PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Review of Auditor-General's Audits on:

Patient Safety In Public Hospitals; and

Planning For Water Infrastructure In Victoria

Melbourne — 23 September 2009

Members

Mr R. Dalla-Riva	Mr G. Rich-Phillips
Ms J. Huppert	Mr R. Scott
Ms J. Munt	Mr B. Stensholt
Mr W. Noonan	Dr W. Sykes
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Chair: Mr B. Stensholt
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Witnesses

Mr D. Pearson, Auditor-General,

Mr A. Greaves, Deputy Auditor-General, Performance Audits, and

Mr C. Sheard, Acting Director, Performance Audits, Victorian Auditor-General's Office.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing on the review of the findings and recommendations of the Auditor-General's reports 2008 addressing the following audits: *Patient Safety in Public Hospitals* and *Planning for Water Infrastructure in Victoria*.

On behalf of the committee, I welcome Mr Des Pearson, the Auditor-General of Victoria; Mr Andrew Greaves, deputy Auditor-General, performance audits; and Mr Chris Sheard, acting director, performance audits, Victorian Auditor-General's Office. Members of the public and the media are also welcome. In accordance with the guidelines of public hearings, I remind members of the public they cannot participate in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the Auditor-General, can approach the table during the hearing. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precinct of the hearing — that is, outside the door — are not protected by parliamentary privilege. There is no need for evidence to be sworn. All evidence given today is being recorded. Witnesses will be provided with proof versions of transcripts to be verified and returned within two working days of this hearing. In accordance with past practice, the transcripts and PowerPoint presentations will then be placed on the committee's website. Following the presentation by the Victorian Auditor-General's Office, committee members will ask questions relating to the audit findings and recommendations. Generally the procedure follows that relating to questions in the Legislative Assembly.

I ask that all mobile telephones be turned off. I now call on the Auditor-General, Mr Pearson, to give a presentation on the *Patient Safety in Public Hospitals* and *Planning for Water Infrastructure in Victoria* audits.

Mr PEARSON — Thank you, Chair. It is our pleasure to appear before the committee, and I would like to record our appreciation of the committee's follow-up of our reports. It is an important contribution to the accountability framework in the public sector, and we are pleased that you have selected the reports *Planning for Water Infrastructure in Victoria*, which was tabled in April 2008, and *Patient Safety in Public Hospitals*, which was tabled in May 2008, for a public inquiry.

I think there are probably two key overriding issues that I would like to draw attention to, because as you appreciate the process is we have done the audit, we have tabled the report and we have had the benefit of the Minister for Finance, WorkCover and Transport Accident Commission's annual response to our reports in the course of the year. From my perspective, the fact that effectively all the recommendations in that report have been accepted and are being implemented is a positive indicator.

If I come to the matters of principle — I think I will take the reports as read and available — in relation to *Planning for Water Infrastructure in Victoria* there was an issue of contention, one might say, raised about the role of an audit in what was termed 'real-time auditing'. I just make the point that auditing is an all-embracing process and is not limited to after-the-event audits. Clearly, some audits are undertaken after the event, but on longer term implementation the audit can be taken during the process and all that changes is the focus of the audit. If we do an audit during the course of implementation, it will be focused more on the process and framework and the underlying assumptions. If we undertake an audit at the conclusion of a project or a program, it is more likely to focus on the extent to which the intended outcomes were achieved, so it is a balancing act, and by the nature of the public sector there are many long-term projects. Some are never really finished, so it is a function. I also put on the record that these topics are selected in consultation with this committee and the entities we audit, as is provided for under the act.

The second report that has been identified for review is *Patient Safety in Public Hospitals*, and here probably the overriding issue of contention that the committee might like to pay some attention to is the principle of what is termed 'subsidiarity', which is devolving responsibility and accountability for decision making to the lowest reasonable level.

The issue that has come up, not only in this audit but in a number of audits, is what is the role of the portfolio department or the agencies advising ministers and to what extent are they responsible for oversighting or following through, without interfering with the government's arrangement of the individual entities, to ensure that policy, as promulgated, is understood, is being interpreted consistently and is meeting the intended

objectives. And if there is evidence that it is being interpreted quite differentially or that the policy is not achieving the intended objectives, what is the obligation on the department, for instance, to raise that issue and either have it addressed or address it? With those comments, Mr Chairman, I refer back to yourself for any questions.

The CHAIR — Thank you very much. We have obviously the original audit reports, which include some responses from the audited agencies. We also have the Minister for Finance, WorkCover and the Transport Accident Commission's response which was issued in December last year, and then we have had the questionnaires which we have provided to you and also provided to other witnesses who are coming before us.

Can I take up to start off with the issue of subsidiarity, which you have mentioned, which is something of interest and concern to the committee in respect to the role of lead departments, particularly I know — well, it is now the Department of Health — the Department of Human Services and where there is a whole range of outlier, if you like, not quite agencies but in some cases they are agencies because when you get to the hospital boards they are quite considerable agencies in their own rights as well as individual institutions. I agree with you there has been a bit of a tension between your perception and the department's perception and indeed this committee's perception in regard to what is the role of the central agency.

Could I ask you to, bearing in mind this particular one on public safety in public hospitals, talk a bit more about your views on subsidiarity and the role of the Department of Human Services, because clearly there is a difference of views between yourself and the major agencies?

Mr PEARSON — My view is clearly driven by value for money for the taxpayer and the sector should be a holistic system, and clearly we are not always going to have black-and-white answers along the way. But I suppose my understanding of the principles of the Westminster system and public administration is that probably the default option for residual responsibilities is the department is an institution to serve and support the minister of the day, and when you get a range of statutory bodies that have clear obligations under their enabling legislation but there is a policy framework operating, my reading is I see the central department role not ending with the development of the policy. I see that as a major component of their task but, like any management framework, you expect an oversight review and feedback loop to operate. That is the area where I think our audits have been showing up — that that feedback loop is either non-existent or not operating effectively — because when we have gone and looked at a range of agencies applying a central policy we have found a great diversity in application, and to varying degrees this places a question on the effectiveness of the outcomes being achieved.

At the moment, I suppose, the audit view is that that feedback loop should inform revision to the policy or clarification of provision of guidance in terms of interpretation or application, whereas if I am reading the responses from the agencies, they are saying, 'No. Generally speaking our job is to write the policy and we have issued it. We do not have an obligation'. And I have to agree there is no explicit directive for them to do it, but I think it comes back to prudent management: when a manager's job is finished is when the intended outcomes have been reasonably assured.

The CHAIR — I think it is more than a feedback loop. I think the issue is more should you require them to almost replicate and parallel risk management actions, which may in some arguments better reside in the individual agencies, as long as there is an overall structure and policy. Whether the main agencies should actually replicate and have a responsibility for close replication — I think that is the issue.

Mr PEARSON — Again, I think it is a horses for courses, because there will be times when you want a narrow set of parameters; there will be other times where a broader set of parameters is needed. But my underlying concern is that it is not evident that anybody is purposefully addressing what I see as a significant shortcoming that is impeding the achievement of intended outcomes.

