

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects

Melbourne — 21 August 2012

Members

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Mr D. O'Brien
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Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

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Witnesses

Mr D. Pearson, Auditor-General (sworn),

Ms S. Bohan, Sector Director Financial Audit, Central Agencies and Whole of Government (affirmed),
and

Mr P. O'Connor, Sector Director Performance Audit, Technology Review and Annual Plan (sworn),
Victorian Auditor-General's Office.

**Necessary corrections to be notified to
executive officer of committee**

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing on the inquiry into effective decision making for the successful delivery of significant infrastructure projects. On behalf of the committee I welcome from the Victorian Auditor-General's Office Mr Des Pearson, Auditor-General; Ms Simone Bohan, sector director financial audit, central agencies and whole of government; and Mr Paul O'Connor, sector director performance audit, technology review and annual plan.

Members of Parliament, departmental officers, members of the public and the media are also welcome. In accordance with the guidelines for public hearings I remind members of the public gallery that they cannot participate in any way in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. VAGO officers, as requested by the Auditor-General, can approach the table during the hearing to provide information to the Auditor-General, by leave of myself as chairman. Written communication to witnesses can only be provided via officers of the PAEC secretariat.

Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room and no more than two TV cameras are allowed at any one time in the allocated spaces. May I remind TV camera operators to remain focused only on the persons speaking and that panning of the public gallery, committee members and witnesses is strictly prohibited. Please note that these proceedings are not being webcast.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege.

All evidence given today is taken under oath or affirmation and is being recorded. Witnesses will be provided with proof versions of the transcript within 15 working days of this hearing, which are to be verified and returned to the committee secretariat within two working days of receipt. Unverified transcripts and PowerPoint presentations, if any, will be placed on the committee's website immediately following receipt, to be replaced by verified transcripts within 48 hours of receipt.

Following a presentation, if any, by the Auditor-General, committee members will ask questions relating to the inquiry. Generally, the procedure followed will be that relating to questions in the Legislative Assembly. I ask that all mobile telephones be turned off or switched to silent.

Before I call on the Auditor-General to give a brief presentation of no more than 5 minutes I would like to for the first time at least publicly thank Des Pearson for his outstanding contribution to the public sector in Victoria. It has been a long public service career, both in the public sector and as an auditor, and Des, as members of this committee know better than anyone, has made a significant contribution to the Victorian community during his career. I think that there will be another opportunity for us to more properly recognise that contribution in the future.

Mr PAKULA — Chair, on behalf of the opposition members of the committee, could I associate ourselves with your comments.

The CHAIR — Thank you. It is a matter for the Auditor-General. If he wishes to make a presentation, we would be delighted to hear it.

Mr PEARSON — I only have a few short comments to make at the opening because we have been in contact with the committee and the secretariat in the lead-up to this and a number of our reports are being used as the basis of the committee's inquiry. I will start off by just reminding us all of the role of audit. I suppose the common way of saying it is that the auditor's role is as the watchdog, not the bloodhound, so in a sense we surveil the scene, draw matters of significance to attention and then there is a bit of a cut over to the Parliament holding the executive to account.

I also draw the distinction that we are in the business of providing assurance about what the executive is reporting and the standard of accountability and performance of the sector. The primary responsibility for demonstrating the objectives or achieving their objectives remains with the executive. Just because an auditor has done an audit and made a report does not relieve the primary responsibility of management for delivering the programs efficiently and effectively.

The other thing contextually is that there is no denying that public sector programs are large and complex and, to be fair, they are never going to be perfect. Probably the real challenge is picking the extent — how you get the balance as to what is reasonable performance and what is tolerable, because the marginal return on investment on going for perfection we just cannot afford to do.

Again, a second one I thought I would put on the table is that in the public sector we are dealing with large and complex programs and projects and we are using public funds that we have to use in trust and apply for the common good in the public interest, which is a very subjective and judgemental thing, but I sometimes wonder if we are too sophisticated for our own good in terms of the processes and frameworks we are setting up. The tendency then is to rely on the process and the framework alone to develop the outcome, whereas the missing ingredient is the human element. When I come back to one of your terms of reference on the capabilities in the public sector — I will be brave at this stage; you might make me regret this — by and large I would argue that the latent capabilities exist. The challenge is in how they are being applied and managed.

If I could just round out there that each year, as you are aware, we review the previous year's reports and try to identify the key underlying or recurring themes or the functional findings in our reports. This year we have distilled out five. One is the effectiveness of regulation, which I will set aside in this context, but the other four I think are very central. In one sense you can say they are management 101; in another sense they are so fundamentally important that I raise them because you may see merit in applying these as criteria as you review the range of projects that you are looking at.

They are basically: clear direction in planning, and that is having a clear idea of what the intentions are and what success will look like; evidence-based decision making, which is the step being taken to identify the appropriate evidence — again, it is a judgement call, because we will never get all the information we would like to have, but at some point you have got to cut off and satisfy yourself that you have got enough to work with and a reliable basis for a sound decision. Then we move on to what we term oversight deficit, and that is monitoring what is happening and checking that it is happening as intended, and when it is not, intervening and moving on. The fourth one is reporting meaningfully on performance, again that periodic stocktake and assessment, which is a complement to the monitoring and oversight.

They are the threshold issues from an audit perspective that I would like to put on the table and that I think would apply reasonable criteria for establishing with programs and projects how well they have gone and the extent to which their stated objectives have been achieved.

The CHAIR — Thank you, Mr Pearson. As you know, this set of public hearings is focusing on six particular projects, which I will not elaborate on. In a general sense we are seeking to better understand accountability, transparency, lessons learnt from previous projects and experience, relevant skills and capacity. In that context I thought I might lead into a discussion, without narrowing immediately to particular details of a project, of some observations from your experience about DTF — what I describe as the expectations of the community, for example, as opposed to the expectations of agencies and indeed the expectations of DTF itself in relation to its central role as, if you like, the financial coordinator in chief for the government of Victoria.

Is there potentially a mismatch in the way that DTF is involved in projects between DTF's expectations and what I describe as the wider community's expectations about how much it should be involved? One of the things that seems to be clear is that in many projects DTF has an observer-type function but is not necessarily engaged in an executive level function. From all of the work that you have done I wonder if you have formed a view about the relationship between DTF and various projects. You could name myki as one example; was DTF necessarily standing apart, or was it sufficiently engaged from the outset?

Mr PAKULA — Speak with the freedom of a man who is retiring.

Mr PEARSON — In a few months.

The CHAIR — Be frank and fearless.

Mr PEARSON — That is a challenging question, because as an auditor we have not done that sort of focused review. But I am on the record that I am a traditionalist of the tiers of control and coordination. When I look at the Victorian executive portfolio of departments I see the departments as responsible for monitoring and surveilling their portfolio. Clearly with the Department of Premier and Cabinet and Treasury and Finance, I see

them as a central agency in a coordinating role. We have had instances; I think the electronic gaming machines audit report is a case in point where we were critical of observers on an interdepartmental committee from those central agencies — DPC and DTF — that had not put their thoughts on the table so that the IDC was unaware of their reservations and had not had the opportunity to address them and then proceeded to brief against the recommendations of the IDC. I included that in the report because I thought that was a very significant issue, because I think as part of serving the public interest the IDC should be aware of the range of considerations. It would be nice if everyone agreed, but it would be better to know you are agreeing to disagree and on what grounds would lead to better informing of government for decision making.

