General was that the procedures were reasonably sound for the acquisition of general plant and equipment although there were concerns about the acquisition and installation of a local area computer network and that there was not reasonable economy, efficiency and effectiveness exercised in its management. As a result the Auditor-General carried out a preliminary review of the 1992-93 major plant and equipment purchases.

6.25 The further audit found that generally the results of the review supported the conclusion on the computer project, in that deficiencies in the management of major plant and equipment were identified. The deficiencies include spending overruns, 1992-93 funding rolled forward being insufficient to meet known commitments and large capital purchases being acquired through the Minor Plant and Equipment appropriation item.[27]

6.26 The audit also reviewed a project similar to that undertaken by the Fire and Emergency Services program. Although the project was only partially completed a review of the initial planning document indicated substantial improvements in the management of the planning phase.[28] The Report notes that at the time of the planning of the Fire and Emergency Services project, relevant policies and guidelines for the management of information technology projects were not available.

[27] Audit Report, p 35
[28] Audit Report, p 36

6.27 On 8 September 1993 the Committee sought a submission from the Minister for Urban Services addressing the findings, comments and conclusions included in the Report.

6.28 The Committee received a submission from the Minister dated 28 October 1993 which addressed the matters raised in relation to the local area network project undertaken by the Fire and Emergency Services program in some detail. The submission disputes certain of the matters raised by the Auditor-General.

6.29 The Committee, however, is concerned that the matters referred to in paragraph 2.6 of the Audit Report, ie, the results of the preliminary review of 1992-93 major plant and equipment purchases referred to in paragraph 6.25 above, were not commented upon.

6.30 The Committee, following examination of the Audit Report and submission from the Minister, decided not to proceed to public hearings as the Auditor-General acknowledged that, following release of relevant policies and guidelines, management of other similar computer acquisitions had improved.

6.31 The Committee remains concerned that the submission did not address the comments regarding 1992-93 general major plant and equipment purchases. The Committee will maintain an interest in future audit reports relating to such issues in the Department and if further comment is made, will review the issues raised in Audit Report Number 4, 1993 as well as further audit comment.

Department of the Environment, Land and Planning

6.32 The Auditor-General examined four purchases of major plant and equipment made by the Environment and Conservation program of the Department of the Environment, Land and Planning during the year ended 30 June 1992. The general conclusion formed was that, although some issues including the purchase of minor plant and equipment from funds provided for the purchase of a major capital item which had not proceeded were raised with the Department, the procedures were reasonably sound.[29]

[29]Audit Report, p 44

6.33 Of the four items selected, the Auditor-General found that sound procedures were used in two of the purchases. In the other two cases the report stated that sound procedures had been used to acquire the items, but that the need for the items were either not, or not fully, substantiated and the funds used had been budgeted for another purpose.[30]

6.34 As a result of the findings of the audit, further audit work was carried out to ascertain whether the matters recurred in the following year. A preliminary review in relation to 1992-93 acquisitions identified some areas where there were doubts as to the appropriateness of relatively major capital equipment acquisitions being acquired through the Minor Plant and Equipment appropriation.

6.35 On 8 September 1993 the Committee sought a submission from the Minister for the Environment, Land and Planning on the matters raised in the Audit Report.

6.36 In relation to the purchases made in 1992-93 using funds provided for another purpose, the Secretary of the Department of the Environment, Land and Planning advised that no approval for the substitution was sought from Treasury, the Minister or Cabinet. He also advised that whilst a number of incorrect decisions were taken and officers acted on an ill informed basis, it occurred in good faith.

6.37 The submission also outlined the action taken since in terms of issuing instructions as to the correct procedures as well as discussing the issues with senior officers of the Division.

6.38 In relation to the matters raised concerning the 1992-93 purchases, the Department stated that it considers the purchases were in accordance with Treasury Directions,[31] and that the difference in interpretation of major new plant and equipment is one for the Audit Office and Treasury.

6.39 In view of the acknowledgment by the Department of the inappropriateness of the 1991-92 acquisitions and the action taken following the audit, and the difference of opinion in definition of major plant and equipment as it related to the comments made in relation to the 1992-93 acquisitions, the Committee decided not to proceed to public hearings.

