



Public Accounts Committee

Review of Auditor General Reports No.3

Selected Reports 2012 and 2013

**Report No. 8
October 2014**

Legislative Assembly
Parliament of Western Australia

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Report No. 8

Presented by

Mr S.K. L'Estrange, MLA

Laid on the Table of the Legislative Assembly on 23 October 2014

Chairman's Foreword

This report provides details of the Public Account Committee's activities in following-up the recommendations made in Auditor General performance audit reports. This is an important function of the Committee, as it helps to ensure that the recommendations made by the Auditor General are properly implemented by public sector agencies. The Committee takes this work very seriously, and remains committed to ensuring an appropriate level of scrutiny of these activities.

The Committee must be able to balance this follow-up work with its inquiry work. The first chapter of this report therefore details the Committee's new, streamlined process for the reporting of its Auditor General follow-up work. This approach should help the Committee to maintain a suitable balance between accountability and efficiency.

The first chapter of this report lists seven audits that have been completed to the satisfaction of the Committee, and provides details of one audit that has been referred to the Economics and Industry Standing Committee.

The next three chapters provide a detailed examination of the follow-up work on three Auditor General reports: Report 7 of 2012: Purchase and Management of Pharmaceuticals in Public Hospitals; Report 11 of 2012: Second Public Sector Performance Report – Housing Authority's Head Contractor Maintenance Model; and Report 8 of 2013: Follow-up Performance Audit of Behind the Evidence: Forensic Services (2006).

I thank my fellow Committee members (Deputy Chairman Mr Ben Wyatt MLA; Mrs Glenys Godfrey MLA; Mr Bill Johnston MLA; and Mr Matt Taylor MLA) for their continuing dedication to the PAC's work in following-up the Auditor General's reports. I also thank the Committee Secretariat (Mr Tim Hughes, Ms Michele Chiasson, Mr Daniel Govus and Ms Lucy Roberts) for their work for the Committee in this area.

MR S.K. L'ESTRANGE, MLA
CHAIRMAN

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Executive Summary

This is the third report of the Public Accounts Committee (the Committee) of the 39th Parliament into how public sector agencies have responded to recommendations made in Auditor General performance audits. The Committee has an important role to play in following up the audits of the Auditor General, to ensure that the recommendations made are properly implemented by the audited public sector agencies.

Due to the volume of Auditor General reports, the Committee sought to find a balance between the effort connected to the Auditor General follow-up process, and other inquiry-related Committee work. The Committee has therefore implemented a streamlined process of follow-up and reporting, in order to better manage the workload, while still ensuring adequate scrutiny of the audited agencies.

In previous reports to Parliament on the Committee's Auditor General follow-up work, the Committee dedicated a discrete chapter for each performance audit. These chapters would often conclude with the Committee simply noting its satisfaction with the adequacy of the agency responses, without making any findings or recommendations. Under the new reporting approach, the Committee will list such audits in a summary table, rather than writing up an entire chapter.

The Committee stresses that its decision to conclude such audit follow-ups is based on its satisfaction with the general adequacy of initial responses undertaken by agencies. The Committee may opt to return to any of these audits at a later time if it believes circumstances warrant further examination of a particular agency's actions. Under the revised reporting approach, the Committee will include a chapter on follow-ups only where the topic of the performance audit is of significant public interest and/or where findings and recommendations are warranted.

Within this report, the Committee notes the satisfactory conclusion of seven Auditor General follow-up processes, and the referral of one audit to the Economics and Industry Standing Committee. These are detailed in Chapter 1, along with a listing of outstanding follow-up processes.

The Committee also provides an extended commentary on three audits:

Chapter 2 - Report 7 of 2012: Purchase and Management of Pharmaceuticals in Public Hospitals;

Chapter 3 - Report 11 of 2012: Second Public Sector Performance Report – Housing Authority’s Head Contractor Maintenance Model; and

Chapter 4 - Report 8 of 2013: Follow-up Performance Audit of Behind the Evidence: Forensic Services (2006).

Report 7 of 2012: Purchase and Management of Pharmaceuticals in Public Hospitals

This audit was tabled during the 38th Parliament, and focused on the purchase and management of pharmaceuticals in six public hospitals in Western Australia (Armadale-Kelmscott District Memorial Hospital, Southwest Health Campus (Bunbury and Warren District hospitals), Graylands, Royal Perth, Carnarvon, and Narrogin hospitals). The amount spent by hospitals on pharmaceuticals is significant. Between October 2010 and September 2011, public hospitals spent more than \$205 million on pharmaceuticals, spread over more than 250,000 purchase orders. While 19 hospitals purchase pharmaceuticals, 74 per cent of the value of the 2010-2011 purchases was spread between Royal Perth, Sir Charles Gairdner and Fremantle hospitals.

The Auditor General’s audit focused on whether purchases are consistent with the relevant policies, and whether pharmaceuticals are managed in a way that reduces the risk of unauthorised and improper access and use. The audit found a range of ‘weaknesses’ in the controls of pharmaceutical purchases, and that potential conflicts of interests were not managed well, leading to the risk that purchasing could be, or could be perceived to be, inappropriately influenced.¹ The audit also discovered that Department of Health’s (WA Health) relevant policy at that time did not require staff to report gifts.

The audit report made 12 recommendations, targeting four key objectives: ensuring that government purchasing standards are met for pharmaceutical procurements; improving management of conflict of interest risks; addressing control weaknesses in hospitals’ management of pharmaceuticals; and improving reporting of investigations and follow up of pharmaceutical losses.²

The Committee commenced its follow-up of this issue in May 2013, after the formation of the 39th Parliament, and corresponded with WA Health a number of times to determine the extent to which appropriate action was being taken to address each recommendation. The Committee has concluded that WA Health has

1 Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, pp. 6,16.

2 *ibid.*, p. 7.

acted to address the majority of the Auditor General's recommendations. It has done this by: the implementation of revised policies for the receipt of gifts and travel sponsorship; the introduction of standardised protocols for measuring liquid pharmaceuticals; the updated processes for reporting and investigating pharmaceutical losses; and the distribution of directives on how liquid pharmaceutical losses should be addressed.

The review of the conflict of interest policy and the completion of the internal audit of gift and travel declarations have, by contrast, extended well beyond the Department's own original estimated timeframe.

The Committee makes two recommendations on these issues. The first recommendation relates to WA Health's policy on the acceptance of gifts and travel by departmental staff. The second recommendation emphasises the importance of WA Health exercising ongoing vigilance to improve security systems and monitoring processes in the areas of hospitals where pharmaceuticals are administered to patients.

Report 11 of 2012: (Housing Authority's Head Contractor Maintenance Model)

Report 11 of 2012 was the Second Public Sector Performance Report of 2012, which included three limited scope performance audits. The first two of these audits were followed-up and reported by the Committee in its second report to Parliament on the Auditor General's work *Review of Auditor General Reports No. 2*, tabled 5 December 2013. The outstanding performance audit was the Department of Housing's Implementation of the Head Contractor Maintenance Model (HCMM).

The HCMM was a new system of managing maintenance for the Department of Housing (Housing), which was implemented in July 2010. The new system was designed to improve the efficiency and effectiveness of the maintenance program, and to reduce costs and improve the quality and timeliness of the service. Unfortunately, there were significant problems with the implementation of the new system, which required considerable corrective action by Housing.

The Auditor General's audit was carried out in 2012, and examined whether the corrective action had been effective in fixing the problems, and whether Housing had implemented sufficient controls in the management of the program.

The Auditor General confirmed that Housing had spent a minimum of \$1.2 million in implementing the corrective action, with mixed results. Some important issues were resolved, such as: improvements in the interface between Housing and the Head Contractors' information systems; the development of relevant procedures

with training for Housing and Contractor staff; and regular dialogue between Housing and Head Contractors to facilitate establishing agreed performance benchmarks under the contracts.

However, the Auditor General also found that some of the corrective actions were 'not well thought through'.³ The Auditor General made 3 recommendations to Housing, which focussed on: ensuring that Housing had systems and controls in place to minimise the opportunity for fraud and maximise the chance of detecting fraud; developing key performance indicators that included quality measures rather than only focusing on timeliness, and using risk-based analysis of tenant and property information to better inform target setting for key performance indicators (KPIs), job ordering and inspections of completed work.

In its initial response to the Auditor General, Housing undertook to implement a program of works, and report back to the Auditor General within six months. The Committee initially sought further information from Housing in writing before convening a hearing with Housing in October 2013. The Committee discussed all three of the Auditor General's recommendations in some detail with Housing during the hearing, and reports in full on these discussions in Chapter 3 of this report. The Committee found that Housing has accepted all of the Auditor General's recommendations and taken a range of actions in response. The Committee is satisfied with the general adequacy of these actions, notwithstanding that some aspects of the recommendations appear not to have been fully addressed.

The Committee makes five findings in relation to Housing's response to the Auditor General's recommendations. The Committee notes that Housing will now have greater capacity to measure Head Contractor performance under the expanded KPI framework incorporated into the new round of contracts. The Committee urges Housing to draw on this data to provide a comprehensive summary of the results being achieved from the HCMM in the Department's future annual reports. This will provide a means by which Parliament and the public can independently evaluate the efficiency and effectiveness of the program to a much greater degree than is possible under the current reporting regime. The Committee's report makes two recommendations designed to improve reporting on the HCMM.

3 Auditor General Western Australia, [Second Public Sector Performance Report 2012](#), September 2012, p. 36.

Report 8 of 2013: Follow-up Performance Audit of *Behind the Evidence: Forensic Services (2006)*

Forensic services in WA are provided by the WA Police Forensic Division, the Chemistry Centre WA (ChemCentre), and PathWest Forensic Biology (Pathwest). The agencies that use these services include WA Police, the Office of the Director of Public Prosecutions (DPP), and the Office of the State Coroner. In 2006, the Auditor General examined the state's forensic services and found 'a backlog of uncompleted forensic test resulting in delays in the justice system that were largely caused by inadequate coordination and prioritisation'⁴ across the provider agencies.

In 2013, the Auditor General undertook a follow-up audit to see if there had been an improvement in the delivery of forensic services since 2006. The general tenor of the 2013 audit was positive with the Auditor General noting a 'significant improvement in the coordination and delivery of services since 2006'.⁵

There were, however, several areas where the positive findings were qualified, namely: that WA Police was concerned that ChemCentre's external commercial work may be affecting the time the agency takes to process WA Police requests; an unnecessarily large number of WA Police staff having access privileges to the Forensic Register; and information systems that record the location of items at ChemCentre and Pathwest are not linked to the WA Police Forensic Register, meaning that location details have to be manually uploaded into the Forensic Register.

The most critical finding of the Auditor General's report related to the capacity of the relevant agencies to meet the demand for their services. While the backlog from 2006 has been cleared, agency laboratories 'are operating at close to capacity... [and] growing demand for testing is putting pressure on report turnaround times.'⁶

The Auditor General's report directed all three agencies to 'establish an efficient electronic interface between their laboratory management systems and the Forensic Register...', and to 'develop strategies to address the expected increase in demand for forensic services driven by population increases and technological

4 Auditor General Western Australia, [Follow-up Performance Audit of Behind the Evidence: Forensic Services](#), Report 8, June 2013, p. 4.

5 *ibid.*, p. 6.

6 *ibid.*

change.’⁷ The Auditor General also called on the ChemCentre to develop strategies to ensure all testing is done within agreed timeframes.

The Committee followed-up all three agencies with regard to the recommendations. On the systems interface issue, the Committee found that ChemCentre is, and Pathwest will soon be, in a position to interface their systems. This leaves the onus on WA Police to implement the necessary system enhancements. WA Police has confirmed that no funding has been made available for this project, and it is not among the Department’s current IT priorities.

On the issue of the agencies’ preparations to meet increased demand on their services, the Committee found that WA Police and ChemCentre have indicated that their ability to deal with increased demand is largely contingent upon the resolution of difficulties evident in the current funding model governing their commercial dealings with each other. The Committee has therefore recommended that the Minister for Science and the Minister for Police report to Parliament on what actions might be taken to resolve these difficulties with the current Memorandum of Understanding (MOU) and funding model.

7 Auditor General Western Australia, [Follow-up Performance Audit of Behind the Evidence: Forensic Services](#), Report 8, June 2013, p. 7.

Ministerial Response

In accordance with Standing Order 277(1) of the Standing Orders of the Legislative Assembly, the Public Accounts Committee directs that the Minister for Health; Minister for Housing; Minister for Science and Minister for Police report to the Assembly as to the action, if any, proposed to be taken by the Government with respect to the recommendations of the Committee.

Findings and Recommendations

Report 7 of 2012: Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals

Finding 1 **Page 18**

The Committee notes that for the 504 events where there was insufficient evidence of compliance with policy regarding the acceptance of gifts and travel benefits, involving 260 WA Health employees, there were zero instances found that required disciplinary action.

Recommendation 1 **Page 21**

WA Health must ensure that its policy on the acceptance of gifts and travel benefits is rigorously and effectively communicated and enforced.

Finding 2 **Page 21**

WA Health has taken action to address the majority of recommendations contained in the Auditor General's Report No. 7 of 2012 *Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals*. However, some responses have been protracted and have extended beyond the Department's own original estimated timeframe for completion.

