Economic and Budget Review Committee

Twenty-Third Report to the Parliament:

Accountability Requirements For Public Hospitals in Victoria

November 1987

ECONOMIC AND BUDGET REVIEW COMMITTEE

TWENTY-THIRD REPORT TO THE PARLIAMENT
NOVEMBER 1987

ACCOUNTABILITY REQUIREMENTS FOR PUBLIC HOSPITALS IN VICTORIA

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FUNCTIONS OF THE ECONOMIC AND BUDGET REVIEW COMMITTEE

The functions of the Economic and Budget Review Committee, which is constituted under the Parliamentary Committees Act 1968, as amended by the Parliamentary Committees (Joint Investigatory Committees) Act 1982, are :

> "... to inquire into, consider and report to the Parliament on any proposal, matter or thing connected with public sector or private sector finances or with the economic development of the State where ... required or permitted so to do by or under this Act." (S.4A)

The Committee is required to inquire into, consider and report to the Parliament on any proposal matter or thing relevant to the functions of the Committee which may be referred to it by resolution of the Legislative Council and the Legislative Assembly or by Order of the Governor in Council. [S.4F (1)(a)].

The Committee is permitted to inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee which is laid before either House of the Parliament pursuant to a requirement imposed by or under an Act or on any matter arising out of the annual Estimates of Receipts and Payments of the Consolidated Fund or other Budget Papers. [S.4F (1)(b) and S.4F (2)].

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CHAIRMAN'S INTRODUCTION

This report concerns the financial accountability of public hospitals in Victoria, in particular their reporting and auditing arrangements. The report arises out of the on-going work of the Public Accounts Subcommittee which aims to promote efficiency and effectiveness in public sector resource use and greater accountability to the Parliament.

Public hospitals account for around two-thirds of State health care expenditures which in turn accounted for 21.0 percent of budget sector outlays in 1986-87. This figure had risen from 18.8 percent in 1983-84 due to the increasing costs of patient care and the expansion of services. The pressures to expand expenditures even further are great, but there are tight constraints on State revenues to fund this expenditure and the Commonwealth has reduced its share of funding in recent years. Clearly the State must try to make the best use it can of the available resources.

In response to this need to maximise the efficiency and effectiveness of resource use, the Government has taken many initiatives including substantially modifying the budgetary process for health care agencies. Greater incentives for efficiency and effectiveness have been created by the move toward global budget allocations, the introduction of standard costings for hospitals using the concept of Diagnostic Related Groups and the establishment of agency agreements which specify throughput targets for achievement. These changes place greater responsibility on, for example, hospital boards of management, but they also allow the boards greater autonomy in how they go about achieving their specified targets.

Boards of management have a duty, even if this is not clearly stated in legislation, to account for their use of resources. Argueably this duty is enhanced when they have increased autonomy. In addition to adequate reporting this requires objective and independent auditing of the reports on management activities. The primary recommendations of this report are that the objects and functions of hospital boards with respect to financial management be clearly specified and that public hospitals should report to Parliament under the Annual Reporting Act and should be subject to audit by the Auditor-General. These recommendations should enhance accountability in the hospital sector. They are entirely consistent with the thrust of current Government policy and at the same time recognise the important role of Parliament.

The report begins with a brief overview of public hospitals and their regulation in Victoria. It outlines existing reporting and auditing arrangements in Victoria and auditing arrangements in other States. The Economic and Budget Review Committee has had an interest in these matters for a long time and the next sections of the report summarise its past interest and the views expressed by it and to it during previous inquiries and during recent hearings. The report also considers other recently expressed views and discusses the key issues raised by them. Specific recommendations are made in light of this discussion.

As Chairman of the Subcommittee which conducted this inquiry I commend the interest and contribution of my fellow Members. In particular, I acknowledge the contribution of the Hon. Geoff Connard, M.L.C. who as Chairman of two major hospital boards in Victoria brought a wealth of experience to the inquiry. I also acknowledge the work of the research staff who drafted the report, Dr David Cousins, the Director of Research and Mrs My Chappell, Research Officer. Administrative support for the Committee during this inquiry was provided by the Secretary, Mr Gavin Jackson and by Ms Lina Godino and Mrs Carmen Ganegama who patiently and efficiently undertook the word processing duties.

THE HON. DAVID HENSHAW, M.L.C.
Chairman

LIST OF RECOMMENDATIONS

Recommendation 1

The Committee recommends that the objects and functions of boards of management of public hospitals be specified in legislation. Boards should be held responsible for the financial management of their hospitals and should be responsible for the preparation of an annual report covering financial and non-financial aspects of hospital performance and for certifying the financial statements.

Recommendation 2

The Committee recommends that public hospitals be brought under the Annual Reporting Act 1983 from the financial year 1988-89.

Recommendation 3

The Committee recommends that reporting regulations for public hospitals under the Annual Reporting Act be developed by the Department of Management and Budget in conjunction with the Health Department Victoria and in consultation with relevant organisations and individuals.

Recommendation 4

The Committee recommends that a composite report be prepared by the Health Department Victoria in accordance with Section 9A of the Annual Reporting Act. This will provide Parliament with an overview of the operational and financial activities of all public hospitals.

Recommendation 5

The Committee recommends that the financial statements and annual reports of public hospitals be audited by the Auditor-General, as required under Section 12 of the Annual Reporting Act.

Recommendation 6

The Committee recommends that an appropriate mechanism for the Auditor-General to undertake the audit of public hospitals would be to retain the services of private sector accounting firms or individuals as his agents and to recoup expenses from the hospitals concerned.

Recommendation 7

The Committee recommends that agents engaged by the Auditor-General to audit public hospitals should normally be registered company auditors under Section 18 of the Companies (Victoria) Code. A list of approved hospital auditors should be established in this context.

Recommendation 8

The Committee recommends that audit programs and guidelines should be developed and issued by the Auditor-General for use by his agents. The Committee envisages that the guidelines developed by the chartered accounting firm Ernst and Whinney should be reviewed as part of this development process.

Recommendation 9

The Committee recommends that agents engaged by the Auditor-General to conduct public hospital audits should not perform additional services for the relevant hospital which might give rise to a conflict of interest with their external audit function. It should, however, be possible for agents to undertake additional work of a minor nature or work that the Auditor-General is satisfied does not impair the agent auditor's independence. The nature of additional services performed by the agents should be disclosed together with associated fees in the notes to the financial statements of the hospitals concerned.

Recommendation 10

The Committee recommends that additional funds be made available to the Office of the Auditor-General by the Government, through the program budget allocation to the Office, to enable it to conduct value for money audits in the public hospital sector.

Recommendation 11

The Committee recommends that public hospitals establish and receive funding from the Government to operate an internal audit function which should be responsible to and report directly to their boards of management. The nature of this function would vary depending on the size of the hospital. Full-time internal audit staff would be appropriate for all hospitals with annual expenditure in excess of around $10 million. For smaller hospitals some sharing of internal audit staff may be appropriate.

1. INTRODUCTION

1.1 Accountability and Public Hospitals

Under the Hospitals and Charities Act 1958 no institution or benevolent society may be established without the prior consent of the Chief General Manager of the Health Department Victoria. There are now approximately 2500 institutions and benevolent societies registered under the Act. They all receive some form of public funding, either from the public directly through contributions and donations or, indirectly, through government subsidies, ie. they do not operate solely on a self-funding user-pays basis. The Committee has an interest in ensuring that proper accountability mechanisms operate with respect to the use of public moneys by such organisations. In particular, there needs to be adequate reporting and verification, through independent audit, of their financial activites. Accountability must, or course, also operate with respect to other activities of these organisations affecting patients, employees and the community generally, but these more general aspects of accountability are beyond the scope of this report.

The Committee has a particular concern to see that adequate accountability to the Parliament exists. Whilst it is clearly important that health care agencies maintain adequate accountability to the Executive Government through the Minister for Health and the Health Department Victoria, accountability should also extend further upwards to the Parliament as representative of the people and the ultimate authority for the provision of government funds to health care agencies.

The Committee is particularly concerned in this report with accountability arrangements affecting public hospitals (including hospitals for the aged) which are a relatively small, but economically very significant, subset of the organisations registered under the Hospitals and Charities Act. There are various categories of public hospitals. Most hospitals, however, are incorporated under the Hospitals and Charities Act and the majority of these are listed under the Fifth Schedule Table A to that Act.

The categories are significant since different regulations apply to different categories. Financial accountability arrangements also differ somewhat between categories. These arrangements have in many instances been in place for a considerble time and, as with the Act generally, need to be reviewed in light of changed circumstances, in

particular the wider public expectation of proper accountability for resource use in the public sector and developments in pubic sector financial management and accountability practices generally.