The CHAIR — I am sure we will take this one a little bit further.

Mr WELLS — I draw your attention to the foreword that you wrote.

Mr PEARSON — In the patient safety?

The CHAIR — We are doing the patient safety first. We will do that for about half an hour or three quarters of an hour, and then we will do the water one.

Mr WELLS — In the second paragraph you said:

> The DHS has made considerable progress in developing a statewide patient safety system since the 2004 audit report however a concerted and focused effort is urgently required to reduce the number and severity of clinical incidents. There is duplication at all levels of the current system, and roles and responsibilities remain unclear. A statewide patient safety system which facilitates continuous improvement now needs to be in place.

You also suggest that studies suggest that clinical incidents are associated with about 10 per cent of hospital admissions and about 50 per cent are avoidable. Could you indicate to the committee the extent of your particular concern about the number and severity of clinical incidents and perhaps paint a picture of what you think is occurring in the hospital system which leads to the occurrence of such incidents? Additionally, do you believe that the cost to Victoria has increased to a figure in excess of the $511 million annually calculated in May 2008, which is referred to on page 1?

Mr PEARSON — I will ask Chris Sheard whether there is more detail he can go into, but this is where I come from from the point of the report. My concern is — and I will ask Chris to help me find it — as I recall it, Victoria was the only jurisdiction that did not have a central coordinated record of the incidence of these incidents. In consequence, we had to refer to broader indicators. That is on the basis on which I made those comments. This comes back to the expectation of a prudent manager. When we do a performance audit our first approach is effectively to say to the agency, 'How well are you doing?'. Invariably they will say, 'Very well'. We then ask for the substantiation to demonstrate to us how they know how well they are going, and this is a broader issue because of the underdevelopment of the performance management systems in the public sector. Generally speaking, that framework is where the difficulties start. My recollection on this one is there were records at the individual hospital health service level but they were not been brought together at the central level.

The consequence was that when we look more broadly and brought in the research about the broader indications the department was not in a position to demonstrate whether Victoria was better or worse than that. That is why in my foreword I said it needs to be urgently developed.

Mr SHEARD — I would agree with that. When we did the first audit in 2004, tabled in 2005, we found that patient safety was not that well developed in hospitals. When we went back and looked in 2008 it had improved a lot. However, one of the big gaps was the lack of a statewide monitoring systems for hospitals. Each had made improvements in the data they collected and the governance around risk management within the hospitals, but still there was a big gap in the knowledge about how many incidents were happening, what type of incidents; it was not all put together. There did not seem to be a concerted statewide effort to identify trends and patterns and make improvements and identify ways to reduce the number and severity.

Mr WELLS — Just as a follow-up, the 10 per cent and 50 per cent, on what research do you base the 10 per cent of hospital admissions through clinical incidence and about 50 per cent being avoidable? On what basis have you come to that conclusion?

Mr SHEARD — That is at page 8 of the report. There is a footnote down the bottom. I believe it is from that report. That where the $511 million comes from.

The CHAIR — That was the *Medical Journal of Australia*.

Mr SHEARD — Yes. I think DHS's response in the appendix identifies the reports that we are talking about as well, where some of those figures come from, because they have some comments to make about that data. We have tried to find a well-regarded study that is an indication of the number and extent of clinical incidence on the basis that we could not get any data from DHS around the extent of clinical incidents in Victoria. That is the big gaps in our knowledge.

Mr WELLS — The point of the question is: how verifiable are the 10 per cent and 50 per cent figures from your point of view as auditors?

Mr PEARSON — From our point of view as auditors, they are an authoritative reference source in the absence of the department being able to demonstrate what the actual situation was in Victoria. The normal accountability expectation is that the administering agency should be able to demonstrate its performance. Our first step if they can do that is to do our audit checks to provide assurance that you can rely on that framework. But if the framework does not exist, we have an in-principle thing that we think they should be able to report it, so you look more broadly to identify alternative reference points, and that is what we did to illustrate the implications.

The CHAIR — Despite what pages 45 and 46 say, you felt that reference on page 8 had a higher value?

Mr PEARSON — Yes, due to the absence of a reliable framework.

Ms MUNT — Can I just follow up on that a little bit, on the implementation of recommendations that are made in the report. What do you see as the steps that the department should take towards the implementation of the recommendations? And do you have time frames for that?

Mr PEARSON — No. In fact that is probably an area I would suggest is an area for the committee to explore. It comes back to the role of the auditor, again, in terms of the watchdog versus the bloodhound. We do the audit, assess the areas that you would expect to be addressed, we give credit where it exists, we draw attention to where there are deficiencies and make recommendations. The department's initial response is the first response; the second one is the Minister for Finance, WorkCover and the Transport Accident Commission's coordinated one. Again, this is where our independence comes in. It is a management responsibility to accept or not those recommendations, and the ones they accept to prioritise them in an appropriately structured way and do an implementation in accordance with priorities in this particular area and broader and against resources available.

Mr DALLA-RIVA — I just want to follow up on Mr Wells's earlier statement. On page 8 you refer to the footnote — this is about the clinical incidents associated; about 50 per cent are avoidable. I noticed on page 45 the audit report states that 50 per cent of adverse events could be avoided, and the DHS is saying this comes from literature emanating from the USA in reference to idealised circumstances. You have relied on an American study, on USA literature emanating from the USA, about what may or may not be occurring as percentages of clinical incidents in Victoria. Do you think, following up from Mr Wells's question, there is much reliability in what you have reported as auditors? Do you think that would be acceptable?

Mr PEARSON — I would argue unreservedly — —

Mr DALLA-RIVA — From the USA?

Mr PEARSON — I think there would be agreement that adverse events are something to be avoided, and it is accepted as a significant issue in the program area. When the agency has not got a tight handle on how it is operating and it is a significant issue, in the absence of the agency being able to demonstrate that it is discharging its accountability obligations reasonably, as the auditor part of the decision-making process is whether to raise it just as a point of principle or to add a bit of an imperative to it. I think it is quite reasonable to go to relevant professional research and journals to try and illustrate the implications of it. Okay, it is from a different jurisdiction, but let us take it in broad terms, even if you can reduce 50 per cent to 25 per cent — to me 1 in 2 is a very high incidence that intuitively we would prefer to avoid.

The CHAIR — Yes, but using that reference implied that it dealt specifically with Victorian circumstances. Yet, as Mr Dalla-Riva has pointed out, the footnote at pages 45 and 46 shows it actually relates to a Harvard study some five or more years before. It does not relate to circumstances in Victoria. The department quoted three studies which related to Victoria, but you did not choose to quote them on page 8. That is the point you are making, isn't it?

Mr DALLA-RIVA — Yes. I am just trying to get a feel for the reliability of the data that comes out of DHS; the fact that you could not rely on the figures or that it does not have figures. Would that be systematic of the way the department runs in your view in trying to get some figures out of it?