Finding 3 **Page 22**

WA Health has advised that it does not support the recommendation from the Auditor General that sought to improve controls for taking receipt of pharmaceuticals when delivered to hospitals. The Department argued that its current protocol has not been demonstrated to result in any instance of unexplained loss between vendor and pharmacy. The Committee is not in a position to either endorse or refute the rationale offered by the Department.

Recommendation 2 **Page 23**

WA Health needs to exercise ongoing vigilance to improving security systems and monitoring processes in the areas of hospitals where pharmaceuticals are administered to patients.

In particular, WA Health should give priority to using the relevant information it acquires from the configuration of Fiona Stanley Hospital to promptly develop a solution for improving security systems in these areas at all public hospitals.

Report 11 of 2012: Second Public Sector Performance Report – Housing Authority’s Head Contractor Maintenance Model

Finding 4 **Page 31**

Maintenance jobs valued at under \$500 are not checked before payment, but random samples are selected for audit on an ongoing basis. Jobs valued at under \$500 make up 35 per cent of all maintenance work.

Finding 5 **Page 36**

The Committee is satisfied with the general adequacy of the actions the Housing Authority has taken in response to the Auditor General’s recommendations, notwithstanding the fact that some aspects of these recommendations appear not to have been fully addressed.

Finding 6 **Page 36**

While the Housing Authority does not appear to conduct structured fraud risk analysis of its Head Contractor Maintenance Model, the quality assurance audit processes now in place are consistent with the overall intent of the Auditor General’s broader recommendation to minimise the opportunity for fraud within the program.

Finding 7 **Page 36**

The Housing Authority has taken important steps to broaden the KPI framework applicable to Head Contractors by incorporating cost, workmanship, and tenant satisfaction indicators in its new round of contracts. This should enhance the capacity of Housing to more accurately assess work of its Head Contractors and the overall effectiveness and efficiency of its Head Contractor Maintenance Model.

Finding 8 **Page 36**

While Housing does not appear to have adopted the Auditor General’s call for ‘risk-based analysis’, it has implemented a variety of measures for identifying and analysing risk within its Head Contractor Maintenance Model.

Recommendation 3 **Page 38**

Given that 35 per cent of the Housing Authority maintenance work is on jobs valued at under \$500, the Housing Authority should include in its Annual Report the methodology and outcome of its audit of random samples of maintenance jobs valued at under \$500

Recommendation 4 **Page 38**

The Housing Authority should include in its Annual Report a comprehensive summary of the performance of the Head Contractor Maintenance Model. Using Key Performance Indicator data obtained from its Head Contractors, this summary should

demonstrate the extent to which the model is driving better maintenance outcomes in the areas of timeliness, reduced costs, and quality of workmanship.

Report 8 of 2013: Follow-up Performance Audit of Behind the Evidence: Forensic Services (2006)

Finding 9

Page 48

In his Report No. 8 of 2013, *Follow-Up Performance Audit of 'Behind the Evidence: Forensic Services*, the Auditor General called for the establishment of an efficient interface between WA Police's Forensic Register and the laboratory information management systems at the Chemistry Centre WA (ChemCentre) and PathWest Forensic Biology (PathWest).

ChemCentre is, and PathWest will soon be, in a position to interface their systems. This leaves the onus on WA Police to implement the necessary system enhancements. WA Police has confirmed that no funding has been made available for this project, nor is it among the Department's current IT priorities.

Finding 10

Page 49

The testimony of WA Police and ChemCentre indicates that their ability to deal with expected increases in demand for forensic services is largely contingent upon the resolution of difficulties evident in the current funding model governing their commercial dealings with each other.

Recommendation 5

Page 49

The Minister for Science, as part of his upcoming report to Parliament on the recently completed independent review of the *Chemistry Centre (WA) Act 2007*, indicate what actions might be taken to resolve the current difficulties surrounding the Memorandum of Understanding and funding model for forensic services between WA Police and the Chemistry Centre WA.

Recommendation 6

Page 49

The Minister for Police report to Parliament on options to resolve the current difficulties surrounding the Memorandum of Understanding and funding model for forensic services between WA Police and the Chemistry Centre WA.

Chapter 1

Committee Reports: Format and Status of Follow-up

Revised Reporting Format

- 1.1 This is the third report the current Public Accounts Committee (the Committee) has compiled to inform Parliament on the actions public sector agencies have taken in response to recommendations directed to them by the Auditor General in his performance audits.⁸
- 1.2 The Committee has followed the precedent established by its predecessors of asking individual agencies to provide a formal response indicating: whether the agency accepts the Auditor General's recommendation; the specific actions the agency is taking in response; and the expected timeframes for completing these actions.
- 1.3 The Committee believes this is an important function that encourages agencies to give proper consideration to the Auditor General's views on how to improve the effectiveness and efficiency of programs that use public funds. However, it is a task that is administratively challenging given the number of reports the Auditor General produces each year.
- 1.4 In its previous report into agency responses, the Committee flagged that it would examine ways in which it could streamline its processes, while keeping agencies sufficiently accountable. The manner in which this report is presented is part of a revised approach designed to satisfy this balance.
- 1.5 Previously, the Committee had opted to dedicate a discrete chapter for each performance audit. Often, these chapters would conclude with the Committee simply noting its satisfaction with the adequacy of the agency responses without deeming any findings or recommendations to be necessary. Under its new reporting approach the Committee has decided simply to list such audits in a summary table without writing up a chapter. As Table 1 below indicates, the Committee has concluded its follow up of

8 For the other reports, see Public Accounts Committee (39th Parliament), [Review of Auditor General Reports: Selected Reports of 2011 and 2012](#), 19 September 2013; Public Accounts Committee, [Review of Auditor General Reports No. 2: Selected Reports of 2011 and 2012](#), 5 December 2013.

Chapter 1

agency responses for seven performance audits in this manner and does not feel the need to make any specific further comment.

- 1.6 The Committee would like to stress that its decision to conclude such follow-ups is based on its satisfaction with the general adequacy of initial responses undertaken by the agencies that were the target of recommendations. Hence, the Committee may opt to return to any of these audits at a later time if it believes circumstances warrant further examination of a particular agency's actions.

Status of Committee Follow-up Work

Table 1 List of concluded agency follow-ups

Report Number	Report Title	Relevant Agency
Report 9 of 2012	Public Sector Performance Report (Part 2 – Department of Commerce Support to Plumbers Licensing Board)	<ul style="list-style-type: none"> • Commerce • Plumbers Licensing Board
Report 2 of 2013	Follow-on Performance Audit to 'Room to Move: Improving the Cost Efficiency of Government Office Space'	<ul style="list-style-type: none"> • Finance
Report 3 of 2013	Management of Injured Workers in the Public Sector	<ul style="list-style-type: none"> • Central Institute of Technology • Corrective Services • Disability Services Commission • Education • Fisheries • Metropolitan Cemeteries Board • Public Transport Authority • Sir Charles Gairdner Hospital
Report 6 of 2013	Records Management in the Public Sector	<ul style="list-style-type: none"> • Broome Port Authority • Gold Corporation • Racing and Wagering Western Australia • State Development • Health • Police
Report 7 of 2013	Fraud Prevention and Detection in the Public Sector	<ul style="list-style-type: none"> • Public Sector Commission • Rottnest Island Authority • WA Institute of Sport • Wheatbelt Development Commission
Report 9 of 2013	Patient Assisted Travel Scheme	<ul style="list-style-type: none"> • Health

Report Number	Report Title	Relevant Agency
Report 13 of 2013	Sustainable Funding and Contracting with NFP Sector ⁺	<ul style="list-style-type: none"> • Aboriginal Affairs • Drug and Alcohol Office • Finance • Premier and Cabinet • Mental Health Commission

+ The Committee opted to conclude this follow-up without writing to the agencies given the positive tenor of this report and the fact that the recommendations made had already been implemented by the audited agencies to a large extent.

- 1.7 In one instance, Report 1 of 2013 *Management of the Rail Freight Network Lease: Twelve Years Down the Track*, the Committee received responses from the subject agencies: Department of Transport and the Public Transport Authority, but has elected to conclude its follow-up without commenting on the adequacy of the actions these agencies have taken.
- 1.8 In this case, another standing committee, the Economics and Industry Standing Committee (EISC), resolved on 12 March 2014 to conduct a broader Inquiry into the Management of Western Australia's Freight Rail Network. The EISC reported to Parliament on 16 October 2014. Given the similarity of the subject matter, the Committee thought it preferable to avoid any unnecessary duplication with its follow up and defer further scrutiny of these agencies to the EISC. However, as with the audits listed in Table 1, the Committee may reconsider this area in the future.
- 1.9 As part of its revised approach to reporting, the Committee has decided to include a full chapter on its follow-ups only where it thinks the topic of the performance audit is of significant public interest and / or it thinks findings and recommendations are warranted. In this report, three audits have been the subject of such chapters.
- 1.10 This report concludes the Committee's follow up process for all Auditor General performance audits from 2012. The Committee has commenced its follow up of the 2014 audit series and is likely to have further information on these, and several of the other outstanding audits from 2013, when it next reports to Parliament. The list of audits for which the Committee is still conducting follow-ups is included in Table 2.

Chapter 1

Table 2 Outstanding Committee Follow-Ups⁹

Report Number	Report Title
Report 5 of 2013	Delivering Western Australia's Ambulance Services
Report 10 of 2013	Supply and Sale of Western Australia's Native Forest Products
Report 11 of 2013	Information Systems – Application Controls Audit
Report 12 of 2013	The Banksia Hill Detention Centre Redevelopment Project
Report 14 of 2013	Public Trustee: Administration of the Financial Affairs of Vulnerable People
Report 17 of 2013	Western Power's Management of its Wood Pole Assets
Report 18 of 2013	Managing the Impact of Plant and Animal Pests: A State-wide Challenge
Report 1 of 2014	Water Corporation: Management of Water Pipes
Report 2 of 2014	Charging Card Administration Fees
Report 4 of 2014	Behaviour Management in Schools
Report 7 of 2014	The Implementation and Initial Outcomes of the Suicide Prevention Strategy
Report 8 of 2014	Moving On: The Transition of Year 7 to Secondary School
Report 9 of 2014	Governance of Public Sector Boards
Report 10 of 2014	Universal Child Health Checks Follow-Up
Report 11 of 2014	Licensing and Regulation of Psychiatric Hostels
Report 12 of 2014	Government Funded Advertising
Report 13 of 2014	Royalties for Regions – Are Benefits Being Realised?
Report 14 of 2014	Information Systems Audit Report
Report 15 of 2014	Working with Children Checks
Report 16 of 2014	Our Heritage and Our Future: Health of the Swan Canning River System

⁹ Gaps in the report numbering sequence denote either completed follow-ups or publications from the Auditor General other than the performance audits followed up by the Committee.

Chapter 2

Report 7 of 2012: Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals

Background

- 2.1 In 2011, the Auditor General conducted a preliminary investigation into procurement practices within the Department of Health (WA Health). The focus of the investigation was WA Health's processes for handling the receipt of gifts and offers of travel from potential vendors. The ensuing report found that travel and accommodation proposals were properly approved, but conflict of interest risks were not well managed. It also found that non-travel gifts were accepted in breach of the Department's gift policy and that there was no program in place to monitor compliance with this policy, or the policy relating to travel. WA Health agreed to implement the Auditor General's three recommendations including the implementation of a revised travel and gifts policy.¹⁰
- 2.2 In 2012, the Auditor General conducted a more extensive performance audit, which examined how the state's public hospitals both procure, and subsequently control the security of, pharmaceutical products ("pharmaceuticals") used for patient care. Between October 2010 and September 2011, public hospitals spent more than \$205 million on pharmaceuticals spread over more than 250,000 purchase orders. While 19 hospitals purchase pharmaceuticals, 74 per cent of the value of the 2010-2011 purchases was spread between Royal Perth, Sir Charles Gairdner, and Fremantle hospitals.¹¹

Procurement of Pharmaceuticals

- 2.3 The state has policies in place that govern the procurement of pharmaceuticals. Procurement policies are designed to ensure that purchases are transparent and accountable, represent value for taxpayer

10 See Public Accounts Committee, [Review of the Reports of the Auditor General 2011-2012](#), 15 November 2012, Report No. 20, pp. 38-42; Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals \(Report Summary\)](#), 13 June 2012.

11 Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, p. 9.

money, and provide suppliers with fair access to government orders. Sound procurement practices are also important for preventing real, or perceived, conflict of interest opportunities from occurring. These risks are ever present given that pharmaceutical companies regularly invite WA Health staff to local and international product and research seminars and offer to meet the costs of attending.¹²

- 2.4 The majority of purchases conducted by WA Health are overseen by the Department's Health Corporate Network (HCN). Notably, hospital pharmaceutical purchases are conducted through a program called iPharmacy, which falls outside the centralised remit of the HCN. Consequently, individual hospital pharmacies are responsible for their own pharmaceutical purchases.
- 2.5 The purchase of pharmaceuticals by public hospitals must satisfy the procurement policies established by the State Supply Commission (SSC). These policies have been articulated by the Department of Finance (Finance) in its *Procurement Practice Guide* (Procurement Guide).¹³ As part of its control framework for pharmaceutical purchases, WA Health has its own *Purchase of Goods and Services* policy. This policy outlines the requirements of Finance's procurement guide.¹⁴ Ultimately, hospitals must show that their use of public monies achieves value for money, ensures open and effective competition for suppliers, and demonstrates probity and accountability.
- 2.6 In October 2010, following a competitive tender process, a *Supply of Pharmaceutical Products to Western Australian Public Health Care Units* (Pharmaceutical Products)¹⁵ contract was introduced. This contract contains a list of approved suppliers from whom public hospitals are required to purchase pharmaceutical products, where those products are listed in the contract. Exemptions to this mandatory purchasing regime are available with Finance responsible for processing and approving such requests.¹⁶

12 Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, pp. 4-5.