Whilst it is important that adequate accountability arrangements also apply to other health care agency groups, including community health centres, the differences between these groups may warrant different approaches to ensuring accountability. For example, for smaller organisations or organisations receiving only small amounts of pubic funding, less rigorous reporting and auditing requirements may be appropriate. The Committee has previously drawn attention to weaknesses in auditing arrangements for Bush Nursing Centres which are registered under the Hospitals and Charities Act. For these organisations it was considered sufficient that financial returns be audited by independent, professionally qualified auditors. [1] The Committee may at a later stage examine accountability arrangements affecting other non-hospital health care agencies such as community health centres. It may be noted that some of these other agencies were within the scope of consideration of a recent research report published by the Department of Premier and Cabinet on the Funding of Non-Government Agencies (May 1986). This report excluded from consideration hospitals, major research institutions and community health centres.

Appendix A provides a list of the public hospitals which can be considered to be within the scope of this Committee's report. These are public hospitals recognised under the Medicare Agreement between the Commonwealth and Victoria. It lists these hospitals according to location and type. It also shows whether each hospital is incorporated under the Hospitals and Charities Act (Second Schedule) and appears in either Table A or Table B of the Fifth Schedule to that Act.

1.2 Background to the Report

Accountability issues specifically concerning public hospitals in Victoria have in the past been considered by the Economic and Budget Review Committee (EBRC) on at least three occasions : first, in its report on Improving Government Management and Accountability (April 1983); second, in its report on the inquiry into the Royal Southern Memorial Hospital (March 1984); and third, as part of of its unfinished inquiry into the monitoring role of the former Health Commission in 1984.

In his Second Report for 1985-86, the Auditor-General noted that there were a large number of public sector entities which had not come under the ambit of the Annual Reporting Act 1983. Among these were public hospitals whose operations are primarily funded by the Government. The amounts involved are very large with expenditure on short term hospital services in Victoria by the State Government in 1987-88 expected to be around $1,745 million.[2] Yet despite this, public hospitals have no direct legislative requirement to report to Parliament.

As a follow-up to the Auditor-General's Report, the Public Accounts Subcommittee of the EBRC held a hearing with officers of the Health Department Victoria (HDV) and the Auditor-General's Office on 23 June 1987. After this hearing the Subcommittee decided to defer action pending discussions between the Department and the Victorian Hospitals' Association (VHA).

Subsequently, the Department wrote to the EBRC advising that it hoped that the Auditor-General could assume audit responsibility for public hospitals from the beginning of the 1988-89 financial year. In addition, it advised that a discussion paper would be issued by the Department on health care agencies and charities, including legislation as it related to the auditing of institutions funded by the Health Department.

The HDV discussion paper was released in August 1987 for public comment. It is the eighth in a series of papers resulting from a comprehensive review of health legislation initiated by the Minister for Health in October 1985. The paper recommended that auditors of registered funded health care agencies, including public hospitals, "should not be elected by contributors but should be selected (in the case of hospitals by the hospital boards) from a pool of qualified auditors". This recommendation was not in accordance with the view expressed by the EBRC in its 1983 report that the Auditor-General should be the auditor of all public hospitals in Victoria. Nor was it in accordance with the apparent view of the Health Department expressed in the hearing on 23 June 1987 and in the following correspondence. Consequently, the Public Accounts Subcommittee decided to investigate the issues further and to hold a hearing with the Victorian Hospitals' Association on 15 October 1987.

2. OVERVIEW OF PUBLIC HOSPITALS IN VICTORIA AND THEIR LEGISLATIVE CONTROLS

From their beginnings in the 1840's, Victorian public hospitals followed the early British model of being controlled by honorary boards of management elected by contributors, members of the community who voluntarily contributed financially to the running of the hospitals.

The major sources of public hospital income have been public donations, patient fees and government assistance. The composition of funding has changed over time, however, as public hospitals have evolved. In recent years, the sources of income have been predominantly government subsidies and to a lesser extent patient fees, with limited financial support from contributors and donors.

Government controls over public hospitals are exercised by the Health Department Victoria through the provisions in the Hospitals and Charities Act 1958. Most public hospitals are incorporated under this Act (Schedule 2). Most hospitals are also listed in the Fifth Schedule to this Act and are referred to as scheduled hospitals. Hospitals for the Aged are generally not listed in the Fifth Schedule because of technicalities associated with the provision of Commonwealth funding under the Commonwealth Aged or Disabled Persons Homes Act 1954. In addition to being subject to the general provisions applying to subsidised institutions and benevolent societies, scheduled hospitals may be subject to close direction from the Chief General Manager on matters ranging from the administration of personnel, patients, facilities and services, to record keeping, the provision of information, the inspection of books and records and the preparation of budgets and forecasts. These hospitals are also required to obtain HDV approval for capital expenditure in excess of $50,000, or such higher figure as is determined by the Governor in Council.

There are two categories of hospital in the Fifth Schedule - Table A and Table B hospitals. Table A hospitals are subject to greater controls than those in Table B. The most significant difference is that Table A hospitals have a requirement for members of the committees (or boards of management) to be appointed by the Governor in Council on the advice of the Minister for Health (Section 63F). This power replaced (in 1977) the former system of election of boards of management by contributors. The Governor in Council may also replace a committee with an administrator if the hospital is inefficiently or incompetently managed (Section 63J), and the Chief General

Manager may remove or suspend the Secretary (Chief Executive Officer) of a hospital (Section 63M).

There are only 10 hospitals listed in Table B. With a few exceptions, they are hospitals run by Religious Orders. They are not incorporated under the Hospitals and Charities Act and so do not have to comply with provisions applying to subsidised incorporated institutions. They are also not required to have boards of management. If they do decide to incorporate, neither the Governor in Council nor the Minister has power to appoint board members, appoint an administrator or suspend or remove the Chief Executive Officer. Table B also includes the Cancer Institute, which administers the Peter McCallum Hospital, and the Fairfield Hospital. These two hospitals are regulated under separate legislation but in a similar manner to hospitals in Table A.

Health service delivery in Victoria is now organised on a regional basis. Fundamental changes are also being made to the relationship between the Health Department and health agencies. During 1985-86, the Department developed the concept of agency agreements which placed emphasis on a performance oriented approach to agency management. Participating hospitals have been granted greater autonomy over the use of available resources to achieve agreed goals and targets.[3] Reduced external control, in the Committee's view, reinforces the need to ensure adequate accountability mechanisms are in place in public hospitals.

Public hospitals vary greatly in size with the smallest hospital having less than 10 beds whilst the largest hospital has over 600 beds. They can be classified broadly as shown in Table 1. This data comes from the most recent publication of Health Service Statistics.

TABLE 1

Classification of Public Hospitals in Victoria

Hospital Type	Number of Hospitals	Number of Beds
Small Community	103	3,186
Major & General	28	5,037
Specialised & Teaching	18	5,254
Geriatric (Acute only)	10	585
Totals	159	14,062

Source : Health Department Victoria, Health Service Statistics 1983-84.

Small community hospitals, the most numerous category, provide basic medical and surgical services. Major and general hospitals provide a wider range of services than small community hospitals; specialised and teaching hospitals provide general and specialist services often for the State population as the whole and are also involved in clinical research and education. Public nursing homes with acute beds are included in the figures shown in Table 1.

Data provided by the Health Department to the Committee indicated that 44 hospitals (28 percent) had a total expenditure of less than $1 million in 1985-6. Overall 115 hospitals (72 percent of the total) had expenditure of less than $10 million. At the other extreme 6 hospitals had expenditures in excess of $50 million, 1 with expenditure in excess of $100 million.

3. EXISTING REPORTING AND AUDITING ARRANGEMENTS FOR PUBLIC HOSPITALS

3.1 Reporting by Public Hospitals

Hospitals receiving subsidies through the Hospitals and Charities Fund are required under the Hospitals and Charities Regulations 1983 Section 3(b) to publish and submit

to the Chief General Manager HDV an annual report "including a comparative return covering the last preceding five years setting out an abstract of receipts, expenditure and general statistics". Hospital Constitutions and by-laws also require the preparation of annual reports. For example, clause 7.10 of the draft By-laws (June 1984) prepared by the HDV for use by Schedule 5 Table A hospitals requires each hospital board to "prepare and lay before the contributors at each Annual General Meeting a general report of the affairs of the institution together with the statement of accounts duly audited ...". Institutions are required to hold Annual General Meetings within three months of the end of the financial year. This imposes a requirement for prompt preparation of financial statements and audit reports. Whilst annual reports of public hospitals are readily available to the public, there is no requirement for public hospitals to report directly to Parliament, nor are their annual reports presented to Parliament by the Minister.