Again if I go a bit more broadly, a report that this committee has followed up was the preparedness to respond to terrorism incidents. We had the blurred accountability where there was a lot of collaboration, but at the end of the day the buck did not stop. What occurred to me after observing and being part of that hearing was the thought that somebody forgot to appoint the captain or the coach, in the sense that everyone was conscientiously contributing but there was not a responsibility to draw it together and take the real management decision. That brings me back to my opening comment, where my hypothesis is that the capabilities are there, but it is the way in which they are applied. With a large and complex system and the level of scrutiny, I wonder if the impact is that people are becoming increasingly afraid to take the hard decision and defend it. It might be pushing people into avoidance, and because the buck does not come home, that might be an evolving behaviour.

The CHAIR — In the time we have available — and given we have got six projects — we might just step through those in order. We will start with myki, which we might touch more lightly than some others because we have spent some time on that already today. I am happy, deputy, if you would like to — —

Mr PAKULA — Before that, on the more general scope of your comments, when you say in your introduction that sometimes we are too sophisticated for our own good, I am wondering if you could expand on that and explain what you mean.

Mr PEARSON — Yes — very much that invariably when we do an audit the framework is fine and the policies are fine, but my personal judgment is what is often missing is the personal ownership of applying that framework and those policies in practice. In consequence — and again because it is a large and complex system — as you devolve and delegate the linkages are lost. My concern is that often there is not a project owner to draw it back together. We are good at establishing the framework and allocating the responsibilities, but what we are not doing is monitoring, oversighting, rounding up and then intervening when things are not turning out as expected. Again I think that is probably going to come back in part to the clear direction in planning. I think with hindsight we might find that too often we are being too ambitious with the objectives — and we are talking globally — and not matching that with the available resources and the context. To be fair, our community is quite demanding, and I suppose I am seeing the link at that end is in managing those expectations.

Mr PAKULA — From the perspective of audit and the ability of whoever succeeds you to properly hold all of those constituent parts of government plus private providers to account, what is your take-out in terms of the ability of audit to do that moving forward?

Mr PEARSON — I would say it is not audit's responsibility; I would say it is the executive and management's responsibility to do that. I would like to see more demonstrable leadership in that area. I am certainly getting positive feedback as I move around and talk to the secretaries, but I suppose personally — as a taxpayer — I would like to see more demonstrable and tangible effort. Again, that is a judgement call, because it is a large and complex system, and change takes time. You have got to be a bit careful; if you intervene too readily, you can get unintended consequences. But, equally, if you are too tentative and too slow, there is a lot of lost opportunity.

I observe that it is an element of size and complexity, but again it comes back to this oversight deficit. There is too much belief and trust in the public service in terms of when they delegate, they think their responsibility has finished. Too often in our reports we find that the delegation has happened, but they have not followed through to check that the delegation or the devolved responsibility is being exercised as intended. With the best of intentions you can set up a policy, and you will not have foreseen some circumstances, so you might need to intervene and modify the policy, or you might need to clarify the interpretation of policy.

In a range of our audits we found, even in samples as small as four, you had very diverse interpretations of the policies, and the administering department is effectively unaware of that until our audit assembles the data. I would argue part of prudent management is you should be oversighting. Often they have got the data in the organisation, but they just have not assembled the information. When we come along as the auditor, with hindsight, as part of our methodology we assemble it and say, ‘What does it mean?’. But I am saying that is not solely the province of an audit; that is the province of a manager.

The CHAIR — Is another way of expressing your view — bearing in mind that you and I have talked about this over a long period of time, I suppose — that delegation does not void responsibility? Is that the gist of it?

Mr PEARSON — Yes. There is an old saying, certainly in the accountability sphere: you can delegate responsibility but not accountability. Too often public servants think when they delegate responsibility they are off the hook and it is not their issue anymore. That is an area that has taken a fair bit of negotiation and discussion to educate people appropriately.

The CHAIR — I am very keen to focus on particular projects, and we will just do a light touch on myki, perhaps, given the time we have already spent on it, but there will be some questions. One which flows immediately from the Auditor-General’s response to the questionnaire relates to advice he gave in regard to the large number of people with access to the tenderers increasing the risk of uncontrolled information flows. Specifically I will ask: did you find any actual instances, or was the conclusion assuming an informed view about the risk of there being too much interaction between TTA and the tenderers, or did you actually cite some examples of inappropriate behaviour?

Mr PEARSON — I do not recall that we identified express instances of misbehaviour. Again, it is one of these cautions that when you are dealing with sensitive information it is prudent to restrict it to the need to know, and that way you have got a better chance of controlling it. If there is a leak, you are able to establish responsibility.

The CHAIR — Sure.

Mr PAKULA — Just jumping in on that, I will take you back. You may recall one of the witnesses we had before this committee, and from recollection it was Mr Cashin from Baulderstone Hornibrook, expressed the concern that effectively probity considerations from the perspective of the private sector have become such that appropriate interactions between government and the private sector are almost being constrained — no-one will talk to us anymore because of probity concerns — and that as a consequence the ability of private sector partners to properly apprise government of information and exchange information with them is being compromised by that. From your point of view, how easy or difficult is it to draw the line between where on the one hand appropriate probity starts and finishes and on the other hand it becomes a fetter to the appropriate exchange of information between government and the private sector?

Mr PEARSON — It is a challenging issue, but again that is where I come back to the application of the capability. I probably personally would relate to that view that has been put to you, because again it is people being purposeful about process but not fully understanding the purpose of the process and then managing it in application. I think it was in the electronic gaming machine audit that that was an issue we raised. They had stringent probity requirements, but one of the contractors objected to the probity covering that particular person’s element of it because of intellectual property concerns. The response of the agency was to exempt that part of the project from probity, which I think was the wrong call.

Similarly with the Victorian Life Sciences Computation Initiative, I think it was a case of where the probity process was not finished until after the contract had been let, if my memory is correct on that one. Again, this is where I argue that this is an iteration of my saying that we have become too sophisticated for our own good. We have all the theory there, but the operators do not comprehend the rationale and the appropriate application of it.

Mr O’CONNOR — Maybe if I could just add something on the issue of probity: the office has been saying for a number of years that we can see the rationale for the probity frameworks that are put in place but then the application seems to be quite patchy, in particular the potential role conflict between probity auditors and probity advisers. The use of a probity adviser is usually for exactly that purpose — to provide advice to the body that is procuring the project. The auditor is to make sure that those probity steps are being followed, but

we often see a blurring and a mishmash of those roles. We have made quite a few comments in reports over that.

I think probity, like the Auditor-General said earlier on, is put in place because of a particular special circumstance that you are spending public money. You need to make sure, because commercial vendors are there to make profit — which is fundamentally quite different from the expenditure by the state, which is to provide a service or an asset for the public good — and have very different viewpoints in terms of what the expenditure is for and what the use of the money becomes. I think that the whole question of probity is still something that needs to be better understood in the public sector in terms of protecting the public purse from price signalling or collusion or any of the types of adverse events that could occur during a market engagement, but it is not there to throttle market competition or to stop communication with bona fide vendors. I get confused when I hear that sort of commentary coming from the private sector. I think it is often that their bid was not good enough and then they use probity as an excuse as to why they could not get access to the decision-maker. They have to follow the rules like everyone else.