13 See Department of Finance (WA), [Procurement Practice Guide: A Guide to Products and Services Contracting, for Public Authorities](#), January 2013.

14 Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, pp. 10,13.

15 Department of Finance (WA), [HCNS110709 – Supply of Pharmaceutical Products to Western Australian Public Health Care Units](#), 1 October 2010 to 30 September 2013.

16 Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, p. 9. See Department of Finance (WA),

Management of Pharmaceuticals

2.7 The pharmaceuticals that hospitals purchase can be dangerous and, in some cases, highly addictive. Hence, they need to be managed carefully to prevent unauthorised access and use, otherwise there is a risk of:

- ‘financial loss to the hospital through theft;
- theft leading to illicit sale and distribution of pharmaceuticals;
- hospital staff working while under the influence of pharmaceuticals, which is a risk to patient care;
- health and social impacts of illicit drug use and addiction; [and]
- pharmaceuticals not being available for legitimate patient care.’¹⁷

2.8 The *Poisons Act 1964* and the *Poisons Regulations 1965* regulate the access, handling, use, storage, security, and disposal of pharmaceuticals. The Act and Regulations categorise pharmaceuticals under a range of classifications. These include:

- Schedule 8 (S8), which are considered to be drugs of addiction and subject to the strongest legislative controls in WA.
- Schedule 4 (S4), which are available only by prescription.
- Schedule 4R (S4R), which is a classification given to a range of S4s that are linked to addiction and abuse and are therefore subject to stronger controls.¹⁸

Audit focus and scope

2.9 Six hospitals were audited with the primary focus on whether:

1. Hospital pharmaceutical purchases are consistent with SSC and WA Health policies.
2. Pharmaceuticals are managed in a way that reduces the risk of unauthorised and improper access and use.¹⁹

[*Procurement Practice Guide: A Guide to Products and Services Contracting, for Public Authorities*](#), January 2013, p. 40.

17 Auditor General Western Australia, [*Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals*](#), 13 June 2012, p. 5.

18 *ibid.*, pp. 10, 18.

- 2.10 Part of the audit included examining a sample of 300 purchases to assess the level of adherence to SSC (as articulated in Finance’s Procurement Guide) and WA Health policies. The audit also looked at how hospitals managed those pharmaceuticals most at risk of theft due to their addictive and mind-altering properties. The six hospitals audited were: Armadale-Kelmscott District Memorial Hospital; Southwest Health Campus (Bunbury and Warren District hospitals); Graylands; Royal Perth; Carnarvon; and Narrogin hospitals.²⁰

Auditor General’s Findings and Recommendations

Findings regarding the procurement of pharmaceuticals

- 2.11 The Auditor General described controls over pharmaceutical purchases in separate sections of the report as ‘weak’ and ‘poor’. The report added that, as a consequence, ‘we cannot give assurances that purchases always represent value for money, are transparent and accountable or promote open and effective competition.’²¹ Four examples of ‘specific weaknesses’ were cited.
- 2.12 Firstly, the purchase procedures and practices adopted at hospitals did not ‘always clearly align’ with government and WA Health policies. Secondly, a ‘significant number’ of purchases failed to meet government procurement standards.²² The following table was included in the report to demonstrate this point:

19 *ibid.*, p. 11.

20 Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, p. 11.

21 *ibid.*, p. 5. See also page 4.

22 *ibid.*

Table 3 Pharmaceutical purchases by hospitals compared to government procurement standards²³

Purchases meet government procurement standards	Royal Perth (RPH)	Graylands	Armadale	Bunbury	Narrogin	Carnarvon
Purchases made by those with delegated authority	✓	✓	✓	✓	✗	✗
Quotes obtained and documented (when applicable)	✗	✓	✓	✓	✓	✓
Products purchased from the contract (when applicable)	✗	✗	✗	✗	✗	✗
Purchasing is reviewed	✓	✓	✓	✗	✗	✗
✓ All 50 purchases examined for this aspect of the audit met the requirement and the relevant control was both formal and consistently applied						
✗ Not all purchases met the requirement and the relevant control was not always documented or applied						

2.13 The Auditor General did not make comment on the guidelines that hospitals should adhere to; he only discussed the level of compliance. Interestingly, Royal Perth Hospital said it did not obtain and document quotes on purchases over \$5,000, in accordance with policy requirements, 'because the additional time and resources required to do so may jeopardise patient care.'²⁴

2.14 The third weakness identified by the Auditor General was that 'hospitals could make better use of the purchasing system iPharmacy to help purchasing officers comply with policy.'²⁵ In this respect, the Auditor General highlighted several system controls that could be implemented by a central body, but this had not yet occurred.²⁶

2.15 The final weakness related to contract management, some aspects of which had been 'poor'. For example, contract managers had not obtained usage reports from suppliers, nor conducted pricing audits. However, WA Health had begun obtaining usage reports as a result of the audit.²⁷

23 Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, p. 14.

24 *Ibid.*, p. 14.

25 *Ibid.*, p. 5.

26 *Ibid.*, p. 15.

27 *Ibid.*

- 2.16 In other areas of the audit, the Auditor General found that potential conflicts of interests were not managed well, leading to the risk that purchasing could be, or could be perceived to be, inappropriately influenced. While no evidence of inappropriate influence was detected, several issues were nonetheless raised.
- 2.17 Firstly, hospitals lacked reliable information to help identify and manage all conflicts of interest that might emanate from suppliers who provide gifts and benefits to hospital employees. To demonstrate, the Auditor General obtained information from a sample of pharmaceutical companies regarding 200 gifts and travel sponsorships that had been given to WA Health officers since July 2010. Yet only 31 of these items were included in a report WA Health provided to Parliament in response to a Question on Notice in 2011.
- 2.18 During the audit, it was discovered that WA Health’s relevant policy did not require staff to report gifts. WA Health subsequently advised that as of December 2011, the policy would be revised to require the declaration of gifts. WA Health also advised the Auditor General that it would soon issue a revised travel policy, although this had not been released before the Auditor General’s final report was tabled.²⁸
- 2.19 Nor did hospitals ensure that potential conflicts of interest were identified every time new pharmaceutical products were selected for inclusion on that hospital’s approved list of pharmaceuticals.²⁹
- 2.20 Similarly, when the Pharmaceutical Products contract (the common use contract referred to at 2.6 above) was updated in October 2011, no declarations of possible conflicts of interest had been recorded by the selection panel that decides which suppliers and products are added to the contract. However, WA Health advised the Auditor General that the declarations were obtained verbally.³⁰

28 Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, pp. 6, 16. In its response to a 2011 report by the Auditor General, WA Health advised that it would be implementing a revised ‘Acceptance of Gifts Policy’ and a ‘WA Health Staff Air Travel Policy’ by early 2012. While the Auditor General subsequently confirmed that the former policy had been implemented, the revised travel policy remained outstanding as at June 2012. See also Public Accounts Committee, [Review of the Reports of the Auditor General 2011-2012](#), Report No. 20, 15 November 2012, p. 40.

29 Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, pp. 6,16.

30 *ibid.*, pp. 6,18.

Findings regarding the management of pharmaceuticals

- 2.21 The Auditor General found that hospitals were ‘not effectively managing all risks associated with access and use of pharmaceuticals.’³¹ It was acknowledged that many controls had been implemented in patient care area of hospitals including for the administration of pharmaceuticals to patients. However, deficiencies in several areas meant there was ‘still an unacceptable risk of unauthorised access and use of pharmaceuticals.’³²
- 2.22 Noted among the deficiencies were the processes for taking deliveries from pharmaceutical suppliers. The Auditor General claimed these processes were ‘not well controlled.’ While Table 4 illustrates the Auditor General’s initial findings, he did note that all hospitals have since taken some measures to implement stronger controls. For example, all six hospitals now require sign off by representatives who arrive to pick up returned S8 and S4R products.³³
- 2.23 Other deficiencies were noted with the procedures used to measure and account for liquid pharmaceuticals. Here, a lack of clear guidance for staff increased the risk of inaccurate reporting of losses. In addition, the monitoring of staff compliance with regulations and policies pertaining to conduct within patient care areas was judged to be ‘inconsistent and not comprehensive.’³⁴

31 Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, p. 4.

32 *ibid.*, p. 6.

33 *ibid.*, pp. 6, 19.

34 *ibid.*, p. 6.

Table 4 Controls in place for receiving pharmaceuticals³⁵

Control	RPH	Graylands	Armadale	Warren	Narrogin	Carnarvon
S8s and S4Rs are unpacked and verified by two people	x	x	x	x	x	x
Ordering and receiving is segregated and segregation is able to be verified	x	✓	x	x	x	x
Custody of products is recorded after initial receipt	✓	✓	x	x	x	x
Records confirm by signature who took custody of S4R and S8 products if returned to suppliers	✓	x	x	x	x	x
✓ Hospital pharmacies consistently demonstrated this practice x Hospital pharmacies did not consistently demonstrate this practice						

2.24 The manner in which hospitals investigate and account for losses of pharmaceuticals was also problematic. While the Auditor General described the amounts that go missing as ‘small’ (less than 0.04 per cent), he was concerned by the degree of transparency surrounding the investigations that WA Health undertakes for each loss.

2.25 From the sample of investigations inspected by the Auditor General, he was not always able to determine the basis upon which WA Health formed conclusions around the causes of pharmaceutical losses. Notably, there is no capacity within WA Health’s systems to determine whether multiple losses can be attributed to specific individuals and there is limited guidance material on how to conduct effective investigations. Also of concern was an under-reporting of pharmaceutical losses to WA Police, as per the requirements of the *Poisons Regulations 1965 (WA)*. Only 10 of the 50 cases sampled by the Auditor General had been reported.³⁶

35 Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, p. 19.

36 *ibid.*, pp. 6, 24.

2.27 The Auditor General made twelve recommendations to WA Health, targeting four key objectives:

Table 5 Recommendations from the Auditor General to WA Health³⁷

Objective	Auditor General's Recommendations to WA Health
<i>To ensure that government purchasing standards are met for pharmaceutical procurements:</i>	1. Ensure relevant stakeholders, such as hospital pharmacies, policy owners, system administrators and contract managers work together to review and improve policies, procedures, contract management, system controls and staff training.
<i>To improve management of conflict of interest risks:</i>	2. Ensure there is a robust system to enable accurate reporting on the nature and extent of gifts and benefits received by its officers. This includes effective implementation of their new gifts policy and introduction of the revised travel policy. 3. Implement an independent review of pharmaceutical selection that identifies potential conflicts of interest. 4. Embed conflict of interest declarations into all key decision-making processes that impact pharmaceutical purchasing.
<i>To address control weaknesses in hospitals' management of pharmaceuticals:</i>	5. Improve controls when hospitals take initial receipt of pharmaceuticals associated with addiction and abuse, and ensure these processes are included in its revised compliance monitoring program. 6. Revise its compliance monitoring activities for patient care areas to ensure there is a coordinated strategy that is comprehensive and avoids unnecessary duplication. 7. Clearly instruct hospitals on how to measure liquid pharmaceuticals, and decide how to assess liquid pharmaceutical losses. 8. Formally assess the costs and benefits of different technology options, such as security card locks, automated dispensing machines and CCTV, to control and record access to pharmaceuticals.

37 Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, p. 7.

Objective	Auditor General's Recommendations to WA Health
<p><i>To improve reporting of investigations and follow up of pharmaceutical losses:</i></p>	<p>9. Clearly document how the causes of pharmaceutical losses are determined.</p> <p>10. Give more consideration to trends in relation to the individuals who have access to pharmaceuticals when losses occur.</p> <p>11. Adhere to the new reporting protocol with WA Police to ensure every pharmaceutical discrepancy is reported.</p> <p>12. Implement the recently revised policy regarding reporting and investigation of pharmaceutical discrepancies.</p>

2.28 In its initial response to the Auditor General's findings, WA Health acknowledged shortcomings in its processes, but sought to emphasise that no improper conduct was uncovered. The following quote is illustrative:

*The Audit has identified some control weaknesses but the Department is pleased that the OAG [Office of the Auditor General] has not identified any evidence of wrong doing regarding the selection and purchasing of pharmaceuticals.*³⁸

Committee Follow-Up

2.29 While this audit was tabled during the 38th Parliament, the previous Public Accounts Committee was not able to conclude its follow-up before that Parliament was dissolved prior to the 2013 State Election. The current Committee commenced the follow-up process afresh in May 2013 and had to correspond with WA Health numerous times to determine the extent to which appropriate action was being taken to address each recommendation.

Recommendation 1 – Ensuring government purchasing standards are met

2.30 As the Auditor General's report noted, WA Health's pharmaceutical purchases are conducted and managed independently of the Department's HCN (see 2.4 above). The Pharmacy Division and the HCN are now working together to establish a Common Use Contract with major suppliers that will provide a list of approved counterparties for products that are not covered under pre-existing contracts.

