LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

REVIEW OF THE FINANCIAL MANAGEMENT OF A.C.T HEALTH

Report Number 4 of the Standing Committee of Public Accounts

August 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.

INQUIRY TERMS OF REFERENCE

That the Committee inquire into and report on:

- the existing financial management arrangements and systems in place in ACT Health, including the efficiency and effectiveness of those arrangements and systems, and with specific reference to funds control measures;

- changes in the financial arrangements in ACT Health since the "Inquiry into Management in ACT Health" by Mr J D Enfield and the efficacy of those changes; and

- any other matters in relation to the financial management of ACT Health that the Committee considers should be examined.

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

LIST OF RECOMMENDATIONS

The Committee recommends that:

- the Government each year include in the Appropriation Bill, for each program area, estimates of expenditure based on forecasted parameters for the forthcoming year. (paragraph 4.12)

- ACT Health, in its periodic reports to the Minister for Health and the Legislative Assembly, report expenditure against budget taking into account parameters used in the original Budget and clearly identifying changes in trends and resulting budgetary impacts. (paragraph 4.14)

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1 INTRODUCTION

Background

1.1 On 16 November 1992 the Standing Committee on Public Accounts resolved to carry out an inquiry into the financial management of ACT Health. The specific terms of reference for the inquiry were:

That the Committee inquire into and report on:

- *the existing financial management arrangements and systems in place in ACT Health, including the efficiency and effectiveness of those arrangements and systems, and with specific reference to funds control measures;*
- *changes in the financial arrangements in ACT Health since the "Inquiry into Management in ACT Health" by Mr J D Enfield and the efficacy of those changes; and*
- *any other matters in relation to the financial management of ACT Health that the Committee considers should be examined.*

1.2 On 15 December 1993 the Presiding Member advised the Legislative Assembly that the Committee had agreed to carry out the inquiry.

1.3 The basis for the Committee's decision to carry out an inquiry into the Financial Management of ACT Health was continuing concern at the level of expenditure on the ACT's health system over and above that appropriated in the Budget each year.

1.4 In view of two major inquiries conducted in early 1991, ie by Mr Enfield and Arthur Andersen & Co, the Committee commenced its inquiry with reviewing the action taken in response to the Reports arising from those inquiries.

1.5 In particular the Committee concentrated its examination on whether:

- there are qualified financial managers in ACT Health;
- internal processes and procedures are clearly set out;
- appropriate accounting systems have been developed; and
- appropriate control mechanisms, including funds control, are in place.

Conduct of the inquiry

1.6 On Monday 22 March 1993 the Committee met privately with officials from ACT Health to discuss the inquiry and associated issues. Arising from that discussion the Committee sought a submission from the Minister for Health addressing:

- the accounting and financial management systems at the time of the Enfield inquiry;
- the changes to those systems since the Enfield and subsequent Arthur Andersen inquiries were completed; and
- which recommendations, if any, of those Reports have not been actioned and why.

1.7 The Committee was also provided with copies of a number of procedural instructions and directives.

1.8 On Monday 3 May 1993 the Committee held its first public hearing. The witnesses were the former Chair of the former Board of Health, Mr J Service, followed by officials from ACT Health, Ms G Biscoe, Chief Executive, Mr J Ayling, General Manager Resources and Mr D Barton, Executive Director Financial Services.

1.9 On Monday 12 July 1993 the Committee continued its examination of ACT Health officials at a second hearing. Witnesses were Mr J Ayling, Acting Chief Executive and Mr D Barton, Executive Director Financial Services.

2 PREVIOUS REPORTS

Background

2.1 In its submission to the Committee, ACT Health outlined the accounting and financial management systems in place at the time of the Enfield inquiry, referring to decisions made in 1990-91 to abolish the Interim Hospitals Board and amalgamate the Hospitals' financial and accounting systems with those of the Department of Health.

2.2 ACT Health stated that at that time, in addition to an environment where staff changes and budget reductions had occurred, there were two different financial and asset systems in operation as well as very little knowledge of the preparation of financial statements. It stated in its submission:

> *In summary, there was little integration of systems, practices or organisation.*[1]

The Enfield Report

2.3 On 12 March 1991 the then Minister for Health, Education and the Arts announced the establishment of an inquiry into the management of the health system, to be carried out by Mr J D Enfield. The inquiry arose following comment regarding a projected budget overrun and the circumstances surrounding it. Mr Enfield submitted his report to the Minister on 18 April 1991 (known as the Enfield Report).