Mr SCOTT — Just to follow on a related issue about the sorts of interactions, issues or notions that the private sector has raised concerns about, the private sector has raised concerns — and I understand there are some strong views in the Auditor-General's office around it — about the need to have additional powers in order to follow the dollar. It would probably be useful, in the context of the infrastructure projects we are talking about, for you to state in a general sense the sorts of benefits that could accrue to the public if those powers were given to the Auditor-General's office. I do not expect you to outline the concerns; frankly, I think others are better placed to do that.

Mr PEARSON — I basically come from the point that the public sector audit mandate traditionally has been comprehensive, and it has recognised that, broadly speaking, public sector programs are programs that the private sector is either unable or unwilling to provide. What we have done in recent times with new public sector management and outsourcing is bridge that divide. Under the old approach, where everything was done by the public sector, there was a recognition that there was not a market that existed, so the public sector auditors had stronger powers of access and examination, including examining people under oath, because sometimes that is the only way you can get reliable evidence.

Mr PAKULA — That is not why we have sworn you. We trusted you anyway.

Mr PEARSON — Thanks. Since we have been outsourcing issues, parts of programs are now being delivered under commercial contracts by the private sector, and in them you have not got a marketplace — although I suppose in public transport with myki and ticketing — so you still need access to source records as an auditor to be able to establish corroborating evidence or a reliable base for a decision. What often gets confused is that we are not asking for the right to audit the private sector in the sense of an outright audit; we are asking for access to information and assets in the hands of the private sector to enable us to hold public officials to account. It is not as though you want to get into their general ledger and do a full audit; you want to get out the source records. In many respects, contractors are delivering projects in a way that I see it very difficult to see as different from a public servant. It is just a different form of remuneration or engagement. The purpose of it is still to achieve the public outcome because it is a monopoly or non-market test. In relation to stationery, you do not need that access because there is a marketplace and you assess whether you are getting value for money.

In terms of delivering on these particular major projects, from time to time you need access, as I say, to the information and assets of the state in the hands of the private provider so that you can hold the public official to account. The couple of alternatives to that that have been put up I think are fundamentally flawed. One is that rather than being provided in legislation it should be provided by individual contract. I would argue that that is inappropriate in the public sector because it makes it a negotiation item and in practice in jurisdictions where that has been tried it has invariably failed because when the test came it was forgotten about; it was not in the contract. The other dimension is that we should ask the agency to access information for us. To me, that just cuts across the independence of the auditor to be able to independently access information.

Mr O'BRIEN — Following on from your response to the questionnaire, just touching on the myki project, at the second dot point of one of your responses — in a sense you could call it a recommendation — you have said:

While the tender had policies in place to ensure compliance with guidelines, the following issues relating to public interest were identified:

...

A more fine-grained approach to the tender rating system would have shown more meaningfully the relative position of tenders.

We are also in possession of the Ombudsman's report, which, from paragraphs 324 to 327, talks about proven products and the fact that the tenderer chosen was not in the marketplace with a proven product. The conclusion of the Ombudsman was:

In my view, government should look to state-of-the-art, tried and proven systems and vendors, not conceptual, untried products or vendors.

There was an earlier discussion about ICT and some difficulties in that, but there are still ICT providers in the marketplace. I am happy for Mr O'Connor to perhaps pick up some of the comments about the differences between how the private sector might go about buying an off-the-shelf product and the role of the public sector.

Could you give us, in terms of public interest, a bit of an elaboration of what you specifically mean, in relation to myki, about the recommendation for a more fine-grained approach to the tender rating system?

Mr PEARSON — From an auditor point of view we cannot come along and impose new rules or new considerations. We are really looking at: was it done reliably in the first place? In broad terms, that is shorthand for: there was adequate documentation to give us assurance, but we would have liked a better quality level of information. By 'fine-grained' we mean some more qualitative explanation of why they ranked or rated different criteria. So we are looking for more comprehensive acquittal.

Mr O'BRIEN — Does it relate to the issue of the subcontractors, in that a number of the subcontracts were not in place, as I understand it, when the tenderer tendered for or won the contract?

Mr PEARSON — I am answering in the context that this was in their assessment of the tenders. Again it is a judgement call, but we felt they could have had a more detailed write-up on the rationale for their judgements than they provided. While we said what was there was basically okay, a more fine-grained or more detailed explanation would have been more helpful.

Mr O'CONNOR — If I could just direct you to pages 4 and 5 of the report — —

Mr PAKULA — This is your report?

Mr O'CONNOR — This is our report of October 2007. It talks about a three-part tender rating system. In the step-through of the tender as we describe here, we have basically said the fine-grained system, in our view, would have provided — rather than saying that it needed to actually do this. The question is, as the Auditor-General said: has the qualitative narrative that has come out of the tender process to give people like auditors or other external parties a clearer understanding of the decision-making process, how certain parties proceed to the next stage and what are the various attributes of their bids et cetera?

Mr MORRIS — I echo your remarks with regard to the Auditor-General, Mr Chairman. I have just a quick query and then I will move to an issue of substance. Is the fare evasion report still on track for tabling next week?

Mr PEARSON — Not next week.

The CHAIR — The end of August I think was the target. No?

Mr PEARSON — You have caught me on the hop there. I am not sure whether it is the end of August or in September, but it is close.

Mr MORRIS — It will be in the next few weeks anyway.

Mr PEARSON — It is in the next month or so.

Mr MORRIS — Sorry; it was not supposed to be a trick question.

The CHAIR — We are overanxious.

Mr MORRIS — No, we are just keen to know we have got access to that —

Mr PEARSON — I might be misleading you. My problem is I focus on them about two months before they get tabled.

Mr O'BRIEN — Responsibility and accountability.

Mr PEARSON — Exactly.

Mr MORRIS — If I can move to the bottom of page 2 of the response to the questionnaire — and this is particularly myki — you talk in there about the reporting via the state budget, and the comment is that it does not provide cumulative total costs of the project and remarks about separate reporting for capital and whatever. Then a bit further down on page 3 you indicate that VAGO has reported to Parliament since 2008–09 on the cumulative budget and cost of the myki project. I just wonder whether in your view in terms of improved transparency and accountability for something like myki the cumulative amount should be reported somewhere as part of the state budget process and, secondly, whether a situation where VAGO has to report to the Parliament rather than the responsible agency is appropriate.

Mr PEARSON — In principle I think it would be preferable for the executive to report holistically. The challenge we are facing is the individual entity statements are general purpose financial statements prepared in accordance with accounting standards, and they are like a company's annual accounts. Because parts of projects often get spread across agencies, you do not get it all brought together. I would say we are filling a void, and it is probably a fortunate coincidence that in Victoria there is a requirement for the Auditor-General to prepare a report on the annual financial report of the state. Again that is another general purpose report, but it does not necessarily address specifically the public sector requirements or circumstances.