³⁸ Auditor General Western Australia, [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals](#), 13 June 2012, p. 8.

- 2.31 In addition, the Pharmacy Business Support Unit has developed a core training program for delivery to key procurement staff at each hospital site. WA Health has confirmed that it expects this training to commence during 2014. The current delay in implementation has resulted from the relevant officers behind the training program being diverted to the configuration of the Fiona Stanley Hospital.³⁹

Recommendations 2 through 4 – Managing conflict of interest risks

- 2.32 In response to Recommendation 2, WA Health has implemented revised policies for receipt of gifts and air travel sponsorship, both of which are now available on the Department’s website.⁴⁰
- 2.33 In terms of past conduct in this area, WA Health undertook an internal review of the acceptance of gifts by WA Health staff after noting the concerns regarding compliance issues that were raised in the Auditor General’s preliminary investigation in 2011 (see 2.1 above).
- 2.34 The review identified 504 gift and travel events involving 260 employees where there was ‘insufficient evidence’ to demonstrate compliance with the relevant policies.⁴¹ From this group, 60 employees were identified as having ‘ongoing compliance issues’. WA Health provided the Corruption and Crime Commission (CCC) with information from the review. The CCC subsequently requested WA Health ‘carry out further action.’⁴²
- 2.35 In response to this request, the Acting Director General of WA Health, Professor Bryant Stokes, asked for a further internal report to be prepared after which he would consider what ‘appropriate further action’ should be taken. This report was originally due to be completed by 7 November 2013, but ‘considerable delays’ were experienced in verifying the original data

39 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 21 August 2013, p. 2. WA Health had originally envisaged completion of this response by 30 June 2014.

40 The gift policy took effect on 9 December 2011 and the air travel policy took effect on 19 June 2012. Professor Bryant Stokes, A/Director General, Department of Health, Letter, 19 October 2013, p. 1. For access to the policies, see WA Health, *Acceptance of Gifts Policy*, no date. Available at: <http://www.health.wa.gov.au/circularsnew/attachments/621.pdf>. Accessed on 29 October 2013; WA Health, *WA Health Staff Air Travel Policy*, 19 June 2012. Available at: http://www.health.wa.gov.au/circularsnew/circular.cfm?Circ_ID=12874. Accessed on 19 June 2012.

41 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 19 October 2013, p. 2.

42 *ibid.*; Professor Bryant Stokes, A/Director General, Department of Health, Letter, 6 February 2014, p. 2

and the report was not received by Professor Stokes until the end of February 2014.⁴³

2.36 The Committee sought an update from WA Health in April 2014 regarding this further report. Specifically, the Committee asked the Department to provide:

- The final number of employees subject to disciplinary action.
- The list of penalties that were imposed as part of any disciplinary action.
- The final number of compliance issues that were the subject of disciplinary action.
- The full range of compliance issues that were the subject of disciplinary action.

2.37 In its subsequent response, the Department confirmed the report found ‘no evidence of deliberate wrongdoing on the part of any WA Health employee.’⁴⁴ The report also found that reporting and recording of offers and gifts and travel benefits ‘appears to be improving.’⁴⁵ However, the report did note that action was required with respect to the conduct of the 60 employees, mostly doctors, concerning 102 travel-related events.⁴⁶

2.38 The Department went on to advise that as at 28 March 2014, a total of 23 of these 60 employees were yet to provide sufficient evidence of compliance. Professor Stokes was waiting on another report recommending ‘further action relating to these employees’.⁴⁷ This additional report was due to be completed by the end of May 2014, after which time ‘a more detailed response relating to the number of employees subject to disciplinary action’⁴⁸ could be provided to the Committee.

2.39 The Committee followed up again with WA Health in August 2014 in order to obtain final confirmation of the outcome of this internal investigatory process. The Department, through Professor Stokes, was still not able to

43 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 19 October 2013, p. 2; Professor Bryant Stokes, A/Director General, Department of Health, Letter, 6 February 2014, p. 2; Professor Bryant Stokes, A/Director General, Department of Health, Letter, 7 May 2014, p. 1.

44 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 7 May 2014, p. 1.

45 *ibid.*

46 *ibid.*, p. 2.

47 *ibid.*, pp. 1-2.

48 *ibid.*, p. 1.

provide all the information the Committee had sought in its request of April 2014 (see 2.36 above):

*The last update of 7 May 2014 advised insufficient compliance evidence existed for 23 of 60 employees, and that a report would be provided at the end of May 2014. Delays in verifying employee data have been experienced; however, further action has resulted in unresolved compliance issues for only 4 employees. A report detailing the assessment of the 60 employees of interest is being finalised for my consideration, and is expected to be completed by the end of August 2014.*⁴⁹

2.40 The Committee was notified in mid-October 2014 of the final outcome of WA Health’s investigations. The table below details the outcomes for the 60 employees:

Table 6 – Outcome of Health Investigation⁵⁰

Assessment	Number of employees
No longer employed/ not an employee	9 people (16 events)
No Further Action – Compliant	14 employees (22 events)
No Further Action – non-compliant but mitigating factors exist	33 employees (59 events)
Further Action Required	4 employees (6 events).

2.41 Based on the outcome of the investigation, the Director General resolved that ‘no further action letters be issued to the 56 employees assessed as no longer employed, compliant or non-compliant with policy, but for which mitigating factors exist’.⁵¹ The four employees, ‘who had not responded to any communications on this matter, to be given a further opportunity to respond to the gift and travel information that was presented to them in their original letter dated 3 October 2013.’⁵²

2.42 The Director General reported to the Committee that the four employees subsequently responded, and that an assessment had been made that all four were non-compliant with policy, but that mitigating factors existed. All four employees were to be sent letters outlining that there would be no further actions taken.⁵³

49 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 25 August 2014, p. 1.

50 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 10 October 2014, p.1.

51 *ibid.*, p.2.

52 *ibid.*

53 *ibid.*

Finding 1

The Committee notes that for the 504 events where there was insufficient evidence of compliance with policy regarding the acceptance of gifts and travel benefits, involving 260 WA Health employees, there were zero instances found that required disciplinary action.

- 2.43 Regarding conflict of interest matters (Recommendations 3 and 4), WA Health initially committed to reviewing its current policy documentation taking into account the relevant recommendations from the Auditor General by 30 June 2014.⁵⁴ WA Health later advised that this deadline had not been met. While a policy review had commenced, its scope had now been expanded to include a review of the recently revised gift and travel policies. The decision to broaden the suite of policies under review was taken in response to recommendations in the CCC's June 2014 *Report on Fraud and Corruption in Procurement in WA Health: Dealing with the Risks*.⁵⁵
- 2.44 WA Health's review of each of these policies is now due to be completed by 31 December 2014. The review of the conflict of interest policy will consider:
- processes for improving the documentation of conflicts 'that are identified and managed by established committees';
 - the requirement for employees with 'an association with a WA Health vendor to provide a statement acknowledging the dual interest;' and
 - the 'need to accommodate pecuniary and non-pecuniary interests' in the conflict of interest framework.⁵⁶
- 2.45 In the interim, WA Health's Corporate Governance Directorate has received approval to review the relationships between vendors and departmental staff from which potential conflicts of interest might be identified. Vendors known to offer gifts and travel to WA Health employees will also be

54 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 21 August 2013, p. 3.

55 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 25 August 2014, p. 1. The CCC's 2014 Report into WA Health's fraud prevention capacity in procurement followed an earlier (2010) CCC investigation into serious misconduct on the part of a facilities development manager at one of the state's major public hospitals. Recommendation 5 of the 2014 Report called on WA Health to 'review policy and procedures to manage conflicts of interest, gifts and benefits and outside employment.' Corruption and Crime Commission, [Report on Fraud and Corruption in Procurement in WA Health: Dealing with the Risks](#), 12 June 2014, p. 23.

56 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 25 August 2014, pp. 1-2.

informed that all such offers in future 'should be made through the accountable WA Health executive.'⁵⁷

Recommendations 5 through 8 – System controls for managing pharmaceuticals

- 2.46 WA Health has advised that it did not support Recommendation 5 from the Auditor General, which sought to improve controls for taking receipt of pharmaceuticals. In its response to the Committee, the Department cited the views of its Pharmaceutical Services Branch, which believed current practices did not warrant change:

*Pharmacy finds that regulation, resourcing and vendor practice do not support the implementation of the suggested controls. Current practice has not been demonstrated to result in any instance of unexplained loss between vendor and pharmacy.*⁵⁸

- 2.47 WA Health supported the other three recommendations relating to system controls and the actions it had taken in response were at varying stages of progress. To improve compliance monitoring in patient care areas (Recommendation 6), the Pharmaceutical Services Branch has commenced a three-year rolling audit program of all public hospitals against the current legislative provisions for poisons and departmental policies for handling medications. Hospitals have also been provided with a tool that will allow them to self-audit more frequently.⁵⁹
- 2.48 In response to Recommendation 7 WA Health has introduced standard equipment and practices for measuring liquid pharmaceuticals at all sites. This has been followed up with an Operational Directive addressing the management of S8 and S4R medications and the process for assessing any losses of such items in liquid form.⁶⁰
- 2.49 WA Health also confirmed that it is in the process of examining the costs and benefits of different technology options for recording and controlling access to pharmaceuticals (Recommendation 8). This process is currently being conducted as part of the scope of works for the Fiona Stanley Hospital (FSH). Once such technologies are introduced at FSH (in 2015), WA

57 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 7 May 2014, p. 2.

58 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 21 August 2013, p. 4.

59 *ibid.*

60 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 6 February 2014, p. 1. For a copy of the Operational Directive, see, WA Health, *Management of Schedule 8 and Restricted Schedule 4 oral liquid medicines*, February 2014. Available at: <http://www.health.wa.gov.au/CircularsNew/attachments/857.pdf>. Accessed on 24 July 2014.

Health will look to leverage off the information it has gained to develop similar solutions for its other hospitals.⁶¹

Recommendations 9 through 12 – Processes for reporting and investigating losses

- 2.50 A revised operational directive on reporting and conducting initial investigations of medicines discrepancies took effect from July 2012. In addition, Medicines Incident Coordinators (MICs) have been appointed to each hospital to provide training in misconduct and reporting procedures. MICs now oversee, and sign-off on, any preliminary investigation undertaken when a discrepancy occurs.
- 2.51 The Department's Corporate Governance Directorate (CGD) receives the discrepancy reports signed off by the MICs and assesses whether matters need to be referred as potential misconduct to the CCC. This process involves examining previous events at the site to determine whether the individuals currently under question have been the subject of earlier incidents. Discrepancy reports may also generate further action from the CGD or management at the hospital where any reported discrepancies occurred.
- 2.52 The Pharmaceutical Services Branch receives each report for consideration of any actions that need to be taken regarding system controls and each unexplained loss of medicine is now reported to a dedicated intelligence cell of the WA Police. Finally, all matters relating to any unexplained loss of medications is reported to the CCC each fortnight and followed up at three-monthly intervals with a status report of all cases that remain unresolved.⁶²

Committee Conclusion

- 2.53 WA Health has acted to address the majority of the Auditor General's recommendations as evidenced by: the implementation of revised policies for the receipt of gifts and travel sponsorship; the introduction of standardised protocols for measuring liquid pharmaceuticals; the updated processes for reporting and investigating pharmaceutical losses; and the distribution of directives on how liquid pharmaceutical losses should be assessed.
- 2.54 In other areas, the responses have been protracted and have extended beyond the Department's own original estimated timeframe. Examples

61 Ms Jodie Cox, Principal Analyst, Corporate Governance Directorate, WA Health, Email, 20 February 2014.

62 Professor Bryant Stokes, A/Director General, Department of Health, Letter, 21 August 2013, p. 5.

here include the review of the conflict of interest policy, and the completion of the internal audit of gift and travel declarations.

- 2.55 In regards to the conflict of interest policy, it is important that WA Health complete its review within the revised timeframe of 31 December 2014 it provided to the Committee (at 2.44 above). The same applies to the other policies under review. The Committee acknowledges that neither the Auditor General's report nor the Department's own internal audit into declaration of gifts and travel benefits has uncovered any evidence of deliberate wrongdoing by any WA Health staff. Notwithstanding this point, procurement policies and procedures in WA Health remain the subject of critical commentary. Following on from the criticisms of the 2012 Auditor General's report, the June 2014 CCC report noted among its findings:

WA Health does not have adequate controls to prevent, identify and deal with fraud and corruption in procurement...

and:

*WA Health has limited capacity to effectively manage conflicts of interest, gifts and benefits and outside employment.*⁶³

- 2.56 While WA Health has taken some important steps to mitigate risk in this area (see 2.30, 2.32, and 2.45 above), it needs to build on this by finalising a robust policy framework to guide its staff.
- 2.57 In a similar vein, WA Health needs to ensure that its policy on the acceptance of gifts and travel benefits is rigorously communicated and enforced.

Recommendation 1

WA Health must ensure that its policy on the acceptance of gifts and travel benefits is rigorously and effectively communicated and enforced.

Finding 2

WA Health has taken action to address the majority of recommendations contained in the Auditor General's Report No. 7 of 2012 *Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals*. However, some responses have been protracted and have extended beyond the Department's own original estimated timeframe for completion.

63 Corruption and Crime Commission, [Report on Fraud and Corruption in Procurement in WA Health: Dealing with the Risks](#), 12 June 2014, p. 21.