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[1]Submission, Minister for Health, 30 April 1993, Part 3

2.4 The terms of reference were to inquire into the management practices of the ACT Board of Health, concentrating on the extent and quality of projections available for the preparation of annual budgets, the level of financial reporting during the year and the extent to which budget preparation and financial reporting is informed by current and projected information on human resource usage and any other consumption trends.[2]

2.5 The inquiry acknowledged that there had been significant change in the administrative arrangements surrounding the ACT health system in the six years preceding the inquiry. However, the Report was highly critical of the management of health in the ACT and referred to recommendations of six previous reports by external authorities including the Auditors-General of the Commonwealth and the ACT, concluding that:

> *there appears to have been no effective measures put in place by senior management to improve or rectify the situation.*[3]

2.6 In response to the Enfield Report, an eight point plan was prepared to address the Report's recommendations. Matters addressed in the plan included the following issues: a clear definition of management responsibilities, a review of accounting systems, an action plan for the preparation of the 1990-91 financial statements, definition of a resource base for all managers, upgraded financial reports, a senior officer to monitor progress of the hospital redevelopment project, Board of Health monitoring changes and the Minister to receive regular briefings.[4]

2.7 ACT Health advised the Committee that the plan has been fully implemented.[5]

[2]Inquiry into Management in ACT Health, J D Enfield, April 1991, p 5

[3]Enfield Report, p 29

[4]Submission, Part 4, Attachment

[5]Submission, Part 4

The Arthur Andersen Report

2.8 In March 1991 the Board of Health appointed Arthur Andersen & Co to assess the financial position, advise on improved financial management procedures and assist it in the presentation of Budget proposals in 1991-92. In addition, the Partner who undertook the further review also acted as Chief Financial Officer for a short period.

2.9 The Arthur Andersen inquiry reviewed the following areas and made a total of 135 recommendations:

Financial Management

Financial Reporting and Budgeting

Internal Control and Audit

Information Systems

Policies and Procedures

People and Structure

Strategy and Service

2.10 Of the 135 recommendations arising from the inquiry ACT Health advised the Committee that action had commenced or was completed for all but three recommendations, and those were no longer the responsibility of ACT Health due to the establishment of Totalcare and the closure of Royal Canberra Hospital.[6]

[6]Submission, Part 5

3 FINANCIAL MANAGEMENT SYSTEMS

Background

3.1 The Committee examined the following issues with Health officials during the public hearings:

- the financial qualifications of managers;
- internal processes and procedures;
- the accounting systems in place; and
- control mechanisms.

3.2 The Committee was advised by the former Chair of the former Board of Health and the officials of ACT Health that, in their view, there has been a significant improvement in the financial management of ACT Health since the period when the Enfield and Arthur Andersen inquiries were undertaken. All witnesses did however acknowledge that there were areas where improvement can still be made.

3.3 The former Chair of the former Board of Health stated that:

> *In the two years and one month that it existed, I believe that the Board was able to achieve a vast improvement in financial management.*[7]

[7] Transcript of Proceedings, p 2

3.4 The Health officials advised that there has been a conscious strategy to change the culture of the Health organisation through increasing awareness of accountability and responsibility, increased training of all managers, the recruitment of qualified staff and changes to the accounting systems.

Qualified financial managers

3.5 The submission from ACT Health acknowledged that when the Enfield inquiry was undertaken:

> *There were few qualified or financially trained staff responsible at this time for the financial management function.*
>
> ...
>
> *Very little knowledge of the preparation of annual financial accounts existed within the organisation. As the management function was widely devolved within the total Health organisation, there was not always the cooperation and support from all functional areas to provide timely and accurate data for incorporation within the annual accounts.*[8]

3.6 Since the Enfield and Arthur Andersen inquiries ACT Health has established and filled a General Manager Resources position with responsibility for all resource management issues. Health also advised the Committee that a qualified accountant is directly responsible for accounting and audit and other qualified staff have been recruited to fill appropriate positions with financial management responsibilities.[9]

3.7 The Committee was assured that the General Managers of each division are responsible for the success of each division, including financial success, and each General Manager has attached to them people qualified in financial management and financial accounting.

[8]Submission, Part 3

[9]Submission, Part 4, p2

3.8 The officials also stated that they do not see a distinction between functional and financial management responsibilities. Financial management responsibilities are devolved to cost centre managers, a number of whom carry a clinical load and as they may not have a strong financial management background, internal training is provided.[10]

3.9 All managers within Health are required to attend an internal financial management training course which, the Committee was advised, has been picked as the standard model of excellence for all of the ACTGS. At the time of the hearings some 120 ACT Health staff members have attended the course which comprises two days with follow up during the following year.