Public hospital annual reports are not prepared in accordance with any standard format. The form and content of audited accounts and annual reports are determined by each hospital board. The HDV now suggests to hospitals, however, that "preference should now be given to accrual reports as these follow conventional practices and are more likely to be understood by the community." [4] In addition to an annual report, the Health Department requires from the hospitals monthly cash flow returns, quarterly returns on an accrual basis and audited annual returns on an accrual basis. The Health Department's annual report to Parliament contains some of this information, but not in a comprehensive or detailed form. The Department has in the past prepared a yearly Health Services Statistics document which summarised some of the information provided in the returns submitted by public hospitals. But the most recent edition of this publication relates to 1983-84 data and HDV officials have advised that there are no plans to publish more recent information.

3.2 Legislative Requirements Regarding the Appointment of Auditors

The Hospitals and Charities Act does not specifically require the appointment of an external auditor for a public hospital. However, under Section 58 of the Act, the contributors are empowered to appoint an auditor and the model by-laws prepared by the Health Department under Section 62 require such an election. Section 55 of the Act deals with the qualifications required of a person to be elected to the office of auditor of an incorporated institution.

The existing legislative requirement for auditors of public hospitals to be elected by contributors does not in practice have great effect because contributors now play little part in the financial affairs of the hospitals. Instead, auditors of public hospitals, who may be private sector accounting firms or individuals, are, in effect, chosen by hospital boards of management, as their nominations are not challenged by those attending the annual meetings. Auditors then primarily report directly to the boards.

The Auditor-General does not have responsibility for acute public hospital audits in Victoria, except for the Cancer Institute as required under the Cancer Act 1958. He is, however, empowered under Section 85 of the Hospitals and Charities Act to conduct a "special" audit of the accounts of any subsidised institution. In practice, this power is rarely exercised, the last occasion being in 1979. The Assistant Auditor-General indicated during the hearing with the Public Accounts Subcommittee that the Audit Office would not use this power to conduct a normal financial audit, as this would contradict the spirit originally intended by the section.

Section 85 originated from amending legislation to the Hospitals and Charities Act in 1939. The then Premier, Mr Dunstan, when introducing the amending Bill indicated that :

> The Government believes it is desirable that audit examinations of institutional accounts should be made from time to time in a more complete way than is the practice in a majority of cases at present. The sum spent by institutions is now very large and is steadily increasing. Therefore it is necessary that all accounts should be subject to a proper audit, and accordingly it has been decided to authorise the Auditor-General for the State to audit the accounts of subsidised institutions from time to time, and to confer on him for the purpose all the powers which he has in respect to audits of public accounts. Local audits will also continue as heretofore. [5]

This seems to suggest that it was originally envisaged that audits by the Auditor-General would be more frequent than has actually turned out to be the case. It was apparently envisaged that the Auditor-General would conduct a special audit when requested by the health authority, which at that time was the Charities Board.

3.3 Audit Responsibilities

The responsibilities of hospital auditors are set out in the model by-laws. These require the auditor to report to contributors and the Health Depatment on the truth

and fairness of financial statements presented at the Annual General Meeting. Whilst the Cost Centre Accounting and Budgeting Systems Procedure Manual issued by the Department for use in the public hospital sector contains a brief guide for auditors, determination of the nature, timing and extent of audit work is at the discretion of individual auditors. There is no mechanism set up by the Department to monitor the quality and consistency of these audits. Of course, auditors have a professional requirement to ensure that Australian accounting and auditing standards are observed, but these standards may not in fact be maintained in respect of the audits of some small community hospitals.

3.4 Audit Fees

Since hospitals originated as charitable institutions, a tradition of charitable audits with low fees also developed. Low fees, however, created the possibility that audits were of low quality and limited coverage. In its inquiry into the Royal Southern Memorial Hospital, the Committee found, in fact, that the external audit was not adequate for the needs of that hospital in that it was a restricted low cost audit which failed to locate significant procedural shortcomings and administrative errors and did not provide essential advice to the Board of Management on inadequacies in internal control and internal audit. [6]

In evidence, the President of the Royal Southern Memorial Hospital explained that this was a minimal audit :

> because the auditors saw the hospital as being in the nature of a charitable organisation and they structured their audit so that the fee would be a minimal fee for a charitable organisation. [7]

This issue was raised by the Public Accounts Subcommittee with the HDV in the hearing on 23 June 1987. The Department did not, however, consider that it was a major issue in current considerations. The Victorian Hospitals' Association also informed the Subcommittee that low cost charity audits had ceased to exist and that realistic fees were now charged for audits of public hospitals.

The Committee notes that, despite assurances that low quality audits no longer prevail, relatively low audit fees continue to be charged. Fees tend to be low compared to those charged to similar sized organisations in other parts of the economy

and surprisingly in many cases, including a significant number of the larger hospitals, fees have declined over the period 1984-85 to 1985-86, according to the most recent data available to the Committee. It is possible that some audit firms perceive that certain prestige is attached to a major public hospital audit and are therefore willing to charge low fees to obtain this work. The Committee sees nothing wrong with this in itself but would be concerned if there were adverse consequences arising from it, such as reduced quality audit work or reliance on cross-subsidisation from management consulting work also performed for the hospital. This latter could compromise the independence of the external audit work of the auditor.

Unlike most private sector companies, annual reports of public hospitals do not disclose separately the payments made to auditors. In contrast, it may be noted that regulations for business undertakings and public sector superannuation schemes under the Annual Reporting Act require separate disclosure of the amount charged by the Auditor-General for auditing and any other services. Hospital returns to the HDV do require disclosure of audit fees but they do not require disclosure of other fees paid to auditors. This makes it difficult to assess whether cross-subsidisation is likely to be occurring.

4. AUDITS OF PUBLIC HOSPITALS ELSEWHERE IN AUSTRALIA

Audit arrangements for public hospitals in Australia vary between States and Territories. The Australian Auditor-General audits 2 public hospitals operated by the Australian Capital Territory Health Commission. The Auditor-General of the Northern Territory has audit responsibility for 5 public hospitals controlled by the Health Department. As in most audits of Northern Territory public sector organisations, the Auditor-General makes exclusive use of contracted auditors from the private sector for hospital audits. The audits of all public hospitals in Queensland, Tasmania and Western Australia are performed by the respective State Auditor-General.

In New South Wales, the Auditor-General until recently only audited hospitals which were under the control of the Health Department, mainly psychiatric hospitals. The remainder, comprising the majority of public hospitals, were audited by private sector auditors. Following a restructuring of the health sector, the Minister for Health appointed the Auditor-General to be the auditor of the 23 new area health boards

created under the Area Health Services Act 1986, from 1 July 1987. Each area health service brings under its control a number of public hospitals and health care agencies. The audits of the new area health services will be contracted by the Auditor-General to private accounting firms or individuals to maximise the use of the Auditor-General's existing staff resources. [8]

The Auditor-General of South Australia audits 10 of the larger hospitals incorporated under the South Australia Health Commission Act, whilst the smaller hospitals are audited by private auditors who report only to the hospital boards. However, the appointment of these auditors must be approved by the Auditor-General, and their reports to the Health Commission are reviewed by the Auditor-General.

A summary of the audits undertaken by Auditors-General for acute public hospitals in Australia is presented in Table 2. The table indicates the extent to which Auditors-General are involved with hospital audits, the relevant legislation governing their involvement and whether or not separate audit opinions are provided for the hospitals audited.

TABLE 2

AUDITS OF ACUTE CARE PUBLIC HOSPITALS BY AUDITORS-GENERAL IN AUSTRALIA

	AUSTRALIAN CAPITAL TERRITORY	NORTHERN TERRITORY	QUEENSLAND	TASMANIA	WESTERN AUSTRALIA	NEW SOUTH WALES	SOUTH AUSTRALIA	VICTORIA
NUMBER OF PUBLIC HOSPITALS	2	5	62	24, including nursing homes.	120 hospital and related boards.	100 hospitals in 23 area health services.	80	Over 160.
AUDITED BY A-G?	Yes, as part of ACT Health Authority.	Yes, as part of Health Department audit.	Yes, all.	Yes, all.	Yes, all.	Area health services to be audited from 1987-88.	Yes, 10 large hospitals and associated bodies.	Only audited one. (Cancer Institute)
AGENTS USED?	No.	Yes, for all audits.	No.	No.	51 audits were contracted to agents in 1986-87.	Yes. (A-G to audit 1)	Yes, for 2 hospitals.	No.
ENABLING LEGISLATION	Audit Act.	Financial Administration and Audit Act.	Financial Administration and Audit Act.	Hospital Act and Audit Act.	Financial Administration and Audit Act.	Request from Minister for Health under the Public Finance and Audit Act.	Health Commission Act.	Cancer Act.
AUDIT OPINION ISSUED?	Audit opinion is given on the ACT Health Authority's financial statements which incorporate accounts of the hospitals.	Hospitals are controlled by the Health Dept., so do not report separately. Audits are conducted annually for 2 large hospitals, but on a cyclical basis for 3 minor ones.	Annual audits are undertaken on all hospitals, but an audit opinion is not given to each hospital. Instead, an audit opinion is given on the Health Dept.'s financial statements which include summary information on hospitals audited.	Yes, for each entity audited.	Yes, for each entity audited.	Audit opinions will not be given to individual hospitals, but on relevant area health services.	Yes, for each hospital audited. Auditors of other public hospitals must be approved by the Auditor-General. Reports of these auditors are reviewed by the A-G after they are submitted to the Health Commission.	Yes, for Cancer Institute.