2.58 The Committee notes the Department's refusal to adopt Recommendation 5 pertaining to improving system controls around the initial receipt of pharmaceuticals at hospital sites and has reported the rationale offered (see 2.46 above). The Committee is not in a position to audit WA Health's audit processes to confirm that delivery protocols are checked off as part of each investigation into pharmaceutical losses. As such, it is not in a position to either endorse or refute the veracity of the Department's rationale in this case.

Finding 3

WA Health has advised that it does not support the recommendation from the Auditor General that sought to improve controls for taking receipt of pharmaceuticals when delivered to hospitals. The Department argued that its current protocol has not been demonstrated to result in any instance of unexplained loss between vendor and pharmacy. The Committee is not in a position to either endorse or refute the rationale offered by the Department.

2.59 While the Committee is satisfied with the majority of actions taken in response to this audit, it urges WA Health to exercise ongoing vigilance around Recommendations 6 and 8, which called for improved security systems and monitoring processes in patient care areas where pharmaceuticals are administered to patients. The importance of this issue was reinforced by the findings of two inquests conducted by the State Coroner in 2013. The inquests investigated the deaths of two WA Health nursing staff in 2009 and 2010 and attributed the respective causes of death to opiate and propofol toxicity. Each investigation commented on the access hospital staff have to both general and restricted pharmaceuticals.⁶⁴ One of the final reports included the following finding:

*... while the Department and public hospitals are to be commended for improvements to drug security made recently, in my view the evidence suggests that there is a need for improved security with respect to the storage and management of Schedule 8 drugs in public hospitals.*⁶⁵

64 WA State Coroner, *Record of Investigation of Death: Ref No: 31/13* (Doherty), 5 September 2013; WA State Coroner, *Record of Investigation of Death: Ref No: 31/13* (Fisher), 5 September 2013

65 WA State Coroner, *Record of Investigation of Death: Ref No: 31/13* (Fisher), 5 September 2013, para 75.

2.61 In the same report, the Coroner called on WA Health and its public hospitals:

*... to review and improve the means by which unauthorised access to Schedule 8 drugs at hospitals is controlled, particularly at the point of the administration of the drugs to patients.*⁶⁶

2.62 The Committee acknowledges and endorses the cyclical audit program WA Health's Pharmaceutical Services Branch has commenced in order to monitor compliance with the Department's policies for handling medications (2.47 above). However, it is important that this process is complemented with improved security options in patient care areas as soon as is practicable. WA Health has confirmed it is using the scope of works for the configuration of FSH as the catalyst for examining the technological options available for enhancing pharmaceutical controls in all other hospitals (see 2.49 above). While this is a reasonable course of action, WA Health should give priority to using the information it acquires to promptly develop a system-wide solution in this area of pharmaceutical management.

Recommendation 2

WA Health needs to exercise ongoing vigilance to improving security systems and monitoring processes in the areas of hospitals where pharmaceuticals are administered to patients.

In particular, WA Health should give priority to using the relevant information it acquires from the configuration of Fiona Stanley Hospital to promptly develop a solution for improving security systems in these areas at all public hospitals.

66 WA State Coroner, *Record of Investigation of Death: Ref No: 31/13* (Fisher), 5 September 2013, para 80.

Chapter 3

Report 11 of 2012: Second Public Sector Performance Report – Housing Authority’s Head Contractor Maintenance Model

Introduction

- 3.1 The Auditor General conducts two forms of performance audit: “broad scope”, which represent the majority of reports followed up by the Committee; and “limited scope”, which are tabled anywhere between two and four times a year in *Public Sector Performance Reports* (PSPRs). PSPRs can feature several completed limited scope audits. Whereas broad scope audits examine the effectiveness and efficiency of public sector agencies, limited scope audits consider a range of matters including agencies’ compliance with legislation and policy and ‘instances of inefficiency, waste or extravagance.’⁶⁷
- 3.2 In his second PSPR for 2012, the Auditor General conducted three limited scope performance audits:
- Business Continuity Management by Port Authorities;
 - Western Australian Natural Disaster Relief and Recovery Funding; and
 - Department of Housing’s Implementation of the Head Contractor Maintenance Model.
- 3.3 The Committee concluded its follow-up and reported its findings relating to the first two limited scope audits in its *Review of Auditor General Reports No. 2*, tabled on 5 December 2013.⁶⁸ This chapter deals with the third matter, which the Committee resolved to examine in greater detail.

Background

- 3.4 The Department of Housing (now referred to as the Housing Authority or “Housing”) provides rental accommodation for more than 39,000

67 Auditor General Western Australia, [Audit Practice Statement](#), January 2014, p. 5.

68 Public Accounts Committee, [Review of Auditor General Reports No.2: Selected Reports 2011 and 2012](#), 5 December 2013, Chapter 5.

households across Western Australia (WA).⁶⁹ More than \$120 million is spent annually on providing maintenance services to these properties.⁷⁰

- 3.5 Up until 2010, Housing operated a de-centralised property maintenance system, where 300 individual contractors were engaged under approximately 700 individual contracts.
- 3.6 In July 2010, Housing introduced a new system for managing the maintenance of its rental properties, called the 'Head Contractor Maintenance Model' (HCMM). The HCMM took the number of maintenance contracts down to 10, each with a Head Contractor who became responsible for managing Housing's portfolio of properties across three metropolitan and seven regional areas. Responsibility for contract management was transferred from Housing's regional offices to its head office.⁷¹
- 3.7 The adoption of the HCMM was designed to improve the efficiency and effectiveness of the maintenance program and to reduce costs and improve quality and timeliness of its services. However, the reality of the implementation of the new model was very different:

*The problems with the transition to the new model became apparent shortly after the contracts started on 1 July 2010. Complaints increased; tenants and Housing staff advised that maintenance work was not up to standard or not being done at all. There was a backlog of unpaid invoices for completed work, and it was taking longer for vacant properties to become available for rental.*⁷²

- 3.8 In response to the problems identified with the implementation of the HCMM, Housing carried out a three stage corrective program, which lasted from August 2010 to May 2011. The corrective program included a re-implementation process for the HCMM, which is estimated to have cost Housing at least \$1.2 million.⁷³
- 3.9 Despite the reimplementation of the HCMM, questions relating to possible fraud, rorting, and waste attributable to the new model arose during 2012.

69 Department of Housing, *Living in Public Housing*, 29 August 2013. Available at: <http://www.housing.wa.gov.au/currenttenants/publichousing/Pages/default.aspx>. Accessed on 15 July 2014.

70 Mr Grahame Searle, Director General, Housing Authority, Letter, 12 November 2013, p. 5.

71 Auditor General Western Australia, *Second Public Sector Performance Report 2012*, September 2012, p. 34.

72 *ibid.*, p. 35.

73 *ibid.*, p. 40.

The issue was raised in Parliament and in the media, and the Shadow Minister for Housing raised the matter with the Auditor General.⁷⁴

- 3.10 In March 2012, the Minister for Housing acknowledged that Housing's introduction of the HCMM 'had a lack of management oversight, very poor implementation in the first instance and very poor management of risk.'⁷⁵
- 3.11 According to the Auditor General, many of the problems with the initial roll-out were due to the incompatibility of the information systems of Housing and the Head Contractors, which impacted on issuing job orders, invoicing, and paying for maintenance work. In addition, contractual arrangements and contract management under the HCMM were inadequate. Housing did not have a comprehensive contract management framework in place for the new model, nor was there any guidance for Housing or Head Contractor staff on the processes and procedures to be followed to meet contractual obligations.⁷⁶
- 3.12 Given the criticisms that continued to surround the HCMM following its re-implementation, the Auditor General decided to conduct a review in 2012 focusing specifically on whether:
- Housing could demonstrate that its corrective action had been effective in addressing the issues identified since implementation of the HCMM; and
 - Housing had implemented sufficient controls in the management of the HCMM.

Auditor General's Findings and Recommendations

- 3.13 The Auditor General confirmed Housing had spent a minimum of \$1.2 million in implementing the corrective action following the initial roll-out of the HCMM. The results were mixed, although some important issues had been resolved.
- 3.14 For example, the interface between Housing's and the Head Contractors' information systems was now fully operational and was being used to issue invoices and process payments. In addition, relevant procedures had been articulated with training and guidance provided to Housing and Contractor staff. Importantly, regular dialogue between Housing and the Head

74 Auditor General Western Australia, [Second Public Sector Performance Report 2012](#), September 2012, pp. 38-39. See also, B Foster, 'Auditor questions Transfield contract', *Fremantle Herald*, 29 September 2012, p. 10.

75 Auditor General Western Australia, [Second Public Sector Performance Report 2012](#), September 2012, p. 35.

76 *ibid.*, p. 35.

Contractors had also been established with a view to establishing agreed performance benchmarks under the contracts.

- 3.15 In other instances, the Auditor General found some of the corrective actions were 'not well thought through'.⁷⁷ Facing a backlog of unpaid invoices due to problems with the original roll-out, Housing suspended prepayment checks on \$50 million worth of routine maintenance work for 12 months from November 2010. While the process was adopted to ensure sub-contractors would be paid on time by the Head Contractors, it contravened Treasurer's Instruction 304. While the full effect of the suspension of prepayment checks had not been determined at the time of reporting, Housing had already identified \$3.36 million in 'potential overcharges and non-compliant job orders', of which \$0.97 million had been recouped from Head Contractors.⁷⁸
- 3.16 Housing's subsequent review of these non-compliant job orders did not identify any claims 'as being potentially fraudulent.'⁷⁹ Even so, the Auditor General had received several complaints about possible roting by contractors and reviewed Housing's investigatory process. No evidence of fraud was subsequently identified and the Auditor General found Housing had appropriately investigated these matters. Despite this, the Auditor General added that 'Housing could strengthen its capacity to detect and respond to suspected fraud.'⁸⁰
- 3.17 The Auditor General also examined the key performance indicator (KPI) framework used by Housing to monitor contractor performance. Since July 2011, KPIs have been linked to incentives and penalties applied to contractors. However, these KPIs only measured timeliness of work. Issues surrounding quality, cost, and tenant satisfaction were not benchmarked. While some improvement in the timeliness of maintenance work had been observed, performance targets were still not being met.
- 3.18 In another area of the report, the Auditor General noted that quality assurance processes surrounding contractor maintenance had been enhanced and were sound. Once again, the Auditor General qualified his

77 Auditor General Western Australia, [Second Public Sector Performance Report 2012](#), September 2012, p. 36.

78 *ibid.*, pp. 36-40.

79 *ibid.*, p. 36.

80 *ibid.*

comments, by suggesting that 'risk based sampling could make this process more efficient and effective.'⁸¹

- 3.19 Three recommendations were directed to Housing. These are listed in Table 6.

Table 6 Recommendations from the Auditor General to the Housing Authority

Recommendations
<p>Housing should:</p> <ol style="list-style-type: none">1. Ensure it has sound systems, processes and controls in place that minimise the opportunity for fraud and gives it the best chance of detecting it by:<ol style="list-style-type: none">a. conducting structured fraud risk analysis to identify areas of its maintenance or systems where the risk of fraud is highest;b. putting in place a fraud policy to assist staff to detect fraud and respond appropriately to instances of suspected fraud; andc. making greater use of its maintenance information system to identify patterns of activity that may indicate fraud.2. Further develop its Head Contractor key performance indicators to include quality, cost and tenant satisfaction. Currently performance reporting is focused entirely on timeliness indicators.3. Use risk-based analysis of its tenant and property information, job order data and quality assurance results to better inform target setting for KPIs, job order controls, and the sampling used for completed work inspections before and after payment. This analysis should synthesise information from all sources and include a risk assessment of tenants and properties, as well as consideration of the various types of maintenance work being done (emergency, priority and routine, and planned maintenance).

- 3.20 In its initial response to the Auditor General, Housing confirmed that it would establish a program of works at its executive level to 'encompass all outstanding items or areas where improvement is warranted.'⁸² It also undertook to inform the Auditor General of its progress within six months.

Committee Follow-up

- 3.21 In September 2013, the Auditor General's office confirmed it had received the status report promised by Housing. In evaluating this response, the Auditor General's office advised that while Housing had taken a series of

81 Auditor General Western Australia, [Second Public Sector Performance Report 2012](#), September 2012, p. 37.

82 *ibid.*, p. 38.

actions in response to the report, some of the anticipated maintenance outcomes from the HCMM (particularly those relating to timeliness and quality of works) were not yet being achieved.⁸³

- 3.22 During this period, the Committee had also corresponded with Housing, asking the Department to explain what progress it had made in implementing the Auditor General's recommendations. This response indicated that Housing had implemented all of the recommendations in full, but did not provide sufficient detail to demonstrate this point. As a result, the Committee resolved to call Housing in for a hearing to discuss the actions taken to date.