Mr PEARSON — Were the other references provided to us during the course of the audit?

Mr SHEARD — No, the other references were not provided to us.

Mr PEARSON — If I can address the issue of what we put in the report, we put in the report the information that comes to our attention after due inquiry and engagement. We are quite open about that, and I accept there will always be an element about the suitability of our questions and genuine misunderstanding, but I think there is a obligation on our part to be as searching and broad in our coverage and there is an obligation on the agency not to take a literal interpretation of our questioning but to engage and ensure that all relevant information is available to us.

The CHAIR — But when you use it in paragraph 2 of the summary without a straight statement and you have elsewhere in the report, tucked away in appendix 4 or something or other, the department's view of these scientific studies, is that not gilding the lily a bit?

Mr PEARSON — No, in fact I just bring the committee across the approach to audit, which is a very open and transparent approach. Now they are getting up to four years, and in this case probably two to three years notice, that the audit is going to occur in the annual plan. We have an engagement letter where we engage them at the commencement of the audit process and confirm with them their contact who we will consult with, parallel to consulting with your committee and developing the audit specification. I would have to check the specifics on this job, but generally speaking we provide a 25 per cent briefing, a 50 per cent briefing and a 75 per cent briefing, and we may have issued issues papers on the way through for particular issues that arise. At the conclusion of the audit process we prepare a preliminary draft report which the agency sees, and we invite their confirmation of facts and context and any comment back, which we then consider and incorporate prior to issuing the section 16 proposed draft as required under the Audit Act. If an agency chooses not to introduce information into the process until that late stage, and if they choose to do it in however many pages it is after all that engagement, I am sorry I do not apologise for putting it into this appendix.

Mr DALLA-RIVA — But the reference to the $511 million which Mr Wells and the Chair have alluded to — that total cost to Victoria's health system was estimated at $511 million — is based on evidence of a report shown in footnote 1, which the department has referenced to literature published back in 2001 from the USA. The figure may indeed be well over that, or it may be well under.

Mr PEARSON — It could be, but we do not know.

Mr DALLA-RIVA — We do not know.

Mr PEARSON — And from my perspective, and I suggest from your committee's perspective, the more pertinent point is: why does the department not know? They have accountable officers.

Mr DALLA-RIVA — The minister was here recently at a Public Accounts and Estimates Committee hearing being grilled about his own figures. This probably just reaffirms the debacle that is going on there.

Mr SHEARD — Footnote 1 on page 8 refers to a 2006 Australian journal article referring to 2003–04. At the time that would have been the most current information we had around the costs.

The CHAIR — I have not read the article. I am not sure Mr Dalla-Riva has read the article. The department says this is based on a 1995 study of the Harvard medical practice in idealised circumstances rather than in Victorian circumstances. I guess we are not going to be able to answer that one today.

Mr PEARSON — That is fine.

Mr DALLA-RIVA — No, but it is interesting.

The CHAIR — The department might be able to throw some light on it, or maybe we will ask some professor of medicine from Monash or Melbourne universities.

Mr PEARSON — I am sorry, but from my perspective — and I will watch for your report with interest — basically we have done an audit and something you would expect the management to be able to provide and to substantiate was not there. I suppose we could make the point and leave it there, but to try to illustrate the importance of that issue we have drawn on — —

Mr DALLA-RIVA — Wouldn't it have been better to do that?

Mr PEARSON — Sorry?

Mr DALLA-RIVA — Would it not have been better as an auditor to do that — to say, 'There are no figures, and we are relying on' — —

Mr PEARSON — We did.

Mr DALLA-RIVA — Anyway, thanks.

Mr PEARSON — Where is the reference? I am sorry, I recall there is a specific reference.

The CHAIR — I just want to correct the record. I said a 1995 Harvard study; it was actually a 1991 Harvard study regarding idealised circumstances.

Mr NOONAN — Des, you have already pointed out that Victoria is the only state without a statewide monitoring system to collect patient data. I note on page 4 in the department's response that there is a substantial project under way on the incident information system which started in 2006. The department outlines some outcomes already achieved on this project. Obviously there is some detail about work still remaining. I wonder whether or not you are in a position to advise the committee about the framework that has been established and the pathway that has been set for this particular project. Is there any consistency with other jurisdictions, given that they have already undertaken this work? If there are consistencies and you know about them, some information about how it works in other jurisdiction would probably be useful to the committee. I suppose from reading through the report I have been thinking: how do you make this process reasonably mandatory in terms of reporting incidents, because there are ramifications for reporting and for not reporting?

Mr SHEARD — I will start with the last point first. Mandatory reporting is very difficult because if you mandate it, evidence shows that doctors and clinical staff will be less likely to report incidents. I think we have to accept that voluntary reporting is the way to go and just accept the limitations of that. We have not gone back and looked at the incident information system that they are implementing since we did this report. I think there is a bit of an update in the response we gave to you in the questionnaire about where they are at. You will probably need to check with the department exactly where they are up to in implementing that.

Similarly with the consistency with interstate systems, again we have not done any work subsequent to this. I am not sure how consistent they are trying to make it. I think from memory that each state has a different system, so there is a chance that it may be separate in each state.

Mr NOONAN — I suppose when this report was done all the other states already had systems implemented?

Mr SHEARD — Yes, they had systems implemented when we did our first report in 2005.

Mr NOONAN — Right. You are not in a position to give us a sense of what Victoria is developing and how robust that might be compared to the other systems?

Mr SHEARD — When we went back and did this report they were in the midst of developing parts of that system. I think they were developing data definitions at the time. It was a key part of the process. I think they were about to go out to tender around the time we were finishing, or they were planning to go out to tender, or someone had developed a system of software behind it. That is where we got up to at the time. I think we noted that they were developing it, but whether or not they have since then I am not sure.

The CHAIR — I think they went out to tender in September or October of 2008.

Mr RICH-PHILLIPS — In the report you make comment on the duplication between different levels within the Department of Human Services.

Mr PEARSON — Sorry, what page is that?

Mr RICH-PHILLIPS — It is in the foreword. You amplified it on page 20 of the report, commenting on the duplication between levels within the department and the lack of clarity as to responsibilities within the department for patient safety. Can you elaborate on the concerns there? You have highlighted in the report an overlap between the statewide quality branch and the Victorian Quality Council roles. Can you also comment on progress subsequent to this report that you are aware of?

Mr PEARSON — I will ask Mr Sheard to go into the detail, but we really cannot give you anything on the progress since the report because our role is to review an area, identify the matters of significance and report them.

Mr RICH-PHILLIPS — And nothing has come to your attention that suggests progress has been made?

The CHAIR — You might want to also take into account that it was an internal review and you were there looking at the time they were doing the internal review as well.

Mr SHEARD — Yes, that was all happening at the same time. I think we mentioned in our response to you that a clinical governance framework was developed and recently released, and that has some statement of the different roles and responsibilities for some of the bodies involved in patient safety — not all of them, but some of the key ones. I think it describes DHS's role and what they would be expected to do and what the hospitals and health services would be expected to do. So there has been some progress in trying to elaborate and remove the duplication in roles and responsibilities, but you are probably best to follow up with the Department of Health about where they have got to with that and the extent to which they are reducing that.