3.10 The importance of management development training to reinforce changing the culture within Health to that of value for money and the importance of monitoring expenditure was emphasised by officials during the hearing.

3.11 The Committee was assured that there has been a substantial improvement in the qualifications of people responsible for financial management following both the recruitment strategy to increase the number of qualified personnel and the commencement of the on going training program.

3.12 Health advised that the resulting improvement in financial management can be judged from the greater attention applied to finances through ACT Health and the greater scrutiny applied to the budget and variations to the budget, including the management of those variations.[11]

3.13 The Committee acknowledges that there has been a substantial improvement in the number and qualifications of officers in Health responsible for financial management, noting the efforts being made to apportion responsibility and accountability for financial management throughout the organisation.

[10]Transcript, p 52-53

[11]Transcript p 53

3.14 Whilst supporting the approach of devolving responsibility for financial management throughout the organisation to cost centre managers, the Committee has some reservations that further development of this approach may not be productive if there is a level of resistance within some clinical areas.

Internal processes and procedures

3.15 The Committee was concerned to ensure that the Health organisation has clear, well formulated and well documented processes and procedures so that all staff are aware of their responsibilities in terms of commitment and expenditure of funds and the associated recording and monitoring of transactions.

3.16 The Committee was provided with a number of documents as examples of the material available, including procedures relating to the preparation of budgets.

3.17 The Committee was satisfied that there is adequate documentation available and notes that work is underway on finalising a comprehensive policy and procedures manual.

Accounting systems

3.18 Both the Enfield and Arthur Andersen inquiries were critical of the accounting systems in place in 1991. The Auditor-General was also highly critical when in March 1991 he stated that, in relation to the 1989-90 financial statements, he was not in a position to and did not express an opinion on whether the statements were in accordance with the accounts and records and whether the financial matters had been in accordance with relevant legislative provisions.

3.19 In its submission Health outlined changes to the computer and accounting systems since the completion of the earlier inquiries. These include:

- establishment of data communication links to facilitate transmission of financial data between major health locations
- utilisation of a funds control (warrant) system
- a substantially revised chart of accounts and its integration within the general ledger
- provision of "on line" reporting of major expenditure on a daily basis
- development and implementation of a payroll costing package
- establishment of an automated bank reconciliation process
- improved interface between the existing purchase and inventory bureau service and facilitated implementation of a new system
- the purchase of an accounting software package to control the preparation of accrual financial statements[12]

3.20 Computer systems within ACT Health are considered by both the former Chair of the former Board of Health and officials to be inadequate, although both the systems available and information management are considered to have improved significantly over the last two and a half years.[13] At the time of the Enfield inquiry ACT Health had two differing accounting systems stemming from the amalgamation of the hospitals with the then department and one third the computer terminals now available making access difficult.[14]

3.21 In addition to using FISCAL, a number of other systems (accrual, payroll, Medilink (a patient management system) and assets) are used to produce the required financial and management reports, although those systems are not integrated. In addition, the current use of a purchasing and inventory bureau is soon to be replaced with a new computer system. [15]

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[12]Submission, part 4, p 1-2

[13]Transcript p 16, 42-3, 50

[14]Transcript p 68-71

[15]Transcript p 36 - 39

3.22 The need for a new computer to provide for an integrated system was discussed during the hearings and it is noted that a new system for the hospital division (not all of ACT Health) would cost in the order of $10 - $15m over 2 - 3 years.[16] The viability of such a large expenditure compared to expenditure of similar sums in connection with actual health care was discussed, with officials somewhat wary of the expenditure of large sums on new computer equipment and systems.

3.23 Health officials indicated that the current examination of a proposal to replace FISCAL (as a whole of government issue, not a Health issue) would lead to an improvement in the systems available to Health and result in the use of accrual accounting as a management tool rather than as a financial accounting stewardship type tool. The investment in case mix currently being made will also improve management of Health's finances.