Recommendation 1 - Fraud mitigation framework

- 3.23 In its original response to the Committee, Housing said it had 'adopted a number of controls and processes around quality assurance and the payment of job orders that will minimise the opportunity for fraud.'⁸⁴ The Committee sought further information on the specific initiatives Housing was referring to.
- 3.24 Appearing before the Committee, Director General, Mr Grahame Searle acknowledged that while no evidence of fraud was found in the performance audit, opportunities for fraud were possible under the previous checking processes. Consequently, Housing has made improvements to the controls and payment mechanisms to mitigate this risk.⁸⁵
- 3.25 Housing now checks every job valued at over \$500 (65 per cent of all maintenance work) to ensure that payments are made in accordance with the relevant Treasury Guidelines. This includes inspecting the work on site before settling an invoice. Jobs under \$500 are not checked before payment, but random samples are selected for audit on an ongoing basis. Housing advised that internal processes are in place to deal with the potential for contractors to split invoices to keep below the \$500 threshold (thereby avoiding the requirement for a site inspection).⁸⁶

83 Mr Glen Clarke, Deputy Auditor General, Electronic Mail, 4 October 2013.

84 Mr Grahame Searle, Director General, Housing Authority, Letter, 4 September 2013, p. 1.

85 Mr Grahame Searle, Director General, Housing Authority, *Transcript of Evidence*, 16 October 2013, p. 2.

86 Mr Grahame Searle, Director General and Mrs Sarah Ronald, Director, Housing Maintenance, Housing Authority, *Transcript of Evidence*, 16 October 2013, pp. 2 and 8.

Finding 4

Maintenance jobs valued at under \$500 are not checked before payment, but random samples are selected for audit on an ongoing basis. Jobs valued at under \$500 make up 35 per cent of all maintenance work.

- 3.26 Housing explained that the scope of works can often vary from the problem that is originally reported by a tenant. Consequently, Head Contractors are authorised to vary the scheduled line items (SLIs) that are listed in the original job order up to the value of \$500 if these variances relate to the original task requested or 'if occupational health and safety issues have been identified.'⁸⁷ In the 2012-2013 financial year Housing dispatched and authorised payment on 231,490 job orders with 849,125 individual SLIs. Thirty-five per cent of these SLIs had been subject to variation by the Head Contractor.⁸⁸
- 3.27 The Committee asked Housing to explain how it ensures these variations are legitimate. The Department confirmed that for any variances over \$500, a Head Contractor requires authorisation from a licensing team made up of officers—three plumbers and three electricians—employed by Housing:

*If there are any variations, they [the Head Contractors] have to call in and find out if they are legitimate or not. If we find a fault, that they are continually requesting for something that might not be in line with the scope, then the guys will attend sites and meet with the contractor if they are in the metropolitan area. If they are in the country area, we will get the PSO [Property Service Officer] to meet onsite and liaise with the subcontractor directly. In the regions, for general trades we use the PSOs, so predominantly they work with the regional officers and they have to go through the approval process in each region.*⁸⁹

- 3.28 Housing also undertakes quality assurance audits of completed jobs to ensure they are compliant. A non-compliant job order can include an order where:
- The required forms not filled in correctly or completely.
 - Charges for work outside the schedule of rates established between Housing and the Head Contractor are included.

87 Mr Grahame Searle, Director General, Housing Authority, Letter, 12 November 2013, p. 2.

88 *ibid.*

89 Mrs Sarah Ronald, Director, Housing Maintenance, Housing Authority, *Transcript of Evidence*, 16 October 2013, p. 5.

- The quality of the completed work is questioned following payment.⁹⁰
- 3.29 Each non-compliant order is forwarded to the Head Contractor for comment. Following this, the contractor and the Department enter negotiations to settle any disputed aspects of the job order that remain. Housing advises that during these negotiations, either party may be proven correct.⁹¹
- 3.30 It is through this quality assurance process that Housing identified the \$3.36 million in potential over charges and non-compliant job orders from 2010-2011 that were reported by the Auditor General (see 3.15 above). In the period following the audit report, Housing entered into negotiations with the Head Contractors to determine the veracity of the disputed payments. From this process Housing recouped a total of \$1.1 million from non-compliant job orders. For the balance, the matters in dispute were clarified and the funds were subsequently retained by the Head Contractors.⁹²
- 3.31 As at October 2013, Housing’s audit program was up to date. For the 2012-2013 financial year, a further \$3.1 million worth of job orders was in dispute and these were to be subject to a fresh round of negotiations with the Head Contractors.⁹³
- 3.32 The Auditor General had also recommended Housing implement a fraud policy as part of its fraud mitigation framework (Recommendation 1(b)). Housing confirmed that a fraud policy was being developed and the policy’s implementation would be aligned with the introduction of the new round of maintenance contracts, which were expected to come into operation in November 2014.⁹⁴

Recommendation 2 - KPI Framework

- 3.33 Under the HCMM, Housing has worked to improve the capacity by which it can measure the performance of Head Contractors. When the Committee

90 For the full list of factors that reflect non-compliant job orders, see Auditor General Western Australia, [Second Public Sector Performance Report 2012](#), September 2012, p. 37.

91 Mrs Sarah Ronald, Director, Housing Maintenance, Housing Authority, *Transcript of Evidence*, 16 October 2013, p. 7.

92 *ibid.*

93 *ibid.*, pp. 7-8. In a follow-up response, Housing advised that for the period January through June 2013, it had conducted 18,280 job orders and had identified 3,853 it thought were non-compliant. These formed part of the \$3.1 million in disputed funds that were still to be negotiated. Mr Grahame Searle, Director General, Housing Authority, Letter, 12 November 2013, p. 3.

94 Mrs Sarah Ronald, Director, Housing Maintenance, Housing Authority, *Transcript of Evidence*, 16 October 2013, p. 6.

commenced its follow-up, Housing had eight KPIs in place for the HCMM. Six of these relate to the timeliness of completed work and one relates to the timeliness of invoicing. Housing has prepared reports on Head Contractor performance against these KPIs on a monthly basis since July 2011. An eighth KPI, measuring the timeliness for submitting quality assurance reports, was introduced in June 2012.

- 3.34 The aspirational targets for these KPIs ranges between 95 to 100 per cent compliance against agreed service levels (e.g. completion of emergency work within three hours for metropolitan areas and four hours for non-metropolitan areas).⁹⁵ However, another baseline set of compliance targets has been established with Head Contractors who are subject to possible financial penalty should they fall 10 per cent below these secondary targets.⁹⁶

Table 7 Description of Head Contractor KPIs, aspirational and baseline targets, and service level requirements

KPI	Target	Service Level	Baseline
Timeliness of completion of emergency work	100%	Within 3 hours (metro) and within 4 hours (non-metro)	95%
Timeliness of completion of after-hours emergency work	100%	Within 3 hours (metro) and within 4 hours (non-metro)	95%
Timeliness of completion of priority work	95%	Within 48 elapsed hours on business days	76%
Timeliness of completion of routine work	95%	Within 14 calendar days	85%
Timeliness of completion of major work	95%	Within 28 calendar days	76%
Timeliness of completion of vacant premises	95%	By agreed date and time of job order	76%
Timeliness of submission of invoice	95%	Within 14 calendar days	85%

- 3.35 The penalty rate is fixed at 7 per cent of the value of the job. From the 2011-2012 financial year through October 2013, Housing charged \$20,129.63 in penalties to Programmed Facility Maintenance, the Head Contractor to the South West, and \$36,087.84 to Lake Maintenance, who has the three contracts covering the Goldfields, the Kimberley, and the Wheatbelt. The provider of services to the three metropolitan regions, the Great Southern, the Mid West/Gascoyne, and the Pilbara—Transfield

95 Auditor General Western Australia, *Second Public Sector Performance Report 2012*, September 2012, pp. 43-44.

96 *ibid.* See also, Mrs Sarah Ronald, Director, Housing Maintenance, Housing Authority, *Transcript of Evidence*, 16 October 2013, p. 12. Hon Bill Marmion MLA, Minister for Housing, Letter to Estimates and Financial Operations Committee, 3 December 2013, pp. 9-20.

Services—was to be charged a total of \$468,926.23 in penalty payments covering a slightly longer period (through to January 2014).⁹⁷

- 3.36 The Auditor General’s report noted that while Head Contractor performance had improved since July 2011, it was still the case that work was not being completed within the established timeframes.⁹⁸ Mr Searle described the current timeliness KPIs as ‘fundamentally unachievable’:

*... the practicalities of getting tradespeople in Perth to properties within the time lines we have indicated, given the scope of the work we do, just is not achievable; it is just not realistic.*⁹⁹

- 3.37 Mr Searle confirmed Housing was looking to establish more deliverable benchmarks as part of its new round of contracts. One example is emergency timeframes, which Housing was looking to move from its current three-hour target to an eight-hour benchmark consistent with the standards reflected in *Residential Tenancies Act 1987*.¹⁰⁰

- 3.38 The Auditor General called for the KPI framework to be broadened to include performance measurement against other indicators such as workmanship, cost, and tenant satisfaction.¹⁰¹ In its response to the Committee, Housing said that it had developed KPIs for the future head maintenance contracts that would address ‘quality, cost, safety, time and tenant satisfaction.’¹⁰²

Recommendation 3 - Risk-based analysis

- 3.39 Housing relies primarily on its quality assurance auditing process (see 3.28 above) to identify shortcomings in its business model that need to be addressed. Where problematic trends are identified, further gap analysis is undertaken and corrective measures are recommended. The Department attributes a reduction in the number of disputes with Head Contractors

97 Mr Grahame Searle, Director General, Housing Authority, Letter, 12 November 2013, pp. 5-6.

98 Auditor General Western Australia, [Second Public Sector Performance Report 2012](#), September 2012, p. 44.

99 Mr Grahame Searle, Director General, Housing Authority, *Transcript of Evidence*, 16 October 2013, p. 9.

100 *ibid.*

101 See Recommendation 2 in Table 6 above.

102 Mr Grahame Searle, Director General, Housing Authority, Letter, 4 September 2013, p. 1.

Note: The Minister for Housing has confirmed that the new round of maintenance contracts will take effect for five years from 1 November 2014. The new contracts have been established with four head contractors, two of which will cover the metropolitan area. This is a departure from the current model (see 3.35 above) where one head contractor was responsible for the entirety of metropolitan Perth. Hon Bill Marmion, MLA, Minister for Housing, WA, Legislative Assembly, *Parliamentary Debates* (Hansard), 13 August 2014, p. 5157.

over non-compliant job orders from 12.5 per cent to 2.3 per cent to this framework of risk analysis.¹⁰³

- 3.40 Housing has also formed a strategic asset management group within the Department to monitor the portfolio of housing stock to determine whether properties should be repaired or replaced, or whether the landholdings should be sold off for investment in new residential projects in different areas.¹⁰⁴
- 3.41 Finally, Housing conducts annual property inspections across its entire portfolio to identify what preventative maintenance work might be required. A register of these potential jobs is maintained and works are undertaken sporadically when spare funds are available.¹⁰⁵

Committee Conclusion

- 3.42 Housing has accepted all of the Auditor General's recommendations and taken a range of actions in response. The Committee is satisfied with the general adequacy of these actions, notwithstanding the fact that some aspects of the recommendations appear not to have been fully addressed.
- 3.43 Recommendation 1 was directed at Housing's fraud mitigation processes. Here, Housing has taken positive steps in its approach to both pre and post-payment auditing. While Housing does not appear to conduct structured fraud risk analysis (as per Recommendation 1(a)), the quality assurance processes now in place are at least consistent with the overall intent of the Auditor General for the Department to minimise the opportunity for fraud.
- 3.44 Recommendation 2 is geared towards improving the manner in which the performance of Head Contractors can be measured. In this area, Housing has taken important steps to broaden its KPI framework by incorporating cost, workmanship, and tenant satisfaction indicators in its new round of contracts. This should enhance the capacity of Housing to more accurately assess work of its Head Contractors and the overall effectiveness and efficiency of its housing maintenance model.
- 3.45 Recommendation 3 addressed Housing's internal control arrangements, particularly as they applied to risk assessment. While the Auditor General described the current control arrangements as 'adequate', this

103 Mr Grahame Searle, Director General, Housing Authority, Letter, 4 September 2013, p. 2.

104 Mr Grahame Searle, Director General, Housing Authority, *Transcript of Evidence*, 16 October 2013, p. 16.

105 Mr Steve Parry, General Manager, Service Delivery, Housing Authority, *Transcript of Evidence*, 16 October 2013, pp. 2-3.

recommendation was put forward as a way of promoting further improvements.¹⁰⁶ While Housing does not appear to have adopted the Auditor General's call for 'risk-based analysis'¹⁰⁷, it has implemented a variety of measures for identifying and analysing risk (see 3.39 through 3.41 above).

Finding 5

The Committee is satisfied with the general adequacy of the actions the Housing Authority has taken in response to the Auditor General's recommendations, notwithstanding the fact that some aspects of these recommendations appear not to have been fully addressed.

Finding 6

While the Housing Authority does not appear to conduct structured fraud risk analysis of its Head Contractor Maintenance Model, the quality assurance audit processes now in place are consistent with the overall intent of the Auditor General's broader recommendation to minimise the opportunity for fraud within the program.

Finding 7

The Housing Authority has taken important steps to broaden the KPI framework applicable to Head Contractors by incorporating cost, workmanship, and tenant satisfaction indicators in its new round of contracts. This should enhance the capacity of Housing to more accurately assess work of its Head Contractors and the overall effectiveness and efficiency of its Head Contractor Maintenance Model.

Finding 8

While Housing does not appear to have adopted the Auditor General's call for 'risk-based analysis', it has implemented a variety of measures for identifying and analysing risk within its Head Contractor Maintenance Model.