Mr RICH-PHILLIPS — Does VAGO have a view on how adequate that is in terms of addressing those concerns?

Mr PEARSON — Our view is the situation at the time we did the audit.

Mr RICH-PHILLIPS — Yes, I understand that.

Mr PEARSON — That is informed by the understanding that the world is never perfect, but value for taxpayers dollars and effectiveness of program delivery is where you get optimal utilisation of relevant resources, and if you have two branches it is better to have a clear delineation of responsibility and an assurance that their initiatives are complementary.

The CHAIR — Are you happy with that?

Mr RICH-PHILLIPS — No, but it is the view of DHS.

The CHAIR — I am not too sure either.

Mr PEARSON — This is an issue, I suppose, we have in terms of your examining us. In a sense you have effectively the sum total of our 'wisdom' at a point in time, and we move on to other audits.

The CHAIR — Maybe just to follow up on that, if Mr Rich-Phillips allows, you were there while they were implementing the review of the branch, and you saw the review of the branch and what the recommendations were. Were you satisfied that that review and what it was intending to do was going to deliver what you thought was necessary for the role of the DHS branch? Is that a reasonable way of putting it?

Mr RICH-PHILLIPS — Yes.

Mr PEARSON — Again as an auditor, clearly if we saw a fundamental flaw in their framework, we would raise it, but at the time we were there it was a plan. No matter how effective you are in planning, a good plan assists with implementation, but it is not a good indicator of actual delivery.

The CHAIR — I guess what we are asking for is referred to in the third paragraph on page 21, which relates to the change in the role of the SQB, which is the safety and quality branch. While you say what the new responsibilities are, did you have a view during the audit that this actually got that list of responsibilities right?

Mr PEARSON — The first line of the next paragraph said DHS was unable to provide further detail regarding these responsibilities, so the split of responsibilities prima facie was okay, but you need to go beyond the words to understand.

The CHAIR — You did not at that stage come up with any sort of benchmarking view?

Mr PEARSON — No.

Mr SHEARD — From memory we got that report quite late in the process, so this is partly acknowledging that they had done a review. We got some early indication about what it was going to involve, but their level of detail about those dot points around their roles and responsibilities was not that clear and was not that well developed, and we have noted that in the report. It is something for you guys to follow up.

The CHAIR — It is a work in progress.

Mr PEARSON — Yes. We do not have audit evidence for it, but logically the things they are covering are the right sorts of things. But as we noted in the next paragraph, there was no detail.

The CHAIR — I guess that is one of the things you want to know.

Mr SHEARD — And how well they are implementing those now would be the interesting point.

Ms HUPPERT — In answering some of the previous questions you raised a few things you think would be advisable to follow up with the department. Do you have any other particular issues you think should be followed up that have not come out in your responses to date?

Mr PEARSON — Not specifically, unless my colleagues can put a finger on it. From our perspective, I would not have signed off the recommendations if I did not think they were legitimate and relevant. It is really a balance in the rate of progress in implementing in the wider context.

Ms HUPPERT — But do you have any particular concerns about the timing of the implementation of the recommendations? In one place they were talking about some courses of action and a time frame for delivery, for example, of the reporting. The reporting period seemed to be quite lengthy.

Mr PEARSON — Yes. My personal professional view here is that you have to approach things systematically and in a priority order, as the questioning today started. To me the first requirement is to get a handle on performance overall across the state so that you are then in a position to identify how individual entities within the sector are performing. And a general principle of management is that if you focus on the extreme outliers you will get the greatest gain until you have an overarching situation and you can work through. So the fact that there was not a system in 2004 when we did our first audit and that four years later there was still no system and there was a work in progress commenced is, to me, probably a threshold issue, and I take on board the point Mr Sheard made about mandating and the pros and cons. But this brings me back to my opening statement about balancing subsidiarity with a systemic approach. If it is total autonomy and innovation, it is chaos at one end, and we all know that strict centralism is not going to be effective either. So the question is: how is the agency purposely working to get the measured directed approach that balances?

Ms HUPPERT — You did comment in your response to the department's response that the policy that they have developed in the area of clinical governance, for example, does link the clinical risk to the rival organisational risk, so clearly there has been work done on that area to find that balance

Mr PEARSON — Yes, and I think we have got to be realistic, too, that if in theory the balance is ever achieved, it has to be worked on to keep it reasonably in balance. So we are really working at trying to narrow the parameters of performance.

Ms HUPPERT — But there is some recognition from your office that that has been — —

Mr PEARSON — Yes, that they are working on it. So I would certainly be encouraging them to follow through to see that that is still developing.

Ms PENNICUIK — Mr Pearson, given the estimation you make based on research from around the world and in Australia that 135 000 people might be suffering an adverse or a clinical incident every year and that the department is saying that it will not have its system in place until next year, on my reckoning that is 675 000 people who would have suffered an event from 2005 until 2010, and that would have cost us about $2.5 billion, on your figures.

Mr PEARSON — Yes.

Ms PENNICUIK — Given all the recommendations you have made and the progress the department has or has not made since 2005 to 2008, I have two questions. One is: are you considering another follow-up audit, say in 2011, to see how it went in 2010, when it has said it will possibly have something in place? And given all those recommendations and the things you have asked to be put in place, do you think that the department then would be in a position to provide an overall figure for the number of clinical incidents et cetera that are occurring?

Mr PEARSON — I would hope in the future they would be in a position to provide that information. But as to whether we do a further follow-up, I would not rule it out, but I would reserve judgement on that in terms of what this committee thinks about the report and the department's response versus other priorities in the sector.

Ms PENNICUIK — Yes. Given the obvious concern in the community about the amount of cost in terms of personal patient cost and the cost to the community I think we need to know whether it has all come together into an integrated system that will actually work.

Mr PEARSON — Yes.

Ms PENNICUIK — And also given that the second audit found that the recommendations of the first audit had not been put in place.

Mr PEARSON — Again, that is the purpose. As auditors we have no executive authority. Our only sanction is to draw attention to issues, and we have included reference to that research just to provide an indicator of magnitude, and certainly my feeling was that it was of sufficient magnitude to warrant timely attention. Our responsibility effectively stops at that point, but as you have intimated, it is certainly part of our topic scanning going forward. We will not rule it out, but by the same token if the committee as representative of the Parliament says, notwithstanding what I have put in the report, that that level is not of a particular regard, I would also take that into account.

Ms PENNICUIK — Yes. Just to follow up my question about whether those recommendations would get us to the point where we had a system where we could find this information, would that happen in 2010 or would it take a few years for that?