3.24 Both the former Chair of the former Board and the Health officials cited, as an example of the significant improvement in the financial systems, the improvement reflected in Auditor-General's reports on the financial statements in recent years.[17] It was also drawn to the Committee's attention that ACT Health will continue to produce its financial statements on an accrual basis following the change in its administrative structure from statutory authority to department.[18]

Control mechanisms

3.25 The submission outlined the changes to various control mechanisms since the earlier inquiries:

- financial reports are now generated on a divisional basis
- each general manager and functional head reporting to a general manager receive individual reports on a regular (minimum monthly) basis
- accountability for financial performance is assigned to general managers who report to the Chief Executive

[16]Transcript p 39-41

[17]Transcript p 2; Submission, Part 4, p 2

[18]Transcript p 21

- a monthly report is given to the Minister
- regular meetings between all general managers and the Chief Executive to discuss all matters relating to performance
- the establishment of an Audit Committee
- health service agreements are in place within ACT Health and include Calvary and Queen Elizabeth II Hospitals and focus on outputs as well as financial requirements
- business plans for each part of the organisation have a focus on activity levels which are linked to budget[19]

3.26 During the hearing, the officials elaborated on the monitoring, review and control processes operating. The mechanisms include managers developing documented business plans which must be reported upon monthly including monthly discussions as to performance against budget from the Director level upwards.[20]

3.27 During the monthly discussions variations to budget are examined to determine whether the variation is manageable or outside Health's direct control. Factors outside Health's direct control are considered, by Health, to be wage and salary increases, public/private patient mix and activity levels. Further comment in relation to this is made in Chapter 4.

3.28 The health service agreements aim to ensure that Health officials spending funds have a clear idea of what is expected of them with respect to that expenditure, and attempts to bring a degree of specification and precision into the health services to be provided including dollars, volume of services and quality levels.[21]

3.29 Other measures that now are in place include warrant control and records on the timeliness of payment of bills, control mechanisms that did not exist at the time of the Enfield inquiry.

[19]Submission, part 4, p 1 - 2

[20]Transcript p 43

[21]Transcript p 43

3.30 The Committee accepts that there has been a demonstrated improvement in a number of the control mechanisms in place in ACT Health. However, the Committee is concerned at the lack of progress made to date in the development of a full cost attribution system.

3.31 The Arthur Andersen Report commented on the need for budgeting and reporting using operational activity measures, a shift in emphasis from historical to future analysis and combining clinical and financial information to produce relevant patient care costing information.[22]

3.32 The Committee notes the comments of officials that the financial systems currently in place allow the management of inputs to the Health system and organisation but does not reveal how those inputs are applied in achieving the provision of services, ie the outputs of the system. The Committee also notes that investment is currently being made in developing a case mix system.[23]

3.33 The Committee was advised that measures of activity or throughput in terms of numbers of services performed and the number of people receiving a particular service are available, but the officials acknowledged that these measures are more service orientated and do not provide the most appropriate measures of the costs of providing services.[24] For example, the cost of seeing a patient in a health centre can only be determined, at this stage, on a crude basis by dividing total cost by total number of visits. Also, the cost of a service in the sense of a broad category of service, such as the ambulance service or mental health service, can be defined but not the cost of specific services, such as an appendectomy.[25]

3.34 The Committee was also advised that in moving away from accounting for inputs to managing outputs, initial efforts are being made to introduce cost attribution in the hospital system in view of the large proportion of total Health expenditure in that area.[26] One issue that has still to be resolved before a full costing strategy can be set in place is how overhead costs are apportioned eg splitting the costs of food services, energy etc to the various types of activity.

[22]Arthur Andersen, Report on Limited Financial Controllership Activities and Review, Volume 1, p 9 - 11

[23]Transcript p 56

[24]Transcript p 55

[25]Transcript p 26

[26]Transcript p 55-58

3.35 The officials stated that Health is evaluating responses to tender for software which will allow components of expenditure to be allocated to different types of activity, and that if the tender evaluation process proceeds as expected Health will have made 'some progress' in 1993-94 with attribution.

3.36 Officials confirmed that information based on a cost attribution basis will be available in 1994 in relation to the hospital component of ACT Health and will progressively become available in connection with community health and public health.[27]

[27]Transcript p 58

4 BUDGET SUPPLEMENTATION

4.1 In addition to the matters discussed in Chapter 3, the Committee also examined the broad manner in which the Health Budget is framed. As with all agencies, ACT Health receives funding through the annual Appropriation Act. The Appropriation Bill is generally introduced into the Assembly in September each year by the Treasurer.

4.2 There is currently no additional estimates process in the ACT. In circumstances where additional funds are sought, agencies seek supplementation through one or more of several mechanisms, including the Treasurer's Advance and Section 5 of the Appropriation Act.