We saw a gap there and have adopted — Simone will recall it — significant projects and developments. It is chapter 4 of that report. We have used that to bring together the total picture. Again, as an auditor I would prefer DTF or someone to do that. It would have to be outside their annual financial statements. I would argue that would be the better way to go, but at the moment there is no requirement, and we have exercised the discretion allowable to us in light of public interest to draw that together and report it.

Mr MORRIS — Just a quick supplementary, if I may. If somehow that gap was filled and it was agreed that certain projects would be reported in that way, do you think it would achieve the necessary results if it was simply a list of nominated projects or programs or whatever, or should it be a concept that is extended across the board so it is possible to look at all the functions the department is engaged in and see the total cost — which is a massive exercise, I hasten to add?

Mr PEARSON — Yes, that is my concern. In the public sector we have invested in accrual accounting and we have adopted general-purpose financial reporting by entity level. The direction you are pointing to has an attraction, but I do worry about the time and cost in addressing that. So in a perfect world maybe the better approach would be to put an obligation on a central agency or the portfolio department, the principal portfolio department, to draw together the total story on major and significant initiatives.

Mr SCOTT — It is a related matter, but it relates to a broader issue picked up in this annual financial report. You made mention not just of major projects but that there was a focus on PPPs, and that relates to some other matters we are dealing with. You discussed the need for or the benefits of providing some more substantial reporting, and we have referred to myki. With reference to PPPs are there any particular issues where there would be benefits that would accrue from more extensive reporting, and what form should that reporting ideally take?

Mr PEARSON — I might give Simone a bit of notice. Again, in the PPP my mind jumps to the desal plant. Again, that is another one where we found there was a lot of public debate and there was of course information drawn together. I would probably come back to Mr Morris's suggestion that the effective compromise would be requiring a lead agency or a portfolio department to draw together the total story and report it. That would put

audit in a better position, then, of reviewing, because at the moment we are drawing information from a range of entities and putting it together.

Ms HENNESSY — Is that a problem encountered in the budget papers as well? There is no discrete place to assess PPP-related liabilities in the budget papers?

Mr PEARSON — No.

The CHAIR — Thanks. Ms Bohan.

Mr PEARSON — Did you want to add anything?

Ms BOHAN — I think the Auditor-General has covered it off, but the recommendation we made was around transparency for the PPPs, because you can see the finance lease in a set of financial statements but you cannot, typically, see the commitments in some of the other contracts that have not been let. When there is a discussion in the Parliament or in the public around the total cost of those PPPs, it is difficult to actually find that information in a set of financial statements. That was what drew our recommendation, so that there is a clear figure on what the cost is, we know what we are tracking to and there is not a debate around what the total cost is.

The CHAIR — We are done with myki, I assume?

Mr O'BRIEN — Yes, for now, for the sake of moving on.

The CHAIR — Let us look at HealthSMART. Does somebody want to jump in to HealthSMART? Did you have another myki question?

Ms HENNESSY — No, on HealthSMART, on ICT more generally. You will remember, and Mr O'Connor will particularly remember, that at one of our earlier hearings we discussed the work of Flyvbjerg. I was particularly taken by coming to understand that in ICT-related projects there was an average 500 per cent cost overrun internationally, irrespective of whether or not they were public or private related. One of the things that the committee has discussed and explored is the extent of using things like reference forecasting and adopting some of the reforms that have been adopted in the UK, specifically around treating the kind of culture of optimism bias and what public service and political culture does for that when people are bidding for projects, and around the accountability issues that you have raised. I wonder if you could tell us what that might mean in the context of an ICT program where you inherit a legacy — which, for example, in the health system you did; you have all these devolved ICT structures and you are moving to a new product, for want of a better description. How would you see some of the reforms that have been mooted internationally making a better case for governance and performance in the ICT area?

Mr O'CONNOR — Thanks for that very interesting question.

Ms HENNESSY — I know you are right on this, Mr O'Connor; I am interested in your view.

Mr O'CONNOR — I was the engagement leader for the HealthSMART audit, and in terms of my journey as an auditor it was very interesting to review this project because on the one hand it was clearly a technology project that had complex elements that were technology related, but when you stepped back from the project it was a change project — it was a system change. It was a new approach to delivering information to clinicians and to health-care system operators.

One of the complexities when we look at these large transformational technology-based projects is that we confuse the two challenges. One challenge is to effect reform, which is really operational and administrative, and then it is to implement state-of-the-art unproven technology into an environment that perhaps in the past had not been very mature in terms of the use of technology. In the case of HealthSMART in particular, if we drill down into what occurred, the key driver behind the investment decision was the concern that most of the legacy systems employed in the health services were on the verge of collapse or failure or were unable to be supported because the software language or the vendor did not exist anymore or the work to keep the system running was costing more than the benefit of perhaps going back to manual processes. It was a very difficult problem for health generally in terms of how they use technology.

However, as we pointed out in this report as well, there was also another extremely important driver, which was to try to reduce error and to reduce inadvertent readmissions due to the fact that clinicians at point of treatment did not have histories of people presenting, say, in emergency wards. A lot of people do not realise that in Victoria every individual health service has a different number for you when you present. If you go to the eye and ear hospital, they will have a record for you. If you go to St Vincent's, they will have a different record for you. If you go to Box Hill, there is a different record. If you then turn up at another hospital that relates to your previous treatment in each one of those, they will physically have to courier your file, and that could take up to two to three days. So there is no one place where clinicians can get a full history on you. That can be quite serious in terms of if you have known allergies or perhaps you present unconscious and there is really no way to know how you should be treated. There is a lot of complexity in terms of the clinical environment and the potential use of technology, which we did say has great promise.

Our concern, if we go back to our submission as well, was that this promise of the use of technology was lost in the implementation. What happened in this program was that the focus was not on the highest value aspects of the program, which was clinical systems and medication; it became focused on patient administration systems, payroll and financial systems. From a pragmatic project manager's perspective those systems made sense to implement first because they were quick wins and they were known, but they also did not deliver the promise that HealthSMART was sold to government on, which was about this use of technology in clinical treatment.

To go right back to your original question, the question of governance in ICT projects is a mixture of understanding the change management proposition at a system level versus the hygiene of the nuts and bolts of the delivery of IT systems. You would have been aware of the recent announcement that HealthSMART will not be pursued; the minister has made that announcement. Clearly the money that was spent on clinicals is probably sunk and unable to be reused. I think that would be a proposition I would put to you, and you can test that when you speak to the Department of Health in the next day or so.

The problem is that because there was no actual working system that was in a steady state to be deployed across the 10 locations that were originally proposed, there is a very big question about what sort of return on investment the state got from this technology program. In my mind the true question is not so much whether it was late or how much money was spent; it is: what effect was delivered? It goes back to our submission last time and speeches that the Auditor-General has made around ICT, which is that dollars in public administration are fungible, so every dollar that is wasted or lost on an IT project cannot be used in any other field of public administration. All you have done is transfer that money to the private vendor that provided you with that service or time and labour.