Mr SHEARD — Assuming they implement a system in 2010 and it is on schedule, then I would imagine a lot of how well they collect their data would be dependent on how the department rolls out that system and whether it requires hospitals to take on board that system and whether it requires them to submit that data in a consistent way across all of the health services of hospitals. It is, I think, quite important that they do that and that it is not left to hospitals to decide whether they are going to implement that system or parts of it. That is key to us. If they all do that, I would imagine not long after 2010 they should be getting some statewide picture of what is happening with clinical incidents.

Mr PEARSON — But until you get a coherent set of data it is very difficult to demonstrate how well you are managing it.

Ms PENNICUIK — Yes. Certainly on my reading I am not sure we are going to get that.

The CHAIR — So it will be rolled out completely by January 2011?

Mr PEARSON — Yes, on the projections we did at the time we did the audit.

The CHAIR — And they will be looking to do yearly reports and a follow-up report or reports as it becomes robust in terms of incident reports.

Mr SCOTT — My question really is to Mr Sheard. I note that within health policy patient data and the management of data has been a fairly hot topic across the world recently. In other jurisdictions there is data that follows individuals through the system, so there is a single file that essentially contains all the medical history of that individual and that provides a system of management of data and is used within the system to obviously provide services but also deal with issues around clinical governance and other such issues. In terms of your views and your experience in this audit process, would such a system, which does not really exist in Australia in a systemic way at the moment, be useful in managing clinical governance?

Mr PEARSON — That is getting — —

Mr SCOTT — Getting into policy?

Mr PEARSON — That is getting into policy. From an accountability point of view and an efficiency point of view the answer would undoubtedly be yes. But you have to weigh that up against privacy and medical confidentiality and things like that.

Mr SCOTT — There are other policy issues; there is a whole range of issues.

Mr PEARSON — Our role as an auditor is that we come to that sort of situation with an open mind. What we try to do is ask: is the program manager's consideration comprehensive, is it robust, is it logical? That is the sort of audit test we do.

Mr SCOTT — With the indulgence of the Chair I will ask a follow-up question. You raised the issue of voluntary versus mandatory reporting. Speaking as someone who has been on the committee of a community health centre — and some issues arose around the relationship of medical professionals and their acceptance of clinical governance — did you see any issues that arose with what can be, I dare say, fairly haughty and proud individuals and their acceptance of a clinical governance framework and their willingness to participate in reporting processes? Did that arise? Because you raised the issue about voluntary versus mandatory reporting.

The CHAIR — Insofar as this relates to the follow-up of your question.

Mr SCOTT — It does; it raises whether it is voluntary or mandatory reporting.

Mr PEARSON — I think from our perspective that is for the administering agency to determine, and the audit role would be to review what was determined consistent with prudent practice, reasonable authority and precedent. We have an open mind.

The CHAIR — An open mind on whether it is voluntary or mandatory.

Mr DALLA-RIVA — I want to return to recommendation 4.1 which falls out of the chapter headed 'Monitoring performance in patient safety' on pages 28 and 29. The Department of Health — or DHS as it then was — has informed the committee that they are rolling out a new system for incident reporting in line with recommendation 4.1, and Ms Pennicuik mentioned it earlier. Given the importance of the reliability of the data for health services, what suggestions do you wish to make in regard to benchmarking for such reporting systems? Given that in your foreword in relation to that you said the time frame for delivery of this IIS project in 2010 is too long, are there any other concerns you have in regard to this particular project?

Mr PEARSON — The short answer is no, because in terms of the concerns and views I had they are in the report. I stand by that.

Mr DALLA-RIVA — Do you have any suggestions about benchmarking for such reporting systems?

Mr PEARSON — No, other than the audit approach. We would expect in the development of a system they would be casting around for a better practice elsewhere in Australia and elsewhere in the world and capitalising on that and avoiding reinventing the wheel.

Mr DALLA-RIVA — Yes.

The CHAIR — So in conducting the audit on health services where one had 11 performance indicators and another one had 8, you did not have any view on whether some were better than others?

Mr PEARSON — No. I would go so far as to say here that comes back to this issue about subsidiarity and that, as the auditor, the primary responsibility rests with management. I suppose I am signalling that of the 11 referred to, and there are 89 in total, there is a need for a degree of coordination. Here I use the private sector analogy that while the subsidiaries are autonomous units under corporations law, a holding company will lay out the ground rules and then do a degree of monitoring for consistent application. They will make exceptions and update their policy or guidance; they will note better practice and mandate that more broadly. But it is an act of monitoring, and I would argue that act of monitoring can be done without impinging on the statutory responsibilities of a board.

The CHAIR — I think audits should have some responsibility for commenting on what are appropriate benchmarks. You have commented on some benchmarks in regard to hospitals in another audit report, and basically you said that the national benchmarks which were agreed by everyone were actually insufficient.

Mr PEARSON — Yes.

The CHAIR — Yet you provided no guidance in this regard.

Mr PEARSON — What was the reference on this one? What page was it?

The CHAIR — Page 28.

Mr DALLA-RIVA — Yes, pages 28 to 29. It was about the incident severity.

The CHAIR — I guess it goes back to what is the modality of the way one operates.

Mr PEARSON — Again it is the context.

The CHAIR — I know you have produced a number of good practice guides which we as a committee think are very good, and we would encourage you to continue to do these things.

Mr PEARSON — They do not count as outputs.

The CHAIR — We will now look at water, because it is quite an important topic. We have your report. What was of interest to the committee in this one was that there seemed to be quite a robust discussion between yourself and the department in regard to the findings of the report. We read this one with some fascination. We were wondering whether this exchange is distracting from the main purpose when the idea is to come up with the best possible management arrangement to get value for money, as was pointed out, and we do that to seek performance. I was wondering whether you had any comments in regard to this one. I also note that you seem to have published the response and then you have put in your response, so you make sure you get the last word.

Mr PEARSON — Maybe I am old fashioned, but I thought the purpose of an audit was to get an independent informed view for others to take into account. That is an issue that I will raise further in a review of the Audit Act, but the current provisions of the act give me no discretion. I subscribe to procedural fairness and natural justice principles. But the Audit Act is specific that I must provide the entire report to every audit subject and I must include in full their response or an agreed summary. One takes the judgement at times when there is a prospect of getting an agreed summary that the lesser of the two evils is to incorporate it in its whole, and I think it speaks for itself.

The CHAIR — Where does that end insofar as under the act you are required to provide them with the full audit, which presumably under the act should include your response to their response, and allow them the opportunity then to respond to your response?

Mr PEARSON — Again you can hold me accountable. I have taken the view that I let them know of the issues that I have problems with and that I will making additional comment. I suppose if they sent me a letter further I would include that too. At that point I confess to being somewhat summary in saying, 'There will be a further comment in respect of these issues'.

The CHAIR — What processes do you have in place to try to minimise this sort of thing, because this is really front and centre of this report.

Mr PEARSON — From my point of view it is an open and transparent system where there are no surprises, there is plenty of notice of the audits and there is plenty of engagement on the way through. I have taken up with a number of secretaries that there is a mutual obligation for them to honour that by taking reasonable steps to ensure that all information is on the table and that literal interpretations are not taken by an agency, which has happened from time to time, where they have taken an interpretation of the audit specification and determined that some information is not relevant to our considerations.