5. RECOMMENDATIONS FROM PREVIOUS REPORTS OF THE ECONOMIC AND BUDGET REVIEW COMMITTEE

5.1 Review of the Audit Act 1958

In its first report, "Improving Government Management and Accountability : A Review of the Audit Act 1958" (April 1983), the Committee noted that the external audit function of the Auditor-General did not cover public hospitals. Although the Committee did not pursue in depth the issue of public hospital audits, it did recommend that the Auditor-General should take over responsibility for the audit of public hospitals in view of the substantial amount of government moneys allocated to them. The Committee suggested that an appropriate audit arrangement would be for the Auditor-General to engage private accounting firms as his agents, as with the audits of the restructured local water authorities.

5.2 Inquiry into the Royal Southern Memorial Hospital

In March 1984 the Committee tabled a report, following a reference from the Governor in Council to inquire into the structure, organisation and management of the Royal Southern Memorial Hospital (RSMH).

In that report, the Committee found serious deficiencies in a number of areas of the hospital, including the external audit undertaken for the hospital. Accordingly, the Committee recommended :

1. That a more comprehensive audit be commissioned with audit guidelines specified ...

2. That, with the approval of the Auditor-General, guidelines for audit of hospitals be developed and distributed to boards of management and auditors.

3. That the standard of audits in the general hospital field in relation to the guidelines be reviewed to ensure that they are meeting the needs of the boards of management.

Guidelines for public hospital auditors have subsequently been prepared with the assistance of a private sector accounting/auditing firm. The Committee understands that these guidelines have not been generally released to hospitals and their auditors.

6. INQUIRY INTO THE ROLE OF THE HEALTH COMMISSION OF VICTORIA IN MONITORING ACTIVITIES OF PUBLIC HOSPITALS

In August 1983, as part of the RSMH reference, the Committee was also asked :

> To inquire into, report and recommend on the role of the Health Commission of Victoria in monitoring the activities of Public Hospitals with particular reference to :
>
> (a) information systems;
> (b) reporting;
> (c) budgeting controls; and
> (d) comparisons with appropriate monitoring systems developed elsewhere.

A subcommittee within the EBRC was formed to deal with this reference and had made some progress when an election was called in January 1985. Upon resuming office the Government reconsidered its priorities in regard to the reference. The new Minister for Health, the Hon. D.R. White, M.L.C., advised the Committee that internal inquiries in the Commission would obviate the need for the Committee to investigate the broader issues outlined in the reference. The Committee regrets that this decision was taken, however, the Committee was required to complete two specific inquiries which had been commenced as part of the reference. These concerned the remuneration of visiting medical staff at public hospitals and the labour market for radiologists.

Submissions on the role of the Health Commission of Victoria in monitoring activities of public hospitals were received from many organisations, including the Commission, the Victorian Hospitals' Association and the Auditor-General, before the Committee's inquiry was discontinued. The submissions dealt with, among other things, the appointment of auditors for public hospitals.

6.1 **Submission by the Health Commission of Victoria** (November 1984)

In its submission, the Commission stated that it had been concerned with problems associated with hospital audits for some years. As a result, it established a working party in 1980 to report on the role and appointment of hospital auditors. This working party was disbanded before reporting to the Commission apparently because it failed to reach any agreement as to the terms of appointment of auditors. The accounting profession generally sought permanency in the appointment of auditors.

Another attempt was made in August 1983 when a second working party was set up comprising representatives from public hospitals, the VHA, the Office of the Auditor-General, the Institute of Chartered Accountants in Australia, the Australian Society of Accountants and the Commission to investigate and report on :

(a) the period of appointment of hospital auditors, given the Commission's preliminary view that such terms should be for either a fixed term of three years or an indefinite period;
(b) the nature and scope of hospital audits;
(c) the fees to be paid to hospital auditors; and
(d) the minimum qualifications which hospital auditors should hold.

The second working party proceeded on the basis of a strongly held Commission view that the Commission should appoint hospital auditors after taking the views of Committees of management into account. It reported to the Commission in March 1984 and its recommendations were accepted by the Commission in their entirety. The major recommendations of the second working party were for auditors of public hospitals to be appointed for three year terms with provision for reappointment, that they be selected from a register of approved auditors maintained by the Commission, and for standard guidelines and audit scope to be developed by the Commission. However, the hospitals reacted adversely to the initial circular from the Commission regarding the register, particularly in terms of who should appoint auditors and to whom auditors should be responsible. The Commission deferred action on the recommendations while it engaged the firm of chartered accountants Ernst and Whinney to prepare standard guidelines for the audit of public hospitals. The Commission maintained the view that since, in effect, auditors acted as a watchdog on behalf of the funding source, they should be responsible to and appointed by the Commission. [9] This apparently is not the view of the HDV which now considers that the Auditor-General should have this responsibility.

In November 1984, the then Minister for Health, the Hon. Tom Roper, M.P., instructed the Commission to seek the views of the EBRC concerning the appointment of hospital auditors following on from the Committee's report on the Royal Southern Memorial Hospital. In the same correspondence, it was stated that the Commission did not believe that the appointment of hospital auditors by committees of management, as preferred by the VHA, would be appropriate given that the fundamental role of the auditor was to monitor hospital performance and management. It would prefer to act on a recommendation from a committee of management, to appoint an auditor from a register of approved auditors, and thus to retain the ultimate appointment role.

The Ernst and Whinney report was completed in June 1985, but was not publicly released. In July 1985, the Commission again wrote to the EBRC seeking the Committee's views on the appointment of hospital auditors to enable it to brief the new Minister. In its reply, the Committee stated that although it would not now be conducting the inquiry into the role of the Commission in monitoring public hospitals, it :

> supports in principle the external appointment of auditors as the Health Commission of Victoria has suggested in its letter of 29 November 1984 but believes that the Auditor-General should be involved in the process of appointment.

6.2 **Submission by the Victorian Hospitals' Association** (September 1984)

The written submission by the Victorian Hospitals' Association to the Committee claimed to represent the overall view of public hospitals.

With respect to the external audit function of public hospitals, the Board of Directors of the VHA stated that :

(a) (its) first and firm preference is for the appointment of auditors under existing arrangements, but supported by the issue of standard procedures and appropriate guidelines for auditors, and the establishment of a register of hospital auditors.

(b) However, if strong reasons can be advanced for the removal of the present statutory and other requirements, the Honorary Board takes the view that auditors could be appointed in a similar way to that by which Chief Executive Officers are appointed, that is, for Boards of Management to make recommendations to the Commission for the appointment of auditors, based on the register of hospital auditors established by the Commission and the Auditor-General's Department.

The VHA stated that it welcomed the development of audit guidelines by the Commission and the establishment of a register of approved auditors. However, it strongly objected to a proposal that hospital auditors be appointed directly by the Health Commission. It held the view that the appointment of an auditor should be the prerogative of boards of management. It suggested that a compromise solution might be for auditors to be appointed by boards and for appointments to be ratified by the Commission.

6.3 **Submission by the Auditor-General** (October 1984)

The Committee received a submission from the former Auditor-General, Mr Brian Waldron, which recommended that public hospitals be proclaimed under the Annual Reporting Act 1983. He suggested that, in view of the substantial annual grants provided by the Government to public hospitals, this would provide for greater accountability and more meaningful and comparable reporting to Parliament. In addition, annual reports of public hospitals, including audited financial statements, should be submitted to the Minister for presentation to Parliament, and the Auditor-General should be appointed as auditor.

If audits were to be undertaken by the Auditor-General's Office, this would :

(a) enable the extension of value for money auditing to public hospitals; and

(b) provide for audit reports to Parliament from an organisation which is fully independent of the sector being evaluated.

If appointed as the auditor of public hospitals, the former Auditor-General indicated that he would envisage using the services of private sector accounting firms as his agents, similar to the arrangements for the external audit of water bodies under the Water and Sewerage Authorities (Restructuring) Act 1983.

Mr Waldron noted that the recommendations made by the second working party giving the Health Commission the power to appoint and remove auditors (in consultation with boards of management) were in conflict with the recommendations made by the EBRC in its review of the Audit Act. However, at the request of the Chairman of the Health Commission, the Auditor-General's Office assisted the Commission in the setting up of a register of approved auditors and in evaluating tenders for a consultancy to develop guidelines for hospital auditors.