That is a serious consideration, particularly for technology projects. It is not as if there is a half-finished building that we can then go and complete and finish off. We often have a set of code which only the vendor understands what state that is at, and if a system is not working, it is potentially a very large effort around review and systems integration to make that work again. Technology projects, and particularly change projects, are particularly difficult, as we have seen from the academic literature, and probably the most risky that any public sector agency could ever take on. I often wonder whether they would match — —

Mr PAKULA — Or private, it seems.

Mr O'CONNOR — Or private — correct. I often wonder whether the risk ratings of those projects are understood before the decision is made and whether the procurement approach is matched to the unknowns around risk. I think ICT could learn from what hard infrastructure has done, particularly around alliances and perhaps PPPs, where they have understood that these unknown risks can have huge consequences in terms of delay and cost overruns. We still seem to be going for our fixed tender approach in ICT even though the nature of ICT is incredibly risky and many of those risks are very difficult to manage on a transactional basis. They can probably only be managed jointly, so that could be an area for future consideration.

Mr PAKULA — Does that suggest itself to alliancing more in ICT? I am not trying to put you on the spot, but when you talk about unknown risks — —

Generally what the public sector will start to gravitate towards in the case of unknown risk is alliance contracting rather than D and C and closed envelopes. Is that where you think people need to be in that regard?

Mr O'CONNOR — I think the broad sweep of theory out there around procurement approaches is that you should match the flexibility of your procurement to the ambiguity of your purchasing environment. We pretty much know what a house is going to cost in Camberwell probably within a bandwidth of \$30 000 to \$40 000, so an auction is probably a good way to get the best price out of that bandwidth. But if we do not understand the full technical challenges of, particularly, an ICT project, why are we trying to do a three-bidder approach? We are trusting the vendor to fully understand. We are transferring all risk to them, and then of course as soon as they take on the contract these new risks appear and then it becomes variations or renegotiation.

If we look at Treasury's very good guidance around alliances, much of the work they have done I believe could easily — the thinking steps at least — be transferred to technology projects. If we look at Treasury's investment life cycle guidance and the current refresh they are doing of that, it is becoming a lot more generic and the particular consideration points or thinking steps are now being pursued or they are recommending that people go through the thinking rather than through the process of procuring.

If you think through your project and the risk profile of the project, then you are more likely to make a more informed decision about what type of procurement vehicle you need to deliver that project within expectations. Often the expectation may not be realistic as well, and that may require a revisit by the sponsor in terms of cost and time. But if the working has been done and your original estimate is shown to be poor, at least there is an evidence base and a process by which departments can go back to Treasury and say, 'Actually that project we thought was \$100 million looks like it will be \$200 million, but here is our rationale and our work through of why we believe this now'.

To make a general point, what we tend to see is that, say, \$100 million is announced and then agencies retrofit the delivery plan around the \$100 million. They get about 60 per cent through delivery, and then they say, 'Actually it's \$200 million, but we have gone too far to stop, so give us more money'. I think that culture is driven perhaps by this tendency to try to deliver what you are asked to do because you are a public servant and you want to deliver what the government is requesting. But, as the Auditor-General said, the other side is that frank and fearless interchange and conversation early on in the process to make sure that all parties — market, government, bureaucracy — all understand the actual integral complexity of what the proposition is.

The CHAIR — I have other members — —

Mr PAKULA — It is just that it is so interesting.

The CHAIR — Yes, it is. Can I say I think the committee itself will need to have some discussions. Part of what has come out of this is that Mr O'Connor has alluded to forming an alliance in terms of it being more of a partnership than in fact a PPP, because what a PPP does is simply transfer the risk; the alliance of management clearly is a work in progress and shares the risk. I think we might need to talk about redefining what we understand about a partnership between the private sector and the public sector.

Mr PAKULA — It will be a good conversation with Treasury.

The CHAIR — Indeed.

Mr MORRIS — Just following on from the theme established by Ms Hennessy and Mr Pakula, in your response, or I should say in VAGO's response, to the questionnaire you indicate — and this reiterates what was in the original report — that the application of the highest potential benefit was clinical systems; that really was the area that was most at risk at the time the audit was done. Given that that was really central to the reason for the project existing in the first place, yet did not seem to be a central focus when it was supposedly being implemented, I am just wondering whether VAGO formed any view about why that was the case — whether it was a lack of expertise in terms of project management, whether it was a lack of technical understanding of the requirements of the clinical application or whether it was simply, as Mr O'Connor said, a difficult and complex project and it was just overwhelmed. Did you form any view about the underlying causes of that outcome?

Mr O'CONNOR — In the case of HealthSMART, I think the clinical system was struggling on a number of fronts. One of the struggles was something that seems quite basic, but there was not a standard nomenclature for procedures, so it was a case of trying to actually come up with a clinical language for every procedure of every discipline in medicine and allied health. A nomenclature existed, but it did not exist necessarily in a form that could be readily retrofitted to the software package that was purchased from the US because surgeons in the US

have a different nomenclature for their procedures. A lot of work at a technical level was involved — and a lot of consultation with clinical stakeholders. That was one area of delay. That was just a standard complexity issue in terms of the subject matter of that particular application.

The second, though, I think was about the funding arrangements. It was an expectation that the health services would basically cover the cost of the installation of these systems, that the centre or office of health information services would provide the software and the backbone but the hospitals would pay for the change management effort internally, which could include upgrades of technology, a patient master index, data migration and even point-of-clinical-service devices.

When we did this audit iPads and iPhones did not exist. They exist now, and they are cheap. Back then there was a lot of conversation about how clinicians would actually use an electronic treatment system where clinical notes could be taken at the bedside. I think that answer has been provided by Samsung and Apple to a degree, but trying to then mate that device into the complex distributed clinical application was, I think, quite a challenge.

I believe the two sites — this is just public domain information — that have implemented clinicals are the eye and ear hospital and Eastern Health. I do not have any further insight into how well that has worked or not, but from my understanding at that point in time when we did this audit, they were quite serious challenges. I think the funding issue is particularly acute in the health system because the health system is a rationed system. Many of those health services were operating on very tight finances, and even though it would save them money long term, for them to find that cash up front to hire a project manager, to hire change managers and to implement those point-of-care devices was a true challenge for them.

Mr MORRIS — Just as a quick follow-up to that: if I understood the first part of the initial response correctly, essentially what you are saying is that there was a process redesign.

Mr O'CONNOR — Yes.

Mr MORRIS — And then that process redesign needed to be automated.

Mr O'CONNOR — The automation triggered the redesign; I think that is probably more the reality, which I think once again highlights a general point we are raising about using technology as a transformation tool. It can trigger these business redesigns. However, if the technology is actually unproven or needs to be further developed, you do not necessarily want to do that concurrently with your own reform agenda within an already complex system.

Mr O'BRIEN — Just following on that, you do not want that learning-on-the-job type thing at public expense. Is that what you are saying?

Mr O'CONNOR — Yes, and I think sometimes Victoria has to be very careful to ensure that when it does procure the first instance of a complex software package it is not actually proving it on behalf of the vendor. We have made comment of a similar nature on the integrated courts management system, where, for example, the system had been successfully deployed in the USA, in the Commonwealth of Massachusetts, but the deployment to Victoria required quite a rewrite of legal procedures because our common-law system is quite different from that of the USA. That involved very substantial coding effort at the software level. What seemed to be an off-the-shelf package needed to be basically rewritten from the ground up.