The CHAIR — So you have taken these steps since this report, because this is prior to this report.

Mr PEARSON — Prior to this report.

The CHAIR — And subsequent?

Mr PEARSON — And subsequent.

The CHAIR — What, through meetings with the secretary?

Mr PEARSON — Through meetings with secretaries as a group and individually.

The CHAIR — The main secretary — the Secretary of the Department of Premier and Cabinet?

Mr PEARSON — Yes. The secretaries as a group — the secretary of Premier and Cabinet and DTF — and other secretaries individually. We just use the provisions of the act, but audit is part of the accountability process.

The CHAIR — Are you satisfied with the response of the secretaries?

Mr PEARSON — Reasonably, but it is irrelevant whether I am satisfied. They are their own people. I can only promote the role of the Auditor-General as provided for under the act.

Dr SYKES — I should commence by welcoming the interactive nature of this hearing process. In relation to the conduct of the audit on planning for water infrastructure, were there any issues in terms of accessing truly independent expert advice from the major companies that are out there in the water industry, given that many of them in Victoria have the Victorian government as a major client?

Mr PEARSON — I will mention one thing before I respond to that. I will apologise in advance, but Ray Winn, who was the director who did this audit, is overseas at the moment, so unfortunately we have not got that hands-on detail. My broad answer would be that as auditors we were satisfied with the independence of the companies we used and the adequacy of the advice we got from other companies who would be contractors. That is part and parcel of the role of an audit. Clearly that raises our scepticism or level of inquiry, and we are alert to potential for conflicts and we guard against that or mitigate where we think it is an issue.

Dr SYKES — So that confidence goes forward with the next project review of the implementation?

Mr PEARSON — Yes.

Dr SYKES — You remain confident that you can get access?

Mr PEARSON — Yes. Again, it is an area where there will always be a bit of a delay. Obviously it is our decision and we do it purposefully, but there is broad consultation. We have a broader issue in relation to the estimated financial statements of the state in a different area, but clearly as an audit office we need economic advice to undertake that review and we go more broadly for expertise than immediately in Victoria at times.

Dr SYKES — Related to that is the other side of the coin — the information that you are able to obtain from witnesses rather than contractors.

Mr PEARSON — Yes.

Dr SYKES — Do you have any concerns about the accessibility of information from witnesses, in particular people on the water services committees, who often have a lot of both corporate knowledge and grassroots

knowledge, so they are very well placed to give you the combination of the policy and the operational practicalities as an organisation and as irrigators. Any concerns there?

Mr PEARSON — None other than the usual operational concerns, because we are all dependent on humans and we are not perfect. We have got a very rigorous methodology. We have got quite firm auditing standards. Probably the practical thing about the standards is we do not go to single sources for evidence. In a sense we will listen to a range of people, and where there is consistency we tend to accept that as a reasonable given, and where you get a divergence of view that is a trigger to go wider or deeper and explore it. That is where from time to time in audit reports we end up with disagreements. We will explore it and then reach a resting point. An agency might prefer a different balance of advice, but our role is to put that on the table.

Dr SYKES — One of the issues though as I understand it is people on water services committees, particularly the chairs, in fact sign confidentiality agreements or agreements that prevent them from commenting openly on matters about which they may have substantial knowledge.

Mr PEARSON — That overlaps with an issue I will be raising with the Audit Act, but the Audit Act does provide us with very strong powers and overrides confidentiality agreements, FOI and things like that in evidence to us, and we must keep it secret and use it appropriately in informing ourselves.

The CHAIR — So you have access to cabinet papers, for example.

Mr PEARSON — Yes.

The CHAIR — But you do not actually put cabinet papers in your reports.

Mr PEARSON — No.

Dr SYKES — I am just clarifying that the Audit Act does override that, so these people can speak openly without fear of — —

Mr PEARSON — Yes. Look, the Audit Act is that strong. It is a power we do not use lightly or regularly, but we can effectively summons them, put them under oath and examine them.

Dr SYKES — Thank you.

Ms MUNT — Can I refer your to recommendation 1.1? It says that the Department of Sustainability and Environment should:

> revise the central region strategy to account for the changed assumptions and the infrastructure commitments within the Victorian water plan …

And then the response is:

> DSE agrees with this recommendation. Revision of the strategy will occur within the time lines permitted in the strategy (i.e. within 10 years of publication), following completion of major projects within the Victorian water plan. This is expected post 2011.

I was wondering if you could tell the committee if you consider that this response is adequate. Do you consider that there is an urgency to review the central region strategy earlier than 2012? Are there any significant risks in the department holding off that review until 2012? If so, what do you consider those risks to be?

Mr PEARSON — That is a difficult area for me. If I take half a step back — and going back to the difference of opinion with the secretary — in the report we acknowledge an emergency situation arose and they had to act expeditiously. I cannot quote you the page, but I have kept quoting it when I have had discussion with the secretary. We gave credit. We said: 'There was an emergency situation. You had to respond and take shortcuts and get a result'. That is fine so far as it goes, but the accountability obligation means: 'In addition to that, you then need to retrace and mitigate the shortcuts'. I think this 1.1 is in that category.

Again, I do not have an executive role. I am not sure if one of my officers has a particular view, but to me after 2011 is a bit into the future given it is a pressing issue. I think I am going to dodge that question and turn it back to the committee. I think that is something for the committee to explore. It is not for the auditor to say when something should happen. We have clearly identified a need for revision, and the audit is focused on what

existed then. This is an issue, and I think where the committee might be able to add some value is in exploring the rationale for why it can wait until after 2011. It might be legitimate. We have not done an audit of that. We have identified that it needs revision and it is an important element, but it is management's responsibility. They have accepted it; that is step one. Step two is to ask: is it appropriate in terms of timeliness? We did not look at the arguments there at the stage we looked at. It needed revision, and they agreed.

Dr SYKES — Des, in relation to the issue of water savings and the availability of them, in the evidence that you have gained without fear or favour from those making it available to you, was there any evidence in the initial claimed water savings of savings from previous projects — projects prior to the food bowl modernisation project — being counted into savings being attributed to the food bowl modernisation project to come up with this figure of 225 gigalitres of savings?

Mr SHEARD — I am not aware of any evidence that they examined that with this audit. In relation to the water infrastructure audit and the issue around the water savings, I think they had limited information at that time about what was involved. The business cases were not developed yet, so what they had available were the publicly available documents from the Food Bowl Alliance and the food bowl steering committee. I think in essence that was most of the information they had around there. The report alludes to how they got an early drafted business case late in the audit.

Dr SYKES — So the absence of much information at the stage that you audited is the summary of the situation.

Mr PEARSON — Yes. To me, that was a core element. Data was of varying quality and integrity, but they had an emergency situation they had to work on.