Although the Auditor-General regarded the recommendations of the working party as a sound framework for more effective auditing of public hospitals, he maintained that they should be considered as an interim measure only. This is because a potential conflict exists between the management, advisory and assistance roles of the Health Commission and the maintenance of an independent and objective external audit function for the public hospital sector. In his view, the Commission would be more appropriate to oversee the establishment and operations of internal audit units within public hospitals.

7. FOLLOW-UP ON THE SECOND REPORT OF THE AUDITOR-GENERAL FOR 1985-86

As part of its function to consider issues raised in the reports to Parliament of the Auditor-General, the Public Accounts Subcommittee of the EBRC decided to follow up on the Auditor-General's reference in his Second Report for 1985-86 to the fact that public hospitals were not required to report to Parliament. This decision was influenced by its past involvement in the matter and also the importance it placed upon it. Consequently, a joint hearing was held with representatives of the Health Department and the Auditor-General's Office on 23 June 1987. Representatives from the Victorian Hospitals' Association gave evidence at a separate hearing on 15 October 1987. The major issues discussed at these hearings are summarised below. In addition, the matters were briefly discussed with the Comptroller-General of the Department of Management and Budget at a hearing on 7 October 1987.

7.1 Evidence from the Auditor-General's Office

The Assistant Auditor-General stated that the present Auditor-General, Mr R.G. Humphry, had indicated his full endorsement of the recommendations made previously by the former Auditor-General in 1984. These were that public hospitals be designated public bodies under the Annual Reporting Act, that audits of their financial statements be the responsibility of the Auditor-General, and that contracted private sector auditors be engaged to perform the audits.

The reasons for the recommendations were that greater accountability would be achieved by having hospitals report directly to Parliament. Also, greater objectivity would be achieved by having the Auditor-General conduct the audits and that the traditional audit coverage could be expanded into value for money areas.

7.2 Evidence from the Health Department Victoria

Officers from the Health Department stated that the Department would not be greatly at odds with the recommendations made by the Auditor-General. However, there was a real concern on the part of hospitals and the VHA about the accountability of auditors. At present, hospital boards, in effect, appoint the auditors and auditors are accountable to the boards. This system was regarded as working well by many hospitals and the VHA. The concern was that auditors would be only accountable to

the Auditor-General, if it was he that appointed them. In addition, when considering changes to auditing arrangements, regard should be had for the recently adopted process of developing hospital agreements. These agreements which are negotiated by HDV and individual hospitals specify performance targets for the hospitals to achieve. Hospitals are also being given greater freedom from external controls than in the past in the way they go about achieving these targets. In the Committee's view hospital agreements reinforce the need for improved accountability arrangements for public hospitals. Improvements in accountability would be complementary to greater autonomy for hospital boards, not a way of reducing their autonomy.

The Department no longer considered that it should be involved in developing audit guidelines and maintaining a register of approved auditors. The Ernst and Whinney guidelines had not been released to the hospitals for use because, whilst they might be of value to small auditing firms outside the metropolitan area, the larger auditing firms had their own guidelines. The Department would feel comfortable for a panel of auditors to be appointed by the Auditor-General, provided that in selecting such a panel firms and individuals currently auditing public hospitals were taken into account.

Regarding the present position of the Department on hospital audits, it was indicated that :

> The view of the Department is that the audits be conducted or controlled by the Auditor-General ..... We certainly consider that the audit should be conducted under the auspices of the Auditor-General's Office. [10]

7.3 Evidence from the Victorian Hospitals' Association

In its hearing with the Public Accounts Subcommittee, the VHA indicated two primary reservations regarding the proposal for the Auditor-General to take ultimate responsibility for hospital audits. The concerns related to the standard of audits and the autonomy of the hospital boards.

The VHA regarded the quality of audits by the Auditor-General as inferior to that currently enjoyed by hospitals with their present auditors, and suggested that considerable delays were experienced with audits performed by the Auditor-General's Office. Furthermore, hospital management would often ask their auditors to examine particular areas as part of the audit. The VHA feared that the audit coverage

specified by the Auditor-General would be more restricted and not allow the boards to make full use of their auditors in this way.

The VHA did not agree that public hospitals could be compared with private companies, where shareholders not directors appoint the auditors. In the case of public hospitals, the contributors exercise little or no influence in the running of the hospitals; the boards, as appointed representatives of the public, should therefore elect the auditors. Moreover, if the hospital boards could no longer appoint auditors, their autonomy would be seriously eroded. The opportunity for the boards to communicate with auditors as at present would be lost. The VHA considered that the audit reports should first go to the boards, and not the Health Department or Parliament.

Overall, the VHA maintained the view that the power to appoint auditors should rest with hospital boards. If, however, the Auditor-General was to be involved, then an appropriate mechanism would be for him to maintain a panel of approved auditors from which the boards should be able to select their auditors. It was made clear that the VHA envisaged that this panel would be very large, comprising all registered company auditors. It also suggested that there should be avenues for appeal by current hospital auditors if for some reason they were excluded from the panel. In effect, there would, under this proposal, be little restriction on the choice of auditor by hospital boards.

8. REVIEW OF HEALTH LEGISLATION BY HEALTH DEPARTMENT VICTORIA

A major review of health legislation was instituted by the Minister for Health in October 1985. The purpose of the review was to prepare a new legal framework for health care in Victoria. In August 1987, a discussion paper dealing with the regulation of health care agencies and charities was released for public comment. This focussed primarily on the Hospitals and Charities Act 1958 and the Health Act 1958.

On the issue of the appointment of external auditors for health care agencies incorporated under the Hospitals and Charities Act, the paper argued that the current provisions (Section 55) are inadequate with respect to quality control of auditor's financial accountability to the community and the government, and are no longer appropriate.

The paper recommended that :

> Auditors of registered funded health services should not be elected by contributors but should be selected from a pool of qualified auditors. New auditing requirements should be in the Act or by-laws or simply be a condition of funding. The requirements should be based on the following principles :
>
> i) the form of audit should be set by government and there should be accountability to government;
>
> ii) there should be an on-going constructive relationship with the agency board, which should have a choice of its auditor and be able to receive constructive and regular input from her/him; and
>
> iii) there should be a basic standard for all auditors. **11**

The above recommendation differs from the preferred view expressed by HDV officials at the hearing on 23 June 1987 that the Auditor-General should be the appointed auditor for all public hospitals.

Following the release of the discussion paper, the Auditor-General advised the Committee that he was asked by the Minister for Health to provide an alternative wording for the recommendation concerning audit arrangements, as it did not "properly state the preferred position". The wording provided by the Auditor-General indicated that he would be responsible for the audit of public hospitals :

> The requirement for audit by the Auditor-General of registered funded health services should replace the current arrangements whereby auditors are elected by contributors. Implementation of the revised auditing arrangements may be best achieved through the requirements for registered health services to report in accordance with the provisions of the Annual Reporting Act 1983. The requirements should be based on the following principles :
>
> i) the scope of audit would be set by the Auditor-General and there would be accountability to the Parliament;
>
> ii) there would be an on-going constructive relationship and communication between the Auditor-General and/or his agent and the hospital Board; and
>
> iii) the audit would be conducted in accordance with Australian Auditing Standards and audit guidelines prepared by the Auditor-General's Office in consultation with current hospital auditors.

The Committee notes that the Auditor-General's wording refers to "registered funded health services", but it is understood that the recommendation relates specifically to

public hospitals. Further consideration of auditing arrangements for non-hospital health care agencies will be necessary.

9. DISCUSSION AND RECOMMENDATIONS

9.1 Problems with Public Hospital Audits

Consideration of the questions of who should appoint and who should be appointed as the external auditors of public hospitals in Victoria must take into account the management structure and funding sources of these hospitals. Public hospitals have evolved significantly over time. Many have grown substantially in size and become highly specialised. Because contributors can no longer provide the necessary financial support for their services, public hospitals have become increasingly dependent on government for their funding. In most cases members of boards of management are no longer elected by contributors, but are appointed by the Governor in Council to reflect these changes in sources of funding.

These changes in funding sources and management structures of public hospitals also justify a review of their existing external auditing arrangements. The Committee supports the general view expressed in the HDV discussion paper (August 1987) that existing provisions for auditors are inappropriate in the present circumstances. In the first place the current legislative requirement for auditor qualifications is inadequate for quality control. Section 55 of the Hospitals and Charities Act requires an auditor to have accounting qualifications or financial and business experience approved by the Chief General Manager of HDV. This requirement falls short of that in the Companies (Victoria) Code for public companies which requires a registered company auditor to be a member of one of the major accounting bodies or other prescribed body, to have appropriate qualifications and passed examinations in relevant subjects, to have prescribed practical auditing experience, to be capable of performing auditing duties and to be a fit and proper person (Section 18). The Committee agrees with the HDV that public hospital auditors should be registered company auditors. That should be the minimum requirement for agencies with sizeable budgets because it must be recognised that the requirements for the audit of public funds in nonprofit organisations are generally more onerous than those which apply to the audit of private commercial entities. For smaller community hospitals a requirment to have registered company auditors may create difficulties. Audit fees may be significantly higher, with travel costs, if a registered auditor has to come from another town.