[30]Audit Report p 45-51
[31]Audit Report, p 44

6.40 The Committee is of the view that Treasury should resolve the difference in interpretation of major plant and equipment to ensure agencies are clear in the application of the definition.

ACT Health

6.41 The Auditor-General's opinion, based on the sample of acquisitions reviewed, was that sound procedures have operated to ensure that the equipment acquired was needed, suitable and good 'value for money'.[32]

6.42 In view of the comments of the Auditor-General, the Committee did not seek a submission from the Minister for Health or proceed to public hearings.

Human Resource Management System (HRMS)

6.43 The Government Audit Office carried out a limited audit of the implementation of the Human Resource Management System (HRMS), which was conducted with the aim of determining whether the project was proceeding according to the original cost budget, anticipated timeframe and performance standards. The audit addressed the management of the project, the current status of project implementation and functionality in relation to costs, timeframe and savings. The Committee notes the audit did not address technical matters related to the implementation.

6.44 The Auditor-General made four observations, although noting that the complete impact of the HRMS project in respect of project cost and related cost reductions and functionality will only be determinable following completion of the implementation. The observations were[33]:

- implementation of the project is well managed;
- the project is proceeding to budget in respect of cost and timetable;
- the system is delivering expected functionality; and
- the initial estimate of cost reductions to be made from the project, particularly payroll savings, may be difficult to achieve.

[32]Audit Report, p 54
[33]Audit Report, p 59

6.45 Three recommendations were made by the Auditor-General. These were that monthly reconciliation of HRMS financial records with FI$CAL data be undertaken, the actual cost reductions achieved on a monthly basis be monitored and the need to commence action to ensure the planned staff reductions are achieved be commenced, and, noting that Treasury estimations of future cost reductions have excluded some potential reductions due to difficulties in estimation, planning to ensure that these savings are maximised should not be overlooked.

6.46 The Committee sought a submission from the Chief Minister regarding the matters raised by the Auditor-General. The submission, prepared by the Corporate Services Bureau, stated that all recommendations are accepted and, except where a watching brief is required by Treasury, significant progress has already been made in their implementation.

6.47 The Committee also met privately with officials from the Corporate Services Bureau. Following that meeting and consideration of the submission, the Committee is satisfied that, at this stage, the HRMS project is proceeding both to budget and timetable, although it is concerned that savings may be difficult to achieve. As a result, the Committee did not proceed to public hearings but will monitor the achievement of savings in future years.

Selection of the ACT Government banker

6.48 In June 1993 the Government announced the appointment of the State Bank of NSW as its banker for four years from 1 July 1993.

6.49 The Audit Office reviewed the request for tender and tenders received, the report from the specialist adviser to the Treasury Selection Advisory Committee and the Treasury's submission to Government.

6.50 The Report states that the request for tender and the assessment of tenders were comprehensive and conducted diligently by the Treasury. The Auditor-General was, however, concerned that insufficient time was allowed for the finalisation of the selection and the approval of the successful tenderer. The Report also stated that although the transition appeared to have been accomplished relatively smoothly, a shortened timeframe of four weeks for the successful tenderer to prepare for business left little margin for error and exposed the Territory to risk.[34]

[34]Audit Report, p 70

6.51 The Committee notes that the Audit Office will review the transition to the new banking arrangements in the near future.

6.52 The Committee met privately with Treasury officials to discuss the procedures involved in the selection of the Territory banker. As a result of both that meeting and the results of the audit contained in the Report, the Committee concluded that it was satisfied with the way the process was conducted, although noting the Auditor-General's comments regarding insufficient time for the finalisation of the selection process, approval of the successful tenderer and the transition from one bank to another.