Dr SYKES — Since that time, there has been a proposition to send 75 gigalitres of water to Melbourne in the first year, and some of that water is coming from savings from previous projects. In your inquiry did you look into the legitimacy — the legal ability — to do that, given that there is a view that there were legal commitments to send that water to the commonwealth and other destinations?

Mr PEARSON — I cannot recall that being an issue at the moment of the audit. Time-wise, was that an issue?

Dr SYKES — Well, it has been a constant issue out there, and I guess what you are saying is, as you have highlighted in your report, there was very limited information on the water savings availability, but I am just exploring whether this aspect was worked through, because I cannot remember when it was put on the table. At an early stage the government put on the table that this was how it was going to meet the first year's needs.

Mr PEARSON — I think I will have to confirm this, but my recollection is we did not. I think basically, given the course of the data, we did not go to the next level of legality.

Dr SYKES — Can we ask for that to be followed up through the person who did the work — that is, Ray Winn?

The CHAIR — That is something that needs to be asked of the department, I think.

Dr SYKES — I will ask it as well, but I am just asking to clarify what the Auditor-General found.

Mr GREAVES — I think if it is not addressed in the report, it is not something we necessarily looked at or could comment on in the context of this report. That is probably the answer.

The CHAIR — Dr Sykes, you have to remember it was also done in the context of a specific audit itself rather than necessarily involving other issues which may be related but not specifically related and encompassed in the report.

Dr SYKES — Coming back to something that is recorded in the report, on page 26 you concluded that:

> It was reasonable for the strategy to assume that, as a worst case, future inflows would conform to the drought affected average of the last 10 years.

My understanding is that in establishing the critical nature of Melbourne's water needs it was the water availability in the last three years that underpinned the government's case for the need for water, but in establishing the availability of the water they looked at the longer term averages of water availability, and they seemed to be two inconsistent propositions. Do you have a comment on that, beyond what you have already written in the report?

Mr PEARSON — Not beyond what we have put in the report.

Dr SYKES — On page 6 you raised the issue that:

> The unpublished early works business case adopted a more conservative approach estimating water losses and savings based on the records for two recent years for a subset …

You have flagged it, but you do not believe it is worth commenting any further on or appropriate to comment any further on at this stage?

Mr PEARSON — No, again because we reached a view. The secretary had a response that in my judgement went a bit too far, so we provided that additional clarification.

Dr SYKES — Just on basic audit principles, to have different denominators or different scenarios for availability and demand seems to be fundamentally a flawed principle.

Mr PEARSON — I would agree. That is why we put the additional comment.

Dr SYKES — So it is a fundamentally flawed principle that they have adopted to compare or relate demand and supply?

Mr PEARSON — I will not agree it is fundamentally flawed.

Dr SYKES — Well, it was flawed.

Mr PEARSON — Certainly from an audit view there is an inconsistency that warrants attention.

The CHAIR — I think you will find there is figure 3A and also the commentary at the end of page 27 and the top of page 28 showing a range of various scenarios. In fact you can see on the top of page 28 that the auditor did not quite agree that the three-year scenario was the most likely forecast. I am not sure that the Auditor-General would necessarily agree with that today.

Mr NOONAN — In terms of recommendations 1.6 and 1.7 there seems to be a bit of back and forth throughout this audit between your office and the department about the information that is currently published. And again in reviewing this report if I look at the top of page 16 around the targets set by the Victorian Water Trust, they are quantifiable except for dot point 3. I am just wondering, given the department's indication that they are providing in their view an adequate level of information in their annual reports and publishing on the website, whether you could come back to the issue about whether you consider what is being published does meet what might normally be termed adequate levels. And if in your view they are not reaching adequate levels, what can be done to improve this, given that there is a level of disagreement?

Mr PEARSON — Essentially we thought it was not an adequate level, and it was both in terms of quantity of information and consistency in rigour. It is a challenging area, and we accept the department certainly had a challenge, but there is always a worry in that context that from an auditor's point of view the more that is on the public record the greater the assurance that it is reliable, because more people have looked at it and run the ruler over it. From our perspective there is a higher risk when it has not been published because, while we are alert and applying our criteria and standards, we will not have the sum total of the whole outside world.

Mr NOONAN — Is not the counter position that you can put a whole lot of information out there, but if you come back to what we see on page 16, it is really the quality of the information that is provided as opposed to perhaps the quantity?

Mr PEARSON — That is right; those two recommendations together. Essentially we were less than satisfied with both the quantity and the quality, so it was identified as a particular area that needs attention.

Mr NOONAN — So in terms of 1.6 and 1.7 are you really going to the quality information, because you seem to be critical of the fact they are not going back to the benchmarks that they have set for themselves?

Mr PEARSON — It is part of the integrity of the framework, and at one side they are under pressure and under the pump, but by the same token you have to be careful that if you are not reconciling with the framework, you are addressing the right aspects or the right range of aspects, and that is probably the real risk we saw operating in this area.

Dr SYKES — Following on from the issues raised by Wade and your responses, on the issue of communication I think you have flagged that the issue of quality and quantity of information going out is important?

Mr PEARSON — Yes.

Dr SYKES — Linked with that is the notion of interactive communication, and I think your interaction with the secretary highlights that to simply have a one-way passage of information is not communication; you need to interact. Given that there is a substantial alternative view in Victoria about the level of water savings that have been achieved, and given that the government's position at this stage has been to constantly reiterate just one statement — that on average 225 gigalitres of water savings will be delivered — do you consider that to be adequate communication and fully adopting the recommendations that you have made?

Mr PEARSON — There is a difficulty in responding to that because I have no executive authority, and under government policy directions I am explicitly prohibited from dealing with it. Clearly we have the emergence of a situation with water. Governments have to govern. I think the audit role would be to provide at an appropriate time assurances on the quality or reliability of the estimates that have been made. At the time we did this audit we were limited to the extent we could do that and we highlighted that there are different levels of rigour and reliability. We have a couple of audits going now, but I am not sure if they go to the extent of providing assurance about reports.

Mr GREAVES — Yes.

Mr PEARSON — They do?

Mr GREAVES — We will be looking at that, but I think the point that we made in this report was not whether a particular figure was right or wrong but what caveats were associated with that figure, and making it clear to the public what assumptions had been made in terms of developing those. I think one of the key messages in this report is to be a bit more transparent about any caveats that exist around current projections or past projections of water savings and costs.

Dr SYKES — Your report was in April 2008, and it is now September 2009. I am unaware of any publication of any caveat on those estimates. Is that satisfactory from your point of view?

Mr PEARSON — We are not entitled to say whether it is satisfactory or not, but I suggest it is an area that the committee could take up with the department. I might have an intuitive response, but as an auditor I do not have the balance of considerations, and I think that is something the committee is in a position to seek from the department.

Dr SYKES — As an auditor you make recommendations and you would have the expectation that you arrive at those recommendations as a result of a sound, thorough and professional approach.

Mr PEARSON — Which we did at this point.

Dr SYKES — Yes, and you have come up with a recommendation?