Whilst the Committee considers that all public hospitals should aspire to have registered company auditors there ought to be scope for possible exemption from such a requirement to cover such exceptional cases. Nevertheless, adequate standards should still be insisted upon.

The legislative requirement for public hospital auditors to be elected by hospital contributors is also inappropriate now as contributors have declined in number and significance and government funding has increased in importance. As pointed out by the HDV :

> While it is common for shareholders in public companies to elect auditors, it is suggested that public funding of registered funded services requires a different type of accountability. [12]

The Committee has no basic disagreement with this statement insofar as it indicates that the appointment of auditors by contributors is difficult to justify. But the Committee strongly disagrees with the implication drawn in the paper that hospital boards should, therefore, be able to choose their own auditors. This conclusion fails to appreciate the fundamental role of an external auditor. In the private sector, an auditor audits the management of the company and reports to the shareholders. The auditor maintains independence from management in expressing an opinion on the financial statements. Similarly an auditor of a public hospital ought to demonstrate the same independence in order to perform the audit function effectively. This cannot be achieved if management appoints the auditor and the auditor reports to management. The boards are in this sense equivalent to boards of directors in the private sector. It makes no difference that hospital boards are appointed by the Governor in Council and to some extent reflect broad community interests. Nor is it any justification of the practice of appointing auditors by boards to suggest that in the private sector what really happens is that boards of directors can often determine the selection of company auditors by having their nominations rubber-stamped by compliant shareholders. This situation also could be considered undesirable.

The Committee is, therefore, concerned about the suggestion that auditors should be appointed by the hospital boards of management. Even if a board had to choose the auditor from a list of approved auditors, the auditors' objectivity could not be guaranteed. Whilst the HDV discussion paper appeared to recognise that "current audit arrangements do not provide sufficient objective means of ensuring financial

accountability to the community and the government", it did not draw the obvious conclusion that objectivity cannot be assured whilst the boards, in effect, continue to have the power to appoint their auditors.

The Committee also takes issue with the HDV discussion paper where it suggests that the "primary reporting relationship of the auditor should be to government". This comment fails to recognise the crucial role of the Parliament. Parliament has a concern to ensure that public funds are used in the manner intended at the time the appropriations were approved, to ensure that there has been full compliance with legislative and regulatory provisions and that value for money has been obtained. Under these circumstances there is a strong case for auditors of public hospitals to report directly to the Parliament. Whilst it would be possible for private sector auditors to report to Parliament, there are strong advantages in having just the Office of the Auditor-General do this. As the Committee has previously pointed out :

> Having one single external audit organisation enables consistency of auditing standards and methodologies to be adopted and enables the organisation to provide an overview and to evaluate within a comparative framework. It also means that Parliament can deal with one auditing organisation from which it receives an audit review of all Government organisations in the one report. Moreover, the Auditor-General is truly independent of the organisations being audited because of his statutory appointment. He does not need to negotiate with the organisation over fees or any other aspect of the audit before appointment, all of which can compromise his independence. [13]

The VHA has indicated its support for an arrangement whereby hospital boards could choose their auditors from a panel of auditors approved by the Auditor-General. This alternative would not, in the Committee's view, be very much different from that which currently prevails. It would, however, be quite different from the situation where the Auditor-General assumed responsibility for hospital audits and then established a register of auditors to act as his agents. Under the latter arrangement the Auditor-General would have power to determine the nature of the audits undertaken and to ensure that the audits performed were of satisfactory quality.

Serious allegations or assertions were made by the VHA concerning the standards of audit of the Office of the Auditor-General. The VHA suggested that, by and large, private sector auditing firms "have extremely high standards and professional level of conduct" and that the method of auditing by the Auditor-General "is far inferior to the standard system (its members) currently enjoy". It alleged that the Auditor-General

favoured cash accounting as opposed to accrual accounting and that there were frequent delays in the completion of audits by the Audit Office. These comments must be seen in light of the VHA's general resistance to a change in public hospital auditing arrangements. The Committee does not, however, accept their validity. Indeed, a number of the assertions made by the VHA simply reflected its own lack of understanding of the role of the Auditor-General, his current methods of operation and the views expressed by the Auditor-General in recent reports to Parliament. The Committee has no reason to doubt the professionalism of the Auditor-General and his staff. It should be noted that standards of practice and professional codes of ethics for auditors are prescribed by the two professional accounting bodies and must be adhered to by members whether working in the public or private sectors.

The Committee considers that existing public hospital auditing arrangements not only lack quality control and objectivity and fail to recognise the important role of Parliament, but also lack comparability. Because no one organisation has responsibility for the audits of public hospitals it is difficult to make judgements as to the adequacy of the procedures and systems which operate in hospitals to achieve efficiency of resource use and effectiveness in meeting defined objectives.

Under the comprehensive audit approach adopted by the Auditor-General in Victoria, however, such value for money considerations are an essential feature of public sector auditing. The comprehensive audit approach entails an evaluation of systems or monitoring mechanisms rather than management performance as such. Under this approach the Auditor-General would be particularly concerned to ensure that hospital boards of management were receiving appropriate information to assess efficiency and effectiveness and, in turn, that Parliament was provided with such information on a comparative hospital basis. There would be some additional costs incurred by the Office of the Auditor-General in meeting this function (and to co-ordinate and monitor the work of any contract auditors who might be employed). The Auditor-General, however, suggested to the Public Accounts Subcommittee that these costs would not be substantial because "we are not talking of a large number of people. The efficiencies that might result will more than cover the extra cost". [14]

Large hospitals are very complex organisations and in many ways they are quite unique. The Committee considers that it may take some time for the Audit Office to develop expertise in this area. However, useful work has been done elsewhere which may assist in this regard. The Canadian Comprehensive Auditing Foundation has, for

example, recently published a useful booklet on Accountability and Information for Cost-effectiveness which explores the potential for comprehensive auditing in Canadian hospitals.

9.2 Scope of Activities of Hospital Auditors

During its hearing with the Public Accounts Subcommittee the VHA argued that present auditing arrangements worked satisfactorily especially since they allowed the boards at various times to request their auditors to examine particular areas of hospital operation that may be of concern to them. The auditors who are familiar with the hospitals are well placed to provide assistance with internal systems and controls and to provide management services. The Committee readily appreciates that this may be the case. However, this is not a valid argument in support of boards being able to appoint their external auditors. In the first place, there can be unsatisfactory aspects to the practice which may offset any supposed benefits to the hospitals. Secondly, the supposed benefits could be achieved under alternative, more acceptable, auditing arrangements.

Before expanding on these arguments it is necessary to make clear the distinction between external audit, internal audit and management consultancy. An external auditor's role is to examine the records, books and financial statements of an organisation with a view to expressing an independent opinion on the truth and fairness of the financial information. An audit opinion helps to establish the credibility of the financial information to parties outside management. An internal auditor's role is primarily to review the systems and controls operating within an organisation in order to recommend improvements to management. This role may encompass considerations of economy, efficiency and effectiveness. The prime responsibility of an internal auditor is to serve the needs of management. Thus, the internal audit function is not independent of management in the same way the external audit function is or ought to be. Similarly, management consultancy, the provision of assistance or advice to clients of various aspects of management and administration to improve performance, clearly cannot take place independently of management.

Whilst it is common for the management of organisations, not just of public hospitals, to turn to their auditor for assistance with problem areas, because of the auditor's independence and ready knowledge of an organisation acquired during the course of audit, the provision of such assistance can compromise the independence of the auditor

in respect of the external audit function. This would be the case, for example, if an auditor had to comment on the validity of systems which he in fact had helped to design and introduce. If this were the case the costs to the community through the loss of independence of the auditor may outweigh the benefits to the hospital. It is possible, however, to reduce the likelihood of situations of possible compromise of independence. Professional ethics and more formal regulations may operate to prevent these situations from occurring. Organisational arrangements within the audit firm may also assist here. For example, consultancy services could be provided by a separate division of a firm so that staff directly responsible for the audit were not in any way involved. Self-regulation is unlikely, however, to be fully effective, especially in the highly competitive environment within which many accounting/auditing firms operate. There are less likely to be problems of this kind if the Auditor-General has responsibility for the audits of public hospitals. If the audits were performed for the Auditor-General by private sector agents he could enforce a code of practice prescribing appropriate standards of conduct.