7 ANNUAL MANAGEMENT REPORT FOR THE YEAR ENDED 30TH JUNE 1993

Background

7.1 On 16 September 1993 Auditor-General's Report Number 7, 1993, Annual Management Report for the year ended 30th June 1993, was presented to the Assembly. The Report contains information on the activities of the Government Audit Office over the period 1992-93, including general operational philosophies, program and sub-program information and performance measurement, a summary of audits conducted over the period and the financial statements and independent auditor's report on the statements. In addition, the Report includes information on the outlook for 1993-94.

7.2 The Committee has reviewed the Report and found it to be an informative overview of the operations and activities of the Audit Office. Several issues were of particular interest to the Committee :

- a proposal that all auditees pay audit fees for financial statement audits;
- the progress in the development of new legislation to replace the current Audit Act 1989;
- an improvement in the timeliness of financial statements; and
- a move toward auditing on a program or sub-program basis

Audit fees

7.3 The Audit Report states that negotiations commenced with the Chief Minister's Department and Treasury in early 1992 to enable audit fees to be charged for financial statement audits. Performance audits were not included in the proposal.[35]

[35] Audit Report No. 7, 1993, p 15-16

7.4 It was proposed that fees and appropriated funds (to provide for performance audits) would be credited to a Trust Account from which all costs of the Audit Office would be met. The Report notes that in August 1993 advice was received from the Chief Minister's Department stating that the Chief Minister had decided not to go ahead with the proposal. The Committee notes that the Office would continue to be fully financed from Consolidated Fund appropriations.

7.5 During the public hearings of the 1993 Select Committee on Estimates, the Chief Minister stated that she did not believe it was appropriate that fees be charged for compliance audits as agencies are required under the provisions of the Audit Act to be audited by the Government Audit Office and are not free to chose alternative auditors. The Chief Minister also indicated that she had concerns as to whether the benefits of the Audit Office charging such fees could be readily identified.[36]

7.6 The Committee notes and supports the comments of the Auditor-General also made at the Estimates Committee public hearing when he indicated that he would be putting the proposal forward again in the future.[37] The Committee supports the approach taken by the Auditor-General in view of the extent to which it can contribute to the independence of the Auditor-General.

7.7 The Committee is of the view that the introduction of fees for the provision of financial audit services would have several benefits, including making agencies fully aware of the cost of audit, including the additional cost of delays and errors in the preparation of financial statements. It would also provide more comprehensive information to agencies on their total cost of operation and is in line with the attribution of other costs to agencies.

7.8 The Committee suggests that the Government review its decision against the charging of fees for financial statement audits having regard for the extent to which this can contribute to the independence of the Auditor-General.

---

[36]Estimates Committee Transcript p 1561 - 2
[37]Estimates Committee Transcript p 1564

Audit legislation

7.9 The Committee notes with some concern the comments of the Auditor-General in relation to the delays in the development of new legislation to replace the Audit Act 1989. The Report states that it is expected that new legislation would be enacted in 1993-94.[38] The Committee notes that in public hearings held in connection with its earlier inquiry into the matters raised in Audit Report Number 5, 1992, Treasury advised that the legislation was not expected to be completed until June 1994.[39]

Timeliness of financial statements

7.10 The Committee is pleased to note the timeliness of the completion of the financial statement audits continued to improve with a further significant reduction in the lapsed time between the close of the financial year and the date of issue of the audit opinions. The Auditor-General stated that with "the exception of a few auditees the position can now be regarded as generally satisfactory.".[40]

Program based auditing

7.11 The Committee is pleased to note the comments of the Auditor-General in relation to the targeting of performance audits so as to provide a comprehensive and fair assessment of the overall performance of public sector management.[41] The Auditor-General has concluded that as the ACT public sector's management, accountability and funding mechanisms are program and sub-program based, it is these programs and sub-programs that need to be the subject of audits and 1993-94 audit planning is based on this conclusion.

7.12 The Committee agrees with the Auditor-General's comments that this approach will be more useful to the Assembly and the community than undertaking a series of unconnected audits which may not give a complete, representative or fair view of overall management performance.

Trevor Kaine MLA, Presiding Member
13 December 1993

---

[38]Audit Report, p 16
[39]Transcript 16 August 1993
[40]Audit Report, p 16
[41]Audit Report, p 19 - 20