3.46 Housing has conceded that it 'could have done better' when it rolled-out the HCMM.¹⁰⁸ Importantly, the Department appears to have made a concerted effort to ensure many of the problems that beset the original implementation either have been, or are being, addressed.

3.47 This does appear to have led to improved outcomes. The Auditor General noted customer complaints had 'reduced significantly' in the period from

106 Auditor General, [Second Public Sector Performance Report 2012 - Summary](#), September 2012, p. 2.

107 Risk-based analysis involves selecting a sample of items for audit based on a variety of risk factors rather than on a single variable, such as the cost of a job order, as is the case with Housing's pre-payment checking process for all jobs over \$500.

108 Mr Grahame Searle, Director General, Housing Authority, *Transcript of Evidence*, 16 October 2013, p. 2.

December 2010 to April 2012. It was also observed that the number of overdue job orders had more than halved to 7,000 between September 2011 and May 2012.¹⁰⁹

- 3.48 Housing's Mr Searle has since reported that the 2012-2013 financial year marked the 'first time in memory' the Department was able to complete a full maintenance service across each region. Mr Searle added that this service was delivered within 0.3 per cent of the program's \$118 million budget.¹¹⁰
- 3.49 The budget of the HCMM is significant with an approved allocation of \$120 million for 2013-2014 expanding to just under \$152 million in 2016-2017.¹¹¹ According to the Auditor General, Housing expects the HCMM 'to improve the efficiency and effectiveness of its maintenance operations and drive better maintenance outcomes—reduced cost, improved quality and timeliness.'¹¹² Given the amount of public money that is expended on the HCMM—and in light of the problems observed during its early years—it is important that Housing report openly and comprehensively on the extent to which these outcomes are being achieved. This is an area where the Committee would like to see Housing make greater effort.
- 3.50 In its 2012-2013 Annual Report, the Authority's property maintenance program receives little coverage. The Authority made mention of the fact that its quality assurance process 'ensures that maintenance related expenditure achieves maximum outcomes and drives efficient and cost effective practices.'¹¹³ However, there is no accompanying data to support such a claim. The Department has a range of KPIs it publishes in the back of its Annual Report, but the only reference to property maintenance is as one of seven variables that are included in the 'Operating cost per rental property' measurement.¹¹⁴

109 Auditor General Western Australia, [Second Public Sector Performance Report 2012](#), September 2012, p. 44.

110 In previous years, Housing has resorted to completing emergency maintenance only towards the end of the financial year when it looked likely that the annual budgeted allocation would be exceeded. Mr Grahame Searle, Director General, Housing Authority, *Transcript of Evidence*, 16 October 2013, p. 2.

111 Mr Grahame Searle, Director General, Housing Authority, Letter, 12 November 2013, p. 5.

112 Auditor General Western Australia, [Second Public Sector Performance Report 2012](#), September 2012, p. 34.

113 Housing Authority, *Annual Report 2012-13*, 20 September 2013, p. 56. Available at: http://www.housing.wa.gov.au/HousingDocuments/Housing_Authority_Annual_Report_2012_13_Complete.pdf. Accessed on 16 July 2014.

114 *ibid.*, p. 168.

Recommendation 3

Given that 35 per cent of the Housing Authority maintenance work is on jobs valued at under \$500, the Housing Authority should include in its Annual Report the methodology and outcome of its audit of random samples of maintenance jobs valued at under \$500

- 3.51 Housing will now have greater capacity to measure Head Contractor performance under the expanded KPI framework it has incorporated into its new round of contracts. The Committee urges Housing to draw on this data to provide a comprehensive summary of the results being achieved from the HCMM in the Department's future annual reports. This will provide a means by which Parliament and the public can independently evaluate the efficiency and effectiveness of the program to a much greater degree than is possible under the current reporting regime.

Recommendation 4

The Housing Authority should include in its Annual Report a comprehensive summary of the performance of the Head Contractor Maintenance Model. Using Key Performance Indicator data obtained from its Head Contractors, this summary should demonstrate the extent to which the model is driving better maintenance outcomes in the areas of timeliness, reduced costs, and quality of workmanship.

Chapter 4

Report 8 of 2013: Follow-up Performance Audit of *Behind the Evidence: Forensic Services (2006)*

Background

- 4.1 WA Police, the Office of the Director of Public Prosecutions (DPP), and the Office of the State Coroner all rely on the efficient and effective delivery of forensic services (testing and analysis). The main forensic service providers in Western Australia (WA) are the Police's own Forensic Division, the Chemistry Centre WA (ChemCentre), and PathWest Forensic Biology (PathWest).¹¹⁵ In 2006, the Auditor General examined the state's forensic services and found 'a backlog of uncompleted forensic tests resulting in delays in the justice system that were largely caused by inadequate coordination and prioritisation'¹¹⁶ across these agencies.
- 4.2 In 2013, a follow-up audit was undertaken to see if there had been an improvement in the delivery of forensic services since the 2006 report. In this follow-up, the Auditor General asked:
1. Do agencies have clear strategies and policies in place to support coordination in the delivery of forensic services to government?
 2. Are PathWest, ChemCentre, and WA Police Forensic Division providing timely and quality information to WA Police Forensic Division, the DPP and the State Coroner?
 3. Have forensic information systems been enhanced to improve access, tracking and secure sharing of information?
 4. Is there ongoing assessment and resolution of risks related to the security and occupational safety and health of forensic exhibition collection and storage facilities?¹¹⁷

115 Auditor General Western Australia, [Follow-up Performance Audit of Behind the Evidence: Forensic Services](#), Report 8, June 2013., pp. 4, 9.

116 *ibid.*, p. 4.

117 *ibid.*, pp. 5-6.

Auditor General's Findings and Recommendations

- 4.3 The general tenor of the audit was positive with the Auditor General noting a 'significant improvement in the coordination and delivery of services since 2006.'¹¹⁸ The backlog identified in the previous audit has been eliminated and the timeliness and quality of the service was confirmed.
- 4.4 Improvements were credited, in part, to 'better communication and coordination'¹¹⁹ between agencies, which had had been underpinned by the establishment of a Joint Consultative Committee (JCC) following the previous audit report. The JCC originally comprised WA Police and PathWest as foundation members, but was later expanded to include the DPP and ChemCentre.¹²⁰
- 4.5 Timeframe improvements were attributable to WA Police adopting a triage process to determine what exhibits required testing, while the other agencies had also adopted strategies to improve turnaround times (e.g. recruiting more staff; increased automation of processes).¹²¹
- 4.6 Several positive findings were qualified. While the Auditor General praised the timeliness of the service, it was noted that delivery times specified in ChemCentre's Memorandum of Understanding (MOU) with WA Police, were not always met. Of the 70 ChemCentre cases sampled in the audit, only 13 were analysed within agreed time frames (although timeframes for all high priority cases were met).¹²² WA Police is concerned that legislative changes introduced in 2007, which allowed ChemCentre to undertake external commercial work, may be affecting the time the agency takes to process WA Police requests.¹²³ WA Police is currently restricted in the number of service providers it can use and is seeking legislative amendments of its own to allow it to source private contractors.¹²⁴

118 Auditor General Western Australia, [Follow-up Performance Audit of Behind the Evidence: Forensic Services](#), Report 8, June 2013, p. 6.

119 *ibid.*

120 *ibid.*, p. 14.

121 *ibid.*, p. 15.

122 *ibid.*, p. 18.

123 ChemCentre is a corporate body established to perform a variety of functions including the provision of chemical advice and analytical services to government agencies in a range of areas such as forensic science and medicine. It also has the legislative capacity to generate revenue by engaging in commercial activities as long as these are not inconsistent with, or have an adverse impact upon, the performance of its other statutory functions. Sections 4 and 9 *Chemistry Centre (WA) Act 2007*.

124 Auditor General Western Australia, [Follow-up Performance Audit of Behind the Evidence: Forensic Services](#), Report 8, June 2013, p. 15.

- 4.7 Information management was another area where positive findings were qualified. Enhancements to WA Police’s Forensic Register that improved the access, tracking and sharing of information were acknowledged. However, concern was raised as to the number of Police staff with ‘unnecessary access privileges.’¹²⁵ WA Police advised that relevant governance policies and technical functions relating to this issue were in the process of being updated and would be completed by the end of 2013.
- 4.8 While WA Police is the custodian of all forensic exhibits, these items are stored in ChemCentre and PathWest laboratories. The Auditor General noted that the information systems that record the location of exhibits at these agencies are not linked to WA Police’s Forensic Register and that location details have to be manually uploaded. Even though it was found that the exhibits could be reliably tracked across agencies, the risk of transcription error into the relevant Police database was highlighted.¹²⁶
- 4.9 The most critical finding of the report—and arguably its key issue—relates to the ongoing capacity of the incumbent agencies to meet the demands being made on their services. While the backlog of 2006 has been cleared, agency laboratories ‘are operating at close to capacity [and] growing demand for testing is putting pressure on report turnaround times.’¹²⁷ The Auditor General indicated that agencies would be limited in their ability to meet any further growth in demand for forensic testing and that the risk of a new backlog in the future could not be ruled out.¹²⁸
- 4.10 The report contained three recommendations, two of which were directed at each of the audited agencies and a third directed exclusively at ChemCentre. See Table 8.

125 Auditor General Western Australia, [Follow-up Performance Audit of Behind the Evidence: Forensic Services](#), Report 8, June 2013, p. 22.

126 *ibid.*, p. 23.

127 *ibid.*, p. 6.

128 *ibid.* See also, p. 21.

Table 8 Recommendations from the Auditor General

Agency	Recommendations
<i>WA Police, ChemCentre, and PathWest should:</i>	<ol style="list-style-type: none"> 1. Establish an efficient electronic interface between their laboratory management systems and the Forensic Register to reduce the cost of manually duplicating information and the risk of transcription error. 2. Develop strategies to address the expected increase in demand for forensic services driven by population increases and technological change.
<i>ChemCentre should also:</i>	<ol style="list-style-type: none"> 3. Develop strategies to ensure all testing is done within agreed timeframes.

Committee Follow-Up

Recommendation 1 – Interfacing WA Police’s Forensic Register with laboratory management systems

WA Police

- 4.11 WA Police offered ‘in principle’ support for this recommendation, but said it would require ‘significant enhancements’ to the Forensic Register. These enhancements remain unfunded and are not among the Department’s current priorities for its IT operations.¹²⁹
- 4.12 WA Police added that the Forensic Register—introduced in 2010—was not designed to be a laboratory management system. Its primary function is to operate as a ‘case management system’, used by the Forensic Division to record and manage exhibits seized during investigations. The idea of creating an interface ChemCentre and PathWest—who often hold the exhibits for testing—was considered as part of the original scoping for the Forensic Register, but was deemed to be ‘cost-prohibitive’, as it required ‘modification of three separate systems’.¹³⁰
- 4.13 WA Police argue that ‘the risk of not progressing the interface is currently assessed as low.’¹³¹

¹²⁹ Dr Karl O’Callaghan APM, Commissioner of Police, Letter, 21 January 2014, pp. 1-2.

¹³⁰ *ibid.*

¹³¹ *ibid.*, p. 2.

ChemCentre

- 4.14 ChemCentre supported the recommendation, arguing the Forensic Register currently 'provides little useful interaction for ChemCentre staff and no real interfacing to ChemCentre systems.'¹³² ChemCentre's laboratory management system, ForLIMS, can be interfaced with the Forensic Register and this offer was made by ChemCentre during the register's pre-implementation process. ChemCentre advised that ForLIMS remains capable of being interfaced, but the initiative for this process rests with WA Police.¹³³

PathWest

- 4.15 PathWest also endorsed the recommendation and has included the requirements for an interface with the Forensic Register as part of the specifications for a new laboratory information management system (LIMS) it intends to procure throughout 2014. In its response to the Committee, PathWest confirmed that an IT systems review had been completed and a business case developed. The tender process was due to commence in June 2014.¹³⁴
- 4.16 PathWest was asked by WA Police to provide information regarding any proposed system enhancements that might need to be made to Forensic Register's software when the new LIMS is rolled out. PathWest advised that WA Police had 'accepted and prioritised' the proposed system changes, 'but there is currently no time frame for completion.'¹³⁵

Recommendation 2 – Strategies to address an expected increase in demand for services

WA Police

- 4.17 WA Police supported the second recommendation from the Auditor General, but stressed that it had limited influence over the business practices of ChemCentre and PathWest in this respect. WA Police's Forensic Division has sole responsibility for the analysis of ballistic, blood pattern, fingerprints and crime scene evidence. The Department was confident it

132 Mr Peter Millington, Chief Executive Officer, ChemCentre, Letter, 5 December 2013, pp. 2-3.

133 *ibid.*

134 Dr Neil Kent, Acting General Manager, Forensic Biology, PathWest Laboratory Medicine WA, Letter, 13 February 2014, pp. 1-2.