The Australian Auditor-General has commented on this general problem in the Australian Audit Office Auditing Standards promulgated under sub-section 63MB(1) of the Audit Act 1901. In relation to company auditors appointed by the Minister for Primary Industries and Energy to audit statutory marketing authorities the standards include the following provision :

> 2.2.3.6 It is the responsibility of the company auditor to avoid arrangements or situations giving rise to a conflict of interest or appearance of such a conflict. It is not practicable to specify every kind of arrangement or situation that might give rise to such a conflict or appearance of conflict but, in general terms, it would be inappropriate for a firm to act as company auditor to a statutory marketing authority where members or employees of the firm or a closely associated firm :
>
> (a) are providing, or have recently provided, to the authority professional services which would be seen as affecting matters subject to the audit;
>
> (b) have recently advised the authority regarding the selection or appointment of senior staff members who are still serving the authority; or
>
> (c) are providing or have recently provided professional services to a member of the authority or to an undertaking of which a member of the authority is a director or otherwise has a significant interest.

In Victoria, the Auditor-General is responsible for the external audits of local water and sewerage authorities. He employs private sector agents to assist in the performance of this task and, in fact, enforces a strict ethical standard to govern their conduct. The agreement between the Auditor-General and an agent expressly prohibits the agent or members of staff of the agent's firm from providing other services to the authority during the period of appointment. It is still possible for these authorities to seek assistance from other private sector firms on internal audit and management consultancy matters. But as the circumstances are somewhat different in the case of hospitals, for example, the accountancy skills in hospitals are possibly more sophisticated than was the case in some water and sewerage authorities, a less strict approach may be preferable in this sector.

A more reasonable approach could be that which is adopted in the UK by the Audit Commission which appoints private sector auditors to conduct the external audits of local government authorities. The Code of Local Government Audit Practice for England and Wales published by the Commission includes the following passage :

> Where an appointed auditor, or any firm with which he is associated, carries out additional work for an authority of which he is the auditor, allegations may be made to the effect that the acceptance of such additional work may impair the auditors independence. To protect auditors from such allegations except for the two exceptions mentioned below, an appointed auditor (or his firm or any oganisation in which he has an interest) may not undertake any work, in addition to that relating directly to the discharge of his duties as an auditor, for the authority of which he is the auditor. The two exceptions are :
>
> a. Where the cost of the additional work does not exceed a de minimis value of £5000 in total in each financial year.
>
> b. Where the authority and the appointed auditor are able to satisfy the Commission both that such additional work will not run the risk of impairing the auditor's independence and also that it should be performed by the firm in which the auditor has interest, rather than by any other firm, to ensure economy and efficiency in the utilisation of the authority's resources. [15]

The UK approach therefore is not to prevent outright firms acting as agents from accepting tasks additional to the external audit, but rather to allow them to undertake small assignments and to have a case by case review of any larger assignments.

The Committee notes that potential problems associated with additional services provided by hospital auditors were recognised by the second working party set up by

the Health Commission in 1984. In their report, "all members of the working party supported the close monitoring of any additional auditing tasks requested by any party, outside the bounds of the approved audit programs. It was felt that the Health Commission should be kept fully informed of such additional audits and that the expense be met from non-government funds, wherever possible". [16] The Auditor-General would, however, be the more appropriate authority to perform this function.

Public hospitals generally do not have internal audit sections or make provison to obtain internal audit services independently of their external auditors. It appears that the absence of an internal audit function in most public hospitals causes a greater reliance by management on the external auditor to undertake special investigations of internal systems and controls. In its report on the Royal Southern Memorial Hospital, the Committee recommended that :

> the Health Commission, in conjunction with the Auditor-General, prepare an appropriate programme of internal audit for hospitals, including the necessary audit staff. [17]

The Committee maintains its view that priority should be given by the Health Department to establish an internal audit function in public hospitals, especially those with large expenditure budgets. Budget allocations to hospitals should make provision for this function. Unlike the external auditor who must be independent of the board of management, the internal auditor should take directions from the board and report to it directly. A guide to internal audit in the Victorian public sector, which should be of assistance in developing internal audit in public hospitals, has recently (November 1987) been released by the Department of Management and Budget.

9.3 Use of Contract Auditors by the Auditor-General

In previously recommending that the Auditor-General should assume audit responsiblity for all Victorian public hospitals, the Committee considered the availability of resources within the Auditor-General's Office to undertake this task. The Committee recommended that the field audit be contracted to private sector auditors as agents of the Auditor-General. The Committee did not envisage that significant additional resources would be required by the Auditor-General to undertake hospital audits because audit fees would be recovered from the hospitals concerned in accordance with the user-pays principle.

Contracted auditors are used exclusively by the Northern Territory Auditor-General and to a lesser degree by State Auditors-General. The use of agents does not reduce or limit the responsibility of the Auditor-General. He would have the overall responsibility for controlling the quality of audits carried out by agents and for expressing an opinion on the financial information. The proposed agency arrangement has, as previously mentioned, been used in Victoria for the audit of local water and sewerage authorities whereby the bulk of field audit work is contracted but the strategic planning and co-ordination are carried out by senior staff of the Office of the Auditor-General. It would be a mistake to assume, simply because private firms are involved in the audits when contract arrangements exist, that there would be no effective difference between this situation and the situation where private sector auditors alone were responsible to the audits. With the Auditor-General having responsibility there would be central co-ordination and planning of audits and scrutiny over the quality of work performed by private contractors.

The VHA has expressed some concern that hospitals would lose the opportunity to communicate with their auditors and that audit reports would not be brought to their attention directly if the Auditor-General were to have responsibility for the audits. This indicates some lack of understanding of the audit process when the Auditor-General is involved. In the hearing with the Public Accounts Subcommittee in June 1987, the Assistant Auditor-General explained how the process would work and how it would differ from the current situation :

> If the Auditor-General were to be appointed as auditor of a particular hospital - as you would realise, the responsibility of the Auditor-General is direct to Parliament and Parliament is the client; not the actual hospital board. Therefore, a private practitioner working as an agent of the Auditor-General would be responsible to the Auditor-General and in terms of power, there would be no direct relationship between the board of a hospital and the agent apart from the professional relationship where he does the audit, communicates his findings, has discussions on matters that come out of the audit and co-operates with the board of management on all aspects of the audit. That is part and parcel of the professional approach by any auditor but the relationship will be one, in the first place with the Auditor-General and then the Auditor-General to Parliament, which is typical of every audit that the Auditor-General takes on behalf of Parliament.
>
> .... when an audit is completed, the auditor submits a report to the Auditor-General. The Auditor-General will review the report and whatever comments the Auditor-General may think are important will be part of that report. The report will go first to the Treasurer of Victoria, then to the Minister - in this case the Minister for Health - and then to the hospital itself. Those three bodies would be the recipients of the first report that the auditor would issue.

> Subsequent to that procedure being put in place, responses would come from the Treasurer, from the hospitals and possibly from the Minister but certainly through the hospital. Those comments would be taken into account by the Auditor-General who would then compile his report to Parliament that would be tabled in Parliament some months after. [18]

As with other audits conducted by the Auditor-General's Office, at the conclusion of the audit, meetings would be arranged with the boards and officers to provide an opportunity for them to consider matters to be included in the first report. In addition, management letters would be prepared for the boards on matters concerning hospital operations or systems of internal control which have been identified during the course of the audit as requiring improvement but which do not warrant a qualification of the accounts or inclusion in the audit report.

The Committee considers that whilst the Auditor-General should have the ultimate power to appoint the audit firms which act as his agents, appointments should be made in consultation with hospital boards and take account of the recommendations of the hospital boards.

9.4 Role of Hospital Boards of Management

It was suggested by the VHA that it was important to maintain the autonomy of hospital boards and that this autonomy was linked to their power to appoint the hospital auditors and to have the auditors report to them. The VHA argued that taking away the audit function from them "would leave very little responsibility at all for boards." This argument seems to reflect a narrow perception of the roles and responsibilities of hospital boards of management. It also reflects a misunderstanding of the role of external audit and confusion between the concepts of accountability and autonomy.

The roles and responsibilities of boards of management of public hospitals have been widely debated. In its 1984 submission to the EBRC, the VHA considered that a hospital board was "the link between the internal structure of the hospital and the external structures within which it operates." As such, the board was "the vehicle to which the management of the hospital is accountable." Its primary functions were :

a. the formal legal responsibility for overseeing, and maintaining the organisation and its facilities;

b. to represent and be accountable to, both Government and the local community, for the quality and cost of service provision.

Clearly, this view of the functions of hospital boards entails far more than the mere appointment of the auditors and review of audit reports.

The powers and functions of the boards are surprisingly no where defined in legislation, but others have also commented on what these might be. For example, the functions of board members are listed in the publication "Board Members and Quality Patient Care" by the Australian Hospitals' Association. And standards for boards of management are laid down in the "Accreditation Guide" of the Australian Council on Hospital Standards. In the Committee's report on the Royal Southern Memorial Hospital it suggested that this Guide include an additional standard for board's "to be responsible for the management of public money in an accountable way". This recommendation seems as appropriate today as it was when first made.