Mr PAKULA — Which is why the off-the-shelf terminology in regard to ICT is generally a little bit misleading.

Mr O'CONNOR — It can be, I believe, yes. You have to do your due diligence down to that particular code level and get external advice.

Mr PEARSON — At the risk of pushing my barrow about clarity of objectives and evidence-based decision making, to me it is coming back as the specificity of the objective and the evidentiary base on which you take your decision and then being able to leave the trail, so that, as Mr O'Connor has mentioned, if you find later on that it is not working out, you have a foundation to go back to and reconcile with. If/when you embark on the next variation, then you are building in your learning as you go.

Mr O'BRIEN — I had not actually got to my question, but thank you for that because I had prompted you to that on the back of those answers.

Another matter that was identified in the Ombudsman's report on HealthSMART, picking up this problem — and I think you have identified it — was that the most benefit to the system potentially was in the clinical outcomes, and unfortunately that is the bit that has proven too hard to deliver.

The Ombudsman identifies at paragraphs 290 to 292 that:

When questioned on the increased costs, the HealthSMART program director advised that DOH:

overestimated the standard of local infrastructure and the skills of local ICT staff

underestimated the full costs associated with training doctors and nurses ...

It then refers to the CEO of Austin Health, who says they would have had to reprioritise funds dedicated to other priorities in order to deal with HealthSMART. In his conclusion the Ombudsman poses this extension of the principle, which relates specifically to the public sector — namely, that:

When questioned on why HealthSMART was such a big project, the executive director of financial and corporate services at DOH advised that small, backroom projects do not get any traction in the budget and expenditure review committee. Therefore, there is a tendency to lump things together to try to create mega projects that will grab the attention of the decision-makers.

If that applies, that is particularly relevant to public sector procurement. It then states:

This is especially important in the health field, where agencies are competing for funds against hospital beds, nurses, doctors ...

Mr Pearson is frank and fearless and Mr O'Connor is equally frank and fearless. In relation to specific elements of the public sector procurement is, in a sense, the role of announcements and media projects — big projects — and the lumping together of stuff as identified or posed by the Ombudsman something that is getting in the way of actual prudent off-the-shelf, non-razzamatazz or non-fancy, prudent decision-making?

The CHAIR — Thank you, Mr O'Brien. Who wants to pick up that one?

Mr PEARSON — My short answer is yes. Increasingly an issue we found in a range of audits is the lack of a trail of frank and fearless advice. Too often it has been done orally, and at the end of the day the evidence is, 'That's what the minister wanted' or whatever, and as the Auditor-General I have imposed the test that a minister is entitled to take whatever decision they want — that is what they are elected for — but the public servant has a responsibility to provide comprehensive advice, and in the absence of a trail of advice as Auditor-General my first recourse is against the public servant.

Mr O'BRIEN — I saw Mr O'Connor nodding through some of that.

Mr O'CONNOR — Of course, we do see these examples where mega projects are — and I like the word you used — razzamatazz proposals. They really lead and set the whole decision-making environment when in fact Treasury's guidance is very useful. When we did the better practice guide on ICT we did it in conjunction with Treasury. Basically we said to people, 'If you go through these thinking steps and' — as the Auditor-General said — 'if you provide comprehensive advice on all available options, one of the options might be not to do this, and the case for no change needs to be considered'. Many times you see with these large projects that the project is hard to kill off; it is probably harder to kill off than to announce, because of all the political, emotional and financial and procurement effort that has gone into it. It is being able to gate that process and say, 'This should stop now until we know more about what we are doing'.

I think perhaps the only recent example we could use where that has occurred is with the LEAP project with Victoria Police, where they came to a conclusion that they could not provide an assurance to government that the path they were going down would deliver the objective. I think that is probably the only time that I have seen a major ICT project not so much switched off but at least paused until the user requirements were better understood as well as the technology challenges.

Mr ANGUS — Mr Pearson, the point I want to lead on from from this discussion was really the whole issue of business cases. You very eloquently outlined at the outset four key areas that you felt were very important: clear direction in planning; evidence-based decision making; the oversight deficit that can arise; and meaningful

reporting on performance. A lot of those points, if not all of them, can be encapsulated in a robust business case that precedes the announcement and such matters that Mr O'Brien just raised. Perhaps you or Mr O'Connor could comment in relation to that and what you have seen regarding business cases, particularly in relation to some of these projects that we are discussing.

Mr PEARSON — I have asked Mr O'Connor to comment specifically, but if I relate it back to my comment earlier, we are probably being too sophisticated for our own good. We are concentrating on the intellectually stimulating and creative side of it, but we are not paying enough attention to the practical touchstones and the foundations and arguably the system is a bit out of skew. We are focused on achievement, but without looking at the means.

Mr O'CONNOR — I will draw us right back to one of the first questions that was raised in this hearing today, which was around the potential role conflict that the Department of Treasury and Finance has that sometimes is more apparent at certain points in time. Treasury has an invidious role because on one hand they have to set the rules, then they have to set the better practice guidance, but then they have to do the internal advice to cabinet. They have got three quite distinct roles that sometimes do conflict inherently.

The true question around business cases is not so much necessarily how they are constructed, but who is sponsoring me? It is not so much the process, but what sort of rigour of scrutiny goes into that business case before it gets ticked off at the decision-making or funding level? One of the challenges for the Department of Treasury and Finance, which I think they are now trying to tackle with their high-value, high-risk process, is to make sure that every project is given at least the same level of scrutiny if it is going to trigger the thresholds. One of the problems that has occurred in Victoria is that some business cases with very large amounts of money have been quite cavalier, perhaps, in the way they have been constructed, but they have received large amounts of funds and seemingly very little oversight. Unfortunately I have to characterise HealthSMART as one of those, and I think the Ombudsman agrees.

Mr ANGUS — I understand, Mr O'Connor, in relation to that that in fact the business case for HealthSMART was a relatively small document — just some dozen or 14 pages.

Mr O'CONNOR — I do not want to say whether it should be large or small. There were elements of the business case for HealthSMART that I think were quite visionary. I would say it was more of a concept brief rather than a fully written business case in terms of how we are going to implement this. As auditors I guess we have 20/20 hindsight; things that were very clear to us in terms of how they had stumbled during implementation just were not even forecast or considered in the business case nor the advice to government. I think that is the problem: people were not war gaming the worst case scenarios, and they were not giving that 'what if' type of scenario testing. That capability does exist in the public service, but we need to make sure people are given the opportunity to speak truth to power from time to time.

Mr PAKULA — But is that about, from your perspective, the role that DTF plays in the analysis of the business case, or is it about the role that line agencies play in terms of the robustness of the advice they originally draw up? Part of the problem that I think has been identified before is that sometimes Treasury plays these dual roles as part proponent, part overseer.

Mr O'CONNOR — Triple roles.

Mr PAKULA — Yes, triple roles. To what extent do the extra gateways that might be proposed by Treasury overcome the ongoing problem of them maintaining triple roles? I am interested in your comments about that.

Mr O'CONNOR — To reflect on what the Auditor-General said at the start of the hearing, we have to be very careful that we do not swing the pendulum too far from pragmatic performance —

Ms HENNESSY — Do nothing.