135 *ibid.*, p. 2.

could manage the cost of these services and expand future capacity via internal measures.¹³⁶

- 4.18 For other analytical requirements WA Police operates as an end user of the services provided by ChemCentre (illicit drugs, toxicology, physical evidence¹³⁷, inspection of improvised drug manufacturing sites) and PathWest (forensic pathology and biology). WA Police receives a block of funding in its budget to procure services from these agencies. Currently, this allocation remains 'static', despite a rising trend in analytical costs, particularly those charged by ChemCentre, which operates under a long-standing government policy directive to undertake full cost recovery for its services.¹³⁸
- 4.19 WA Police's Forensic Division now conducts a 'heavy triaging process' (see 4.5 above) to reduce the rate at which samples taken from crime scenes are subsequently referred to ChemCentre and PathWest for analysis. Beyond this initiative, WA Police has formed the view that:

*... the current and future demand pressures and financial constraints will necessitate an evaluation of [the] current funding model, existing legislation and use of private sector laboratories.*¹³⁹

- 4.20 In this respect, WA Police supports the idea of a 'strong viable ChemCentre to provide higher order analytical services in areas unable to be sourced from the private sector', but with a funding arrangement that allows the laboratory to operate independently, thereby removing the 'current practice of WA Police subsidising the operations [of ChemCentre]'.¹⁴⁰ WA Police believes that current analytical capacity could be enhanced if it could purchase services from ChemCentre on a 'per Unit/task basis' while having the discretion to deal with private sector laboratories where possible.

136 Dr Karl O'Callaghan APM, Commissioner of Police, Letter, 21 January 2014, p. 2.

137 Physical evidence services include the recovery, identification and comparison of microscopic materials including: fire accelerant, gunshot, and explosive residues; glass particles; paint scrapings; and textile fibres. See, ChemCentre, 'Physical evidence', no date. Available at: <http://www.chemcentre.wa.gov.au/Services/Analytical-testing-services/Forensic-Science/Physical-Evidence.aspx>. Accessed on 31 July 2014.

138 Dr Karl O'Callaghan APM, Commissioner of Police, Letter, 21 January 2014, pp. 2-3. Auditor General Western Australia, *Follow-up Performance Audit of Behind the Evidence: Forensic Services*, Report 8, June 2013, p. 26.

139 Dr Karl O'Callaghan APM, Commissioner of Police, Letter, 21 January 2014, p. 3.

140 *ibid.*

ChemCentre

- 4.21 ChemCentre welcomed the idea of devising further strategies to ensure the timely provision of forensic services into the future. It argued that population growth is likely to generate an increase in demand for forensic services, not all of which can be met by any technological advances it develops in its testing techniques. Without ‘adequate baseline funding’ from WA Police, the Government, or a ‘combination of both’, it will be difficult for ChemCentre to determine a ‘future proofed strategy’ and to maintain the level of operational capability necessary to underpin any efficiency gains it achieves via technological improvements.¹⁴¹
- 4.22 These comments from ChemCentre came after it reported a loss before tax for the 2012-13 financial year of \$2 million, which included a \$1.64 million (10.3 per cent) drop in revenues. Notably, anticipated revenue from WA Police fell by \$442,000, the shortfall being attributed to WA Police’s response to efficiency dividend measures.¹⁴²
- 4.23 ChemCentre confirmed the current funding model was to be considered as part of the Government’s response to a recently completed review of the *Chemistry Centre (WA) Act 2007*.¹⁴³ In the interim, in early 2014, ChemCentre made a budget submission to the Government seeking baseline funding for the Forensic Science Laboratory for 2014-2015 and the out years. The Government responded with additional appropriations of \$736,000 for the end of the 2013-2014 year and \$754,000 for 2014-2015. These allocations were to provide ‘supplementary funding for physical evidence and special crime scene forensic science services.’¹⁴⁴ A further \$1.1 million was allocated in 2014-2015 for asset purchases, including IT systems designed to improve service delivery.¹⁴⁵

PathWest

- 4.24 PathWest supported the recommendation and advised that it was working with WA Police’s Forensic Division to ensure that any spikes in demand attributable to population growth or technological change can be met. However, it cautioned that its systems may not be in a position to meet any increases in demand resulting from other factors such as rising crime rates or changes in referral patterns from WA Police.

141 Mr Peter Millington, Chief Executive Officer, ChemCentre, Letter, 5 December 2013, pp. 3-5.

142 ChemCentre, *ChemCentre Annual Report 2012-2013*, 9 September 2013, pp. 13,49.

143 Mr Peter Millington, Chief Executive Officer, ChemCentre, Letter, 5 December 2013, pp. 2-3

144 Department of Treasury, *2014-15 Budget Statements*, 8 May 2014, Budget Paper 2, Vol. 1, p. 117.

145 *ibid*.

- 4.25 PathWest’s Forensic Biology Division has committed to undertake a multi-faceted review of its work practices in order to try to identify areas where efficiency gains may be implemented. The review is expected to be completed by the end of 2014 and will include an internal review and an independent “lean analysis”.¹⁴⁶
- 4.26 In addition, PathWest is examining how its working rosters may be adjusted to maximise the use of automated equipment, and how its staffing structure, implemented in 2003, might be adjusted to reflect a more ‘relevant and responsive model’.¹⁴⁷ Like WA Police, PathWest has adopted a triage process ‘to reduce the submission rates of exhibits with low evidentiary value.’¹⁴⁸
- 4.27 Demand for expert scientific evidence has increased following a high rate of homicide in 2013 and PathWest has ‘barely’ managed to keep up with the workload requirements. As a result, the company has recruited two P2 Senior Forensic Scientists who are now in the final stages of their training. However, this will not alleviate capacity constraints in the short-term, as PathWest is currently dealing with high rates of parental leave in its forensic biology unit.¹⁴⁹

Recommendation 3 – (ChemCentre) ensuring all testing is done within agreed timeframes

ChemCentre

- 4.28 ChemCentre accepted the fact that all testing should be done within agreed timeframes and advised it was developing strategies involving ‘workplace efficiencies and multiskilling of reporting scientists.’¹⁵⁰ However, it argued the recommendation from the Auditor General ‘overstates the issue’ around timeliness of service delivery, as ChemCentre’s MOU with WA Police outlines the timelines for various forms of analysis ‘in general terms’.¹⁵¹ While ChemCentre maintains communication with WA Police to

146 Dr Neil Kent, Acting General Manager, Forensic Biology, PathWest Laboratory Medicine WA, Letter, 13 February 2014, p. 3. Lean analysis focuses on examining ways in which a company can maximise value by minimizing waste across all lines of its business. Lean Enterprise Institute, ‘What is Lean?’, 2009. Available at: <http://www.lean.org/whatslean/>. Accessed on 1 August 2014.

147 Dr Neil Kent, Acting General Manager, Forensic Biology, PathWest Laboratory Medicine WA, Letter, 13 February 2014, p. 3.

148 *ibid.*

149 *ibid.*, pp. 3-4.

150 Auditor General Western Australia, [Follow-up Performance Audit of Behind the Evidence: Forensic Services](#), Report 8, June 2013, p. 26.

151 Mr Peter Millington, Chief Executive Officer, ChemCentre, Letter, 5 December 2013, p. 5.

ensure all judicial deadlines¹⁵² are met (see 4.6 above), MOU timeframes for lower priority cases are not always achieved. The only way all MOU timeframes can be achieved is if ChemCentre has access to 'greater reporting scientist availability.'¹⁵³

WA Police

- 4.29 WA Police endorsed the recommendation and linked it to the Department's call for greater discretion on the use of private laboratory resources (see 4.20 above). WA Police argues the capacity and subsequent timeframe pressures currently experienced by ChemCentre could be reduced were WA Police allowed to source private operators for lower level analysis.¹⁵⁴

Committee Conclusion

- 4.30 Having noted a significant improvement in the coordination of and delivery of forensic services since 2006, the Auditor General offered only a small number of recommendations. The first is directed towards enhancing the efficiency with which the location of exhibits can be tracked across the various agencies. The second and third recommendations seek to ensure these agencies—already working at or near capacity—are adequately prepared for further increases in demand for services.
- 4.31 On the first matter, it appears that ChemCentre is, and PathWest will soon be, in a position to interface their laboratory information management systems with WA Police's Forensic Register. This will leave the onus on WA Police to implement the necessary system enhancements. WA Police has confirmed that no funding has been made available for this project, nor is it among the Department's current IT priorities.
- 4.32 While the interface initiative remains incomplete, exhibit information from ChemCentre and PathWest will continue to be manually entered into the Forensic Register. This does leave open the risk of transcription error, but the Auditor General has acknowledged the existing system of information transfer between the three parties is independently audited and 'rigorously managed.'¹⁵⁵

152 Analysis required by WA Police for court proceedings.

153 Auditor General Western Australia, [Follow-up Performance Audit of Behind the Evidence: Forensic Services](#), Report 8, June 2013, p. 26.

154 Dr Karl O'Callaghan APM, Commissioner of Police, Letter, 21 January 2014, p. 4.

155 Auditor General Western Australia, [Follow-up Performance Audit of Behind the Evidence: Forensic Services](#), Report 8, June 2013, p. 23.

- 4.33 The Committee accepts WA Police's arguments that this issue would not be among the Department's highest IT priorities. However, given the work of the two laboratories to ensure systems compatibility, WA Police should ensure the necessary enhancements to the Forensic Register are afforded priority in the near future.

Finding 9

In his Report No. 8 of 2013, *Follow-Up Performance Audit of 'Behind the Evidence: Forensic Services*, the Auditor General called for the establishment of an efficient interface between WA Police's Forensic Register and the laboratory information management systems at the Chemistry Centre WA (ChemCentre) and PathWest Forensic Biology (PathWest).

ChemCentre is, and PathWest will soon be, in a position to interface their systems. This leaves the onus on WA Police to implement the necessary system enhancements. WA Police has confirmed that no funding has been made available for this project, nor is it among the Department's current IT priorities.

- 4.34 By far the more pressing issue is the extent to which WA Police, ChemCentre, and PathWest have acted to address the expected increases in demand for forensic services. In this respect, the Committee is satisfied with the actions taken thus far by PathWest. Conversely, the testimony of WA Police and ChemCentre indicates that corrective strategies are contingent upon resolution of issues linked to their MOU and funding model.
- 4.35 The Committee welcomes the capital injection the Government made to ChemCentre in the 2014-2015 Budget (see 4.23 above), which should help alleviate the current short-term cash flow pressures experienced by the laboratory following its recent drop in revenues.
- 4.36 However, there is still a need to reassess the ongoing viability of the funding model going forward to ensure that forensic services are appropriately resourced. ChemCentre has confirmed the government is considering the funding model in the context of its response to the recently completed independent review of the *Chemistry Centre (WA) Act 2007*. Notably, that Act requires the Minister for Science to prepare a report on the review and present it to Parliament 'as soon as is practicable after the report is prepared'.¹⁵⁶
- 4.37 The Committee calls on the Premier, as Minister for Science, to include in this report a summary of the actions the government might take to resolve

¹⁵⁶ Section 41(2) *Chemistry Centre (WA) Act 2007* (WA).

the current difficulties surrounding the MOU and funding model for forensic services between WA Police and ChemCentre. Remedial action in this area appears to be necessary to ensure that anticipated increases in demand for forensic services will be met.

Finding 10

The testimony of WA Police and ChemCentre indicates that their ability to deal with expected increases in demand for forensic services is largely contingent upon the resolution of difficulties evident in the current funding model governing their commercial dealings with each other.

Recommendation 5

The Minister for Science, as part of his upcoming report to Parliament on the recently completed independent review of the *Chemistry Centre (WA) Act 2007*, indicate what actions might be taken to resolve the current difficulties surrounding the Memorandum of Understanding and funding model for forensic services between WA Police and the Chemistry Centre WA.

Recommendation 6

The Minister for Police report to Parliament on options to resolve the current difficulties surrounding the Memorandum of Understanding and funding model for forensic services between WA Police and the Chemistry Centre WA.

MR S.K. L'ESTRANGE, MLA
CHAIRMAN

Appendix One

Committee's functions and powers

The Public Accounts Committee inquires into and reports to the Legislative Assembly on any proposal, matter or thing it considers necessary, connected with the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation bills and Loan Fund. Standing Order 286 of the Legislative Assembly states that:

The Committee may -

- 1 Examine the financial affairs and accounts of government agencies of the State which includes any statutory board, commission, authority, committee, or trust established or appointed pursuant to any rule, regulation, by-law, order, order in Council, proclamation, ministerial direction or any other like means.
- 2 Inquire into and report to the Assembly on any question which -
 - a) it deems necessary to investigate;
 - b) (Deleted V. & P. p. 225, 18 June 2008);
 - c) is referred to it by a Minister; or
 - d) is referred to it by the Auditor General.
- 3 Consider any papers on public expenditure presented to the Assembly and such of the expenditure as it sees fit to examine.
- 4 Consider whether the objectives of public expenditure are being achieved, or may be achieved more economically.
- 5 The Committee will investigate any matter which is referred to it by resolution of the Legislative Assembly.

Appendix Two

Acronym List

Acronym	Title
CCC	Corruption and Crime Commission
CGD	Corporate Governance Directorate
DPP	Director of Public Prosecutions
EISC	Economics and Industry Standing Committee
FSH	Fiona Stanley Hospital
HCMM	Head Contractor Maintenance Model
HCN	Health Corporate Network
JCC	Joint Consultative Committee
KPI	Key Performance Indicators
LIMS	Laboratory Information Management System
MICs	Medicines Incident Coordinators
MOU	Memorandum of Understanding
OAG	Office of the Auditor General
PSO	Property Service Officer
PSPR	Public Sector Performance Reports
SLIs	Scheduled Line Items
SSC	State Supply Commission
WA	Western Australia