Mr PEARSON — Yes.

Dr SYKES — And 16 months on it has not been implemented. I am just asking you for a professional opinion, given the significant nature of this project, on whether non-implementation of a recommendation 16 or 17 months on is appropriate or not. It is not policy; it is just a comment on whether it is appropriate or not.

Mr PEARSON — I think the committee has to form a view on that, because we have made the recommendation, it has been accepted and the Minister for Finance has confirmed that it is to be implemented, and I think that the people who have to be accountable for that are the department. I do not want to split hairs, but it is almost another audit for us to say whether their performance to date is satisfactory or not. As I say, intuitively I might say, 'Yes, it should have been done within three months or six months', but I am not aware of the full range of considerations, and I think that is where the committee comes into the equation.

The CHAIR — But you did find that the target water savings were achievable within the allocated budget.

Mr PEARSON — In the report.

Dr SYKES — And you stand by that?

Mr PEARSON — At that point in time, in that audit context and on information available.

Dr SYKES — In the audit context of them working on 100-year average of inflows; is that what you are saying? On that assumption, they could deliver.

Mr PEARSON — Which part of the report are we talking about?

The CHAIR — I have just quoted from the fifth dot point on page 35. This goes to the nub of the questions that Dr Sykes was asking.

Mr PEARSON — It says 'high-value, high-risk project' and that 'capital works were fitted within a pre-determined budgetary cap'.

The CHAIR — And 'target water savings were achievable within the allocated budget'.

Mr PEARSON — Yes. At that stage that was the evidence that supported that.

Dr SYKES — Even though you have indicated in your earlier commentary that you had some questions about the notion of using a 100-year average rainfall to create the water losses and therefore deliver your water savings in an environment where we have had a significant decrease in rainfall and inflows, you were still confident that that could be delivered upon and you remain confident?

The CHAIR — I think they were confident in April 2008

Mr PEARSON — I do not know that I remain confident. There are two different questions there. At that time, in accordance with methodology and standards and the information held by the department and our verification of it, it was — —

Dr SYKES — But you raised a doubt about the methodology of using the long-term average rather than the more conservative last two years. You have raised that serious doubt, and yet you then concluded that they could deliver their targets even though you had a serious doubt in your mind about whether the long-term average was an appropriate source.

The CHAIR — I am not sure that that is exactly what they said.

Mr PEARSON — Again, we flagged the considerations but we were not in a position to authoritatively refute the position the department had arrived at.

Dr SYKES — Then maybe you should not have been so supportive; you could have left it as an undecided rather than making a positive comment.

Mr PEARSON — I will leave you to judge on the interaction.

The CHAIR — What you are saying is that at that stage in April 2008 you accepted these savings but it was also in the light of what you have said on page 27 — that the department had done this and you had checked their figures because they had adopted the average inflows for the last three years.

Mr PEARSON — Yes.

The CHAIR — Not the last 100 but the last 3 years.

Ms HUPPERT — I wanted to turn to the issue of governance. In particular in your key findings on page 53 in the governance area you talked about some of the institutional arrangements and the changing roles and method and means of governance of the water retailers. I note there is some reference to the VCEC inquiry, but I wonder if you could just elaborate on some of the reasons why you think that the water retailers need to have their governance arrangements. Or is that perhaps a bit too specific?

Mr PEARSON — I am just trying to relate it to the area we covered.

Ms HUPPERT — I guess I am interested in the whole concept of the institutional barriers to the development of appropriate policy.

The CHAIR — You will find it on page 53. It is the fourth dot point.

Ms HUPPERT — In the findings you have said here that they are not a barrier. Obviously there are some key elements of the current governance system that ensure that it is not a barrier. You have placed it in the negative; I just wonder if you could tell us the positive side of that finding.

Mr PEARSON — That takes us over to page 64. For an auditor we were getting a little bit prospective there, but it was with the prospect of the desalination plant. I think at this stage — I am not sure if my memory is entirely reliable — the desalination plant had been announced but the institutional arrangements, who was going to own it and run it and how it was going to interact with the system were unclear, so we were flagging that that needed to be addressed. For me personally that was taking a proactive approach — as discussed in the debate we had earlier in relation to the hospitals area — of delineating responsibilities clearly in advance and setting up the framework to monitor it and oversight it.

Ms HUPPERT — So the existing institutional arrangements were sufficient for what is occurring at the moment, but you were just concerned to make sure that they keep up to date with the changing needs.

Mr PEARSON — Correct. Basically, to be fair, when we looked no-one was able to predict what was happening or point to particular work in progress. It was a problem on the horizon, so we flagged it to be addressed.

Ms PENNICUIK — Can I just clarify what level of business case VAGO saw at the time for the north–south pipeline and the desal plant.

Mr SHEARD — For the food bowl project there were two business cases. There was a draft business case that had been developed for the whole project, and there was a finalised early works business case that was reviewed. I think in December 2008 it might have been finalised. The other one was still in draft at that stage, and I think it was still in draft as the audit was completed. That was for the food bowl modernisation.

Ms PENNICUIK — For desal?

Mr SHEARD — Yes, for desal.

Ms PENNICUIK — I was not quite clear. I just wanted to clarify that before I actually asked the question.

Mr GREAVES — At page 36 we talk about looking at a feasibility study rather than a business case. There had not been a fully formed business case at the time, but we can confirm that.

Mr PEARSON — I would cross-reference that to table 3B on page 31 on published capital costs. We know there was not the highest probability — —

Mr GREAVES — It was the feasibility study that we looked at.

Ms PENNICUIK — Given the amount of information that you had at the time, was there and did you concern yourselves with any economic impact analysis or analysis of the broader impacts of higher water prices, for example, on businesses and consumers?

Mr PEARSON — No.

Ms PENNICUIK — Can you comment on whether anything you saw — a draft business case or the feasibility study, and particularly the business case for the pipeline — was looking at an internal rate of return or net present value? How was it being developed?

Mr GREAVES — Sorry?

Ms PENNICUIK — Did it use a net present value?

Mr GREAVES — The business case for the north-south pipeline?

Ms PENNICUIK — Yes.

Mr GREAVES — I do not have that detail.

The CHAIR — You might take that one on notice.

Ms PENNICUIK — Can I get that on notice?

Mr GREAVES — Yes.

The CHAIR — But I am not exactly sure about the impact of price rises on consumers; it is more the Essential Services Commission.

Mr PEARSON — I think we were looking more at the volumes rather than the price.

The CHAIR — Can you check on that too?

Mr GREAVES — Yes, we will come back on that.

Ms PENNICUIK — Thanks.

The CHAIR — That would be good. That concludes the consideration of public safety in public hospitals and planning for water infrastructure in Victoria in respect of the Victorian Auditor-General and the Auditor-General's office. I thank Mr Pearson, Mr Greaves and Mr Sheard for their attendance today. It was a very interesting session. There was a question on notice; we will follow it up at a later date. We would like these matters to be provided within at least 30 days.

Witnesses withdrew.