Board members of the majority of public hospitals, those listed in Table A of the Fifth Schedule of the Hospitals and Charities Act, are now appointed by the Governor in Council, except for employee representatives. Because of this, the VHA considers that it would be desirable for newly appointed board members to receive a statement from the Minister as to their duties and reponsibilities. The Committee agrees that board members should be left in no doubt as to their responsibilities. It considers that the objects and functions of hospital boards should be clearly specified, preferably in legislation, possibly in the proposed new Health Services Act.

The Committee does not consider that the autonomy of the boards will be affected if they cannot choose their auditors. This suggestion misinterprets the role of external audit which is simply to attest to the truth and fairness on the information reported by management on the exercise of its responsibilities, not to interfere with these responsibilities. The reporting function is paramount to ensuring effective accountability of management is maintained. As the VHA itself recognised in its 1984 submission to the Committee "an individual board of management should be held accountable for the achievement of its hospital's defined role within the context of Government/Central authority policies and available resources".

9.5 Reporting to Parliament

During its hearing with the Public Accounts Subcommittee, VHA representatives questioned the need for public hospitals to report directly to Parliament. They pointed out that the hospitals were now required to supply a substantial amount of information to the HDV and, moreover, that annual reports of each hospital were readily available if required.

The Committee considers that all public bodies of substantial size should report to Parliament through the relevant Minister. Quite a few public hospitals, in fact, have annual expenditures well in excess of some government departments and on this basis should report to Parliament. Whilst it may not be necessary to table in Parliament annual reports of small public hospitals, such reports should nevertheless still be available to members of Parliament who request them.

The Committee also considers that insufficient information on public hospitals has in the past been made available to Parliament by HDV. One function which only the HDV can sensibly perform is to compile consolidated hospital sector financial statements. The information and data obtained through the returns submitted by the hospitals could be used for this purpose. Although the HDV could no doubt also publish financial statements for individual hospitals, the responsibility should rest with the hospitals in the first instance to prepare these reports and then with the Minister to table them in the Parliament.

A further difficulty with hospital annual reports is the inconsistent basis on which these have been prepared. A mixture of cash-based reporting and accrual-based reporting exists in the hospital sector and no comprehensive set of guidelines exists to ensure uniformity and consistency in reporting practices. In the Committee's view all public hospitals should now be reporting on an accrual basis as it is only then that an appreciation of the full costs of hospital operation can be obtained, including the opportunity costs associated with both current and fixed assets.

The Auditor-General has recommended that public hospitals be required to report to Parliament under the provisions of the Annual Reporting Act 1983. At present, public hospitals are not deemed to be public bodies for the purposes of this Act. The Annual Reporting Act was a major innovation of the State Government. Its objectives were to ensure more appropriate, timely and consistent reporting in the public sector. The

number of organisations covered by the Act is gradually being extended as appropriate regulations for different types of organisations are developed. The Committee was advised by the Comptroller-General of the Department of Management and Budget (DMB) that DMB has had discussions with the HDV regarding the possible inclusion of certain health entities and other institutions under the Annual Reporting Act in 1988-89.[19] It is apparently thought by DMB that the proposed regulations for Contributed Income Sector Agencies would be appropriate for reporting by public hospitals. However, as these regulations will cover a large range of public bodies, the Committee considers that there may be merit in DMB and HDV developing specific reporting regulations for public hospitals in addition to the standard regulations. Specific regulations would be especially relevant where non-financial performance measures are concerned.

The Committee supports the view that public hospitals should be required to report to Parliament under the Annual Reporting Act. Under this Act only those hospitals with annual cash payments in excess of $1 million from all sources would be required to have their annual reports lodged with Parliament (Section 9(3)). The Minister would, however, be required to table reports of smaller hospitals as requested by members. Under the Act, public bodies are required to prepare their annual reports, including audited financial statements, within three months of the end of the financial year for presentation to the relevant Ministers (Sections 9,11). Compliance with this requirement would allow hospitals to continue to report to their Annual General Meetings as at present. There is provision under the Act also for composite reports to be prepared by a Minister responsible for two or more administrative units and public bodies (Section 9A). Furthermore, the Act requires that the Auditor-General audit the accounts and financial statements of any organisation reporting under the Act (Section 12). There is no reason to suppose that hospitals would not be required to report on an accrual accounting basis under the Annual Reporting Act. Public bodies, not administrative units, are now required under the Act to report on an accrual basis.

9.6 Conclusions and Recommendations

The Committee concludes in general that hospital boards of management have a responsibility for the financial operation and performance of their hospitals. Proper accountability mechanisms need to be in place to ensure that this responsibility is exercised in an appropriate manner. In particular, public hospitals should be required to report to Parliament as well as to the HDV, and the truth and fairness of their

accounts and financial statements should be attested to by the Auditor-General, an independent statutory appointee who reports to the Parliament.

The Committee recommends that :

1. The objects and functions of boards of management of public hospitals be specified in legislation. Boards should be held responsible for the financial management of their hospitals and should be responsible for the preparation of an annual report covering financial and non-financial aspects of hospital performance and for certifying the financial statements.

2. Public hospitals be brought under the Annual Reporting Act 1983 from the financial year 1988-89.

3. Reporting regulations for public hospitals under the Annual Reporting Act be developed by the Department of Management and Budget in conjunction with the Health Department Victoria and in consultation with relevant organisations and individuals.

4. A composite report be prepared by the Health Department Victoria in accordance with Section 9A of the Annual Reporting Act. This will provide Parliament with an overview of the operational and financial activities of all public hospitals.

5. The financial statements and annual reports of public hospitals be audited by the Auditor-General, as required under Section 12 of the Annual Reporting Act.

6. An appropriate mechanism for the Auditor-General to undertake the audit of public hospitals would be to retain the services of private sector accounting firms or individuals as his agents and to recoup expenses from the hospitals concerned.

7. Agents engaged by the Auditor-General to audit public hospitals should normally be registered company auditors under Section 18 of the Companies (Victoria) Code. A list of approved hospital auditors should be established in this context.

8. Audit programs and guidelines should be developed and issued by the Auditor-General for use by his agents. The Committee envisages that the

guidelines developed by the chartered accounting firm Ernst and Whinney should be reviewed as part of this development process.

9. Agents engaged by the Auditor-General to conduct public hospital audits should not perform additional services for the relevant hospital which might give rise to a conflict of interest with their external audit function. It should, however, be possible for agents to undertake additional work of a minor nature or work that the Auditor-General is satisfied does not impair the agent auditor's independence. The nature of additional services performed by the agents should be disclosed together with associated fees in the notes to the financial statements of the hospitals concerned.

10. Additional funds be made available to the Office of the Auditor-General by the Government, through the program budget allocation to the Office, to enable it to conduct value for money audits in the public hospital sector.

11. Public hospitals establish and receive funding from the Government to operate an internal audit function which should be responsible to and report directly to their boards of management. The nature of this function would vary depending on the size of the hospital . Full-time internal audit staff would be appropriate for all hospitals with annual expenditure in excess of around $10 million. For smaller hospitals some sharing of internal audit staff may be appropriate.

COMMITTEE ROOM
11 NOVEMBER 1987

FOOTNOTES

1. Victoria, Economic and Budget Review Committee, Review of Bush Nursing Services, April 1987, p. 124.

2. Victoria, Budget Summary and Program Budget Expenditure 1987-88, Budget Paper No. 5, p. 150.

3. Health Department Victoria, Annual Report 1985-86, pp. 7-8.

4. Health Department Victoria, 1986-87 Annual Return, p. 3.

5. Victoria, Legislative Assembly, Parliamentary Debates, 21 November 1939, p. 2169.

6. Economic and Budget Review Committee, Report on the Inquiry into the Royal Southern Memorial Hospital, p. 48.

7. Ibid.

8. New South Wales, Auditor-General's Report for 1986-87, Part I, p. 115.

9. Health Commission of Victoria, Submission to the Economic and Budget Review Committee, November 1984, p. 73.

10. Minutes of Evidence, 23 June 1987, pp. 88-89.

11. Health Department Victoria, Review of Health Legislation, Discussion Paper No.8 "Regulation of Health Care Agencies and Charities", p. 48.

12. Ibid. p. 47.

13. Economic and Budget Review Committee, Improving Government Management and Accountability : A Review of the Audit Act 1958, p. 60.

14. Minutes of Evidence, 13 May 1987, pp. 48-49.

15. UK Audit Commission, Code of Local Government Audit Practice for England and Wales, Code No. 8.

16. Health Commission of Victoria, Report of the Working Party on the Role and Appointment of Hospital Auditors, (February 1984), p. 6.

17. Economic and Budget Review Committee, Report on the Inquiry into the Royal Southern Memorial Hospital, p. 50.

18. Minutes of Evidence, 23 June 1987, p. 82.

19. Minutes of Evidence, 7 October 1987, pp. 142-3.

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Victoria, Economic and Budget Review Committee, Review of