4.3 In 1991-92 the Business Rules came into operation. The Rules, specific to Health, set out guidelines for the provision of supplementation to the Health program, incorporating the various types of supplementation available to all agencies plus agency specific criteria for supplementation such as changes in the activity levels and the mix of public and private patients.

4.4 The Committee was advised during the hearings that of an expected $10m supplementation to the 1992-93 Health appropriation, some $2m was attributable to wage-fixing outcomes and the balance to a range of other factors.[28] These include changes in activity levels and the public/private patient mix.

4.5 The Committee is concerned that, despite the improvements that have occurred, the Health organisation remains unable to control its expenditure to the limits of the annual appropriation.

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[28]Transcript, p 62

4.6 Of particular concern to the Committee has been the level of supplementation provided to the Health budget for expenditure in areas that could have been quantified and built in to the original estimate in the Appropriation Bill. This approach would present a clearer view to both the Assembly and the community on proposed Health expenditure, anticipated trends in such areas as activity levels and the resulting budget impact.

4.7 The Committee was advised that it was Government policy to develop and present the Budget as at a particular point in time, 1 July. Changes to funding required as a result of changes in parameters used in the development of the Budget are provided through the supplementation process, even if at the time of preparing the Budget trends over the forthcoming year can be estimated with some degree of accuracy.[29]

4.8 The Committee was also advised that the Government may be considering structuring the Budget to include some estimating on the basis of forecasts for the year.[30] Officials also stated that ACT Health has the capability to provide advice on the potential budgetary impact of changes in variables such as activity levels and patient mix and that advice has been passed to the Government in relation to forecasts for 1993-94.[31]

4.9 Health is currently undertaking modelling on the budgetary implications of various levels of activity and the officials advised that after the Government comes to a position on those Health will be able to show a direct relationship between funds appropriated and the activity levels that will be provided for with those funds.[32]

4.10 The Committee believes that levels of appropriation for all areas of Government expenditure, not only the Health program, should be based on the most complete and up-to-date information and forecasts available. This would provide a more comprehensive level of information to the Assembly and the community.

[29]Transcript, p 61

[30]Transcript, p 61

[31]Transcript, p 63

[32]Transcript p 58

4.11 Accountability would also increase as the total level of funding provided would be more transparent. The opportunity would be available for the Estimates Committee to fully examine proposed expenditure for a financial year based on relevant and appropriate trends.

4.12 The Committee recommends that:

- **the Government each year include in the Appropriation Bill, for each program area, estimates of expenditure based on forecasted parameters for the forthcoming year.**

4.13 The Committee is also of the view that the periodic reports to the Minister and the Assembly should report expenditure against budget taking into account parameters used in the original Budget and clearly identifying changes in trends and resulting budgetary impacts. The Committee considers that ACT Health should be no less accountable than other agencies, and against the same appropriate parameters.

4.14 The Committee recommends that:

- **ACT Health, in its periodic reports to the Minister for Health and the Legislative Assembly, report expenditure against budget taking into account parameters used in the original Budget and clearly identifying changes in trends and resulting budgetary impacts.**

5 CONCLUSIONS

5.1 The Committee notes the evidence given by the former Chair of the former Board of Health and ACT Health officials that major improvements have been made to the financial management of ACT Health since early 1991, both in terms of processes, procedures and systems and the use of resultant information in the management of the Health system.

5.2 While acknowledging the improvements in a range of areas the Committee believes a significant and essential input to the management process, full cost attribution, is yet to be developed and implemented.

5.3 The Committee notes that Health officials recognise the importance of moving away from the concentration on accounting for inputs to the system to a process whereby the provision of health services is managed through a blending of inputs and outputs, taking into account activity levels and other trends in the provision of health care.

5.4 The Committee is concerned that a full cost attribution system has not been implemented but notes comment that in 1994 such information would be available in relation to the hospital side of the health system, with the other areas to follow.

5.5 The Committee will, in late 1994, re-examine the progress of ACT Health in achieving a cost attribution system.

5.6 The Committee notes the advice of Health officials that forecasting future expenditure levels based on activity and other trends is now undertaken and such advice in relation to the 1993-94 Budget has been provided to the Government. The Committee is concerned that the Health organisation has in the past been unable to control expenditure within appropriation levels and expects that this situation will be improved in light of the ability to forecast trends and to relate those trends to expenditure levels.

Trevor Kaine MLA
Presiding Member
24 August 1993