Mr O'CONNOR — back to process-bound compliance regimes. Sometimes you have to, because if you cannot trust the agencies to do the work that is needed, perhaps a rules-based system will at least clear up the pockets of rogue behaviour. It may be a short-term response, but it is recalibrating the pendulum to get back to a culture of excellence and performance, and I think where that fits in a devolved system is the challenge. DTF cannot be poacher and gamekeeper; they have to be able to set the rules, and, as the Auditor-General says, they

should then go and check whether those rules are being implemented. But the responsibility is at the line agency level and the advice to their ministers, which then goes to cabinet. The agencies need to provide that level of advice.

Mr PAKULA — Should they withdraw from IDCs? Should Treasury just come away from the project management or the project involvement role that they play and simply have the oversight check-off role, or should they be out of the IDCs?

Mr O'CONNOR — Treasury has to provide the best advice it can to the government of the day. I think they need to be wary of the risk and expenditure profiles of some of these major projects, and for some they should take a more active interest than others.

Mr PEARSON — I would counsel against withdrawing them because I am a strong believer in engagement, but I think it might be a stronger definition of roles. By nature a lot of public servants tend to be a bit tentative — unless they are told to do something, they will not — so to me it might be clearer to stay with expectations that DTF are seen as the gatekeepers, and they should be explicit about it.

Ms HENNESSY — I want to explore that theme around the transparency of gatekeeper. I note that in one of your reports you have talked about there being no sanctions around a failure to respond to the recommendations from gateway review. We hear a lot about high value, high risk, yet there is no publicly accessible information about the work. Everything is kind of cloaked in cabinet in confidence, so there is absolutely no way for the general public to understand: does this work, and how do we get assurance that the work of high risk, high value is indeed being effective and value adding?

The CHAIR — There is a bit of handball going on here. Mr O'Connor?

Mr O'CONNOR — Of course I am happy to provide my thoughts on high risk, high value. I think high risk, high value could be characterised as gateway with teeth. I think gateway and the normative process around gateway came from the UK. Perhaps the culture in the UK was less gaming, perhaps, in the process. I think gateway did get gamed a bit over the last five or six years, and the response to that is high risk, high value. Particularly the quite substantial cost impacts in some major project overruns has been a predictable response by Treasury to add more compliance. Although the thing that is important is that the compliance is mainly around getting advice to the Treasurer to make sure that what the agency is saying is defensible through a briefing to the Treasurer. It also makes Treasury have some skin in the game in terms of the advice they are giving to the Treasurer, so they are no longer impartial observers. They now need to brief the Treasurer as to whether the project should proceed to its next life cycle stage.

Gateway probably provided similar advice, but that advice would never have gone to ministers, to secretaries of departments or to the Treasurer. I think what high risk, high value is doing is giving the Treasurer some insight into what is occurring.

On your point about greater transparency, I guess the question is: what transparency does the public want; does it want to know about expenditure or does it want the salacious details of how a project is proceeding? I think projects go up and down. They are not always going to be agreeing at every point; now and then a red may happen. The issue is not so much whether the red occurred; it is about what people do about that red. Sometimes that may need to be discussed in a more considered and circumspect way and perhaps cabinet may be the correct vehicle for that discussion. I have no view really on whether high-value priorities should or should not be a cabinet process, but clearly we can access those briefings to the Treasurer as part of our audit work, and I think that where we do review these major projects we will be pursuing the advice that Treasury does or does not give, from here on.

Ms HENNESSY — I make no adverse reflection on the capacity and capabilities of the office of the Auditor-General. My point is that when a process, or a system, is put forward to the public around so-called assurance and it is constantly relied upon in the public debate around projects, the best information that the public gets is, 'Trust us; we're the government', and I think that is an inadequate response.

The CHAIR — That has been a refrain I have heard for many, many years. I would like to change the focus a little and move on. We are just trying to cycle through a number of the specific projects. I am looking at the Auditor-General's response in relation to the Victorian desalination plant. In that response under point 2 there is

a reporting that DSE financial statements disclosed the nominal value of the desal plant at \$4.112 billion, whereas VAGO in its annual financial report assesses the net present value cost at \$5.41 billion.

The reason I raise that is that it comes back to a discussion we had in our first session this morning on myki and the TTA and the way that TTA pointedly was not wanting to own that the cost of myki was \$1.5 billion. I do not want to get into semantics about whether funds have been spent on operating the TTA or there is certain capital or — —

Mr PAKULA — Operating Metcard, TTA.

The CHAIR — There are all various factors that comprise the \$1.5 billion. But we have this problem which is that inevitably different agencies form a different view about what it is they want to own as the project cost. In the public generally the view is, ‘Well, if the government has given an agency X dollars, the project costs X dollars, no matter about the semantics’. What I am really trying to get to is: is there a better way that we can disclose the net present cost of all of our projects to the community by way of a better standard of reporting? That is really the issue. It is not a partisan point I am trying to make here.

Mr PAKULA — No.

Ms HENNESSY — It is a PPP liability point.

The CHAIR — It is a real issue that we need to deal with.

Mr PAKULA — Before the auditor responds, the Chair is right. In addition, in terms of the comprehensibility of numbers by the public, there is this sort of disconnect between what is described as ‘net present value’ and ‘nominal value’ and what all that means. I would be interested to hear your comments about that as well, because it seems to me that one number is what the house costs and one number is what the house costs after 25 years of mortgage payments, in terms of the way that the public understands those numbers.

Ms HENNESSY — And how you want to measure that.

Mr PEARSON — The real change we have got here is I think we are — I will use the term ‘confusing’. The individual entity financial statements are public reporting. That is stewardship in terms of the accounting standards. But what you are voicing is the real need of a parliamentarian or a member of the public as the owners and managers. It is a difference between statutory reporting and management reporting. The problem we have got is that all the entity financial statements are set up on a statutory reporting basis, and under the administrative arrangements the business of government is spread over about 450 entities. But by the nature of government there is so much interrelationship and overlap that it is going to be a continuing problem to be able to get the information you want at a point in time. So I think we are caught by the framework of financial reporting — and the budget is developed on that same basis. We have built into the architecture of the system we are working with this mismatch that makes it hard to pull everything together.

Coming over the top — I will share the blame with our political masters — I think the problem is that for different purposes some will use the nominal cost and some will use the net present value, and they are both equally valid ways of looking at it. The approach we took was to put them together in the AFR, so if someone is talking nominal they can get a reliable figure, and if they want to talk net present value they can get a reliable figure. I am not sure how much more audit, short of changing the framework, the system can provide. We are in a challenging area.

The CHAIR — I presume that all members of this committee will have their own view about which number to use in debate in the Parliament.

Mr PAKULA — I think we already have.

Ms HENNESSY — Very cynical, Chair.

Mr PAKULA — I think the evidence is in on which number gets used.

The CHAIR — That is part of the confusion.

Mr PAKULA — It is a useful precedent, Chair.

The CHAIR — It is part of the confusion that varies the rhetoric, but I am actually more interested in the actuality of the accountability. It seems inadequate to me — with no reflection on the witness — that a witness could come in here and sort of end up in a debate with the committee around what the actual project costs are to the public. To the public the project costs are whatever the lump of money is that has been provided by the taxpayer to deliver that system, in this case. Similarly with the desal plant. DSE putting it at 4.112 is fine. There may be justification for that, but there need to be clear notes in the accounts in regard to that. Perhaps that is where we need to make some further recommendations, perhaps working with VAGO to come to a view about how we disclose whole-of-government reporting on projects.

Mr PEARSON — Ms Bohan might have a comment on that, because the other problem we have to be careful about is that DSE, when they prepare their accounts, they are in accordance with the Australian accounting standards that align with international standards, and the extent to which you can cross-reference is probably limited.

Ms BOHAN — Yes, and in our report you will see the 4.112m. So we pick up and we agree with that disclosure that DSE makes, but then we add to it other disclosures around commitment, so it not just the finance lease. Some of those figures you do pick up in the DSE disclosure, so the DSE disclosure will have the 4.112m. They also disclose the figure that we have underneath, around the plant and operating commitments, but they put it in as nominal. So they have a mixture between net present value and a nominal disclosure. What we have added to ours then are also the other costs around the department, that the department is actually incurring itself on this project as well, that it is being funded for, to come to our total.

Just building on the comments that the Auditor-General made and a question really from Mr Pakula around the NPV versus nominal value and some clarity around that, we have commenced discussions with the Department of Treasury and Finance around enhancing the disclosure in the annual financial report. That will not flow through for this year, but we have had some discussions around how we can get some clarity for readers when they are reading that in the annual financial report that has all the PPP projects, so that they can understand what it is that they are reading and the difference between the two.

Mr PAKULA — Sorry; what do you mean by enhanced clarity?

Ms BOHAN — In the annual financial report for the state we have a note disclosure on PPPs that has those that are not yet commissioned and those that are commissioned. There is a variety of approaches as to how agencies are calculating nominal value and how they are approaching nominal value, so there is a kind of — —

The CHAIR — So standardising it.

Ms BOHAN — Standardising it and actually making that disclosure a bit more useful for a reader to actually understand what net present value means and how it has been applied.

Mr SCOTT — How would that standardisation relate to information that is provided about infill projects on the Partnerships Victoria website where there is a calculation of net present value and a discount rate provided? Would those standardisations seek to align with that separately available profit information?

Ms BOHAN — That is probably a question for DTF, but I think they are looking for some consistency in how they apply the concept of net present value in their financial reporting.

Mr PEARSON — You would hope the desire would be that they would reconcile. But again, this is a bit of the challenge we are facing, because under the accounting standards and under the financial administration legislation the secretary, the chief executive or the chair of the accountable body are accountable and they are empowered to apply the standards, and often there are discretions or choices. From time to time this comes back to the role of central agencies. I could argue that there is a role for the Department of Treasury and Finance to be more directive in which discretion is to be exercised and how, but then you end up with a bureaucratic debate as to whether they have the authority to make that directive.

Mr SCOTT — I just raise it. There are some obvious accountability issues and abilities not just for VAGO but in the broader debate in how the work of VAGO relates. If you have different figures being presented and

both are calculated on a different basis from the original project scope and contract to the actual accountability process and the different methodologies used, obviously it makes it almost impossible for parliamentarians or others to engage in a meaningful debate around this issues.

Mr O'CONNOR — Just to raise a point on PPPs, I think what Mr Pakula said in terms of a house mortgage is the best analogy for understanding PPPs, because just like over time you can never really predict, as it might be 5 years into your 30-year mortgage payments, firstly, what the value of your house is going to be at the end — that is, what asset you are going to get — and secondly, you do not really know what interest rates will look like over time, every year you would have to reforecast — —

Mr PAKULA — Reforecast the nominal or reforecast — —

Mr O'BRIEN — You can do a present value each year. Each day as you pay you know what you are paying.

Mr O'CONNOR — I think the only part of PPPs that is very clear is the guaranteed capital payment. I think the services payment, once again, is contestable and over time, based on how well the private sector performs, potentially there can be some movement. I think it is probably the most complex forward forecast you could ever try to attempt on PPPs, particularly due to the very long concession periods.

The CHAIR — We are getting very close to the end, but I could not possibly leave this session without getting some comments about the Melbourne Markets relocation, which has been an issue that has been on an elliptical orbit, I think you could best describe it. It has come and gone from consciousness regularly over a long period. It seems that we have not yet got to the end point of delivering that project. I might give Mr O'Brien the opportunity to ask one quick question.

Mr O'BRIEN — You have identified in your response, and I know in your report as well, that in your assessment the project lacked transparency and accountability. I particularly want to take you to the management structure and the governance. You talked about accountability levels, and there seem to have been some issues in relation to that and also to changes through the scope of the project. I take you to your response on page 10 where you say:

During the life of the project, a number of major changes were made to the way it was delivered. These included:

moving from a Partnerships Victoria delivery model to a memorandum of understanding;

significant trading floor design changes;

the decision to continue with the trading floor tender without the tenant leases in place, when one of the three preferred suppliers withdrew.

I know the role of the tenants has been an ongoing issue in terms of fundamental management. It is a bit like the clinicians on HealthSMART — the fundamental customers. Could you elaborate briefly on those concerns and what recommendations you have both for the project and for this committee's terms of reference?

Mr O'CONNOR — Probably what I would say is that I think our response, and also the report, speaks for itself.

Mr O'BRIEN — It does.

Mr O'CONNOR — The project is still ongoing. I am not trying to deflect your question, but perhaps this question is best asked of the project sponsor in terms of how they are engaging with the fundamental end user.

Mr PAKULA — We have got them in next.

Mr O'CONNOR — I am not wanting to avoid answering your question directly — —

Mr O'BRIEN — Particularly the governance roles of the various bodies. Picking up Des's comments, I suppose they would be the lessons learned at this point; I know it is still ongoing.

Mr O'CONNOR — From a governance perspective, I think what the Auditor-General and all of us would like to see is that our reports are made in good faith. We try to assist and catalyse the public sector to improve

and, where there are learnings from what has occurred they should apply those learnings. If it means for them to amend their governance approach, then we have given them lots of information and a perspective — an independent view — of how they could proceed down that path. The particular question of designing a governance system is, I think, for the executive rather than for VAGO.

Mr PEARSON — I would add here that it really comes back to the management contribution, and I think only the manager can answer. We have to weigh that up in the sense that not every project is going to be successful and some are going to have problems, but it is about bringing in that judgement that things will not work out at times and that that is not necessarily a hanging offence. But you need to develop a trend over time for managers, and if they are serious, then they need to be held to account. But if it is a one-off failure, I think it is probably reasonable to provide reasonable explanations and, if there are circumstances beyond their control, cut them some slack and let them manage it through.

Mr O'BRIEN — So an ongoing management of accountability as you referred to?

Mr PEARSON — Yes.

The CHAIR — Thank you very much; it has been a very useful session. On the face of it, it appears that this might be the last session in which we have you, Des, as Auditor-General in front of us. I will finish where I started and say to you, Des, thank you very much for a great contribution to the Victorian public. I will close the hearing.

Witnesses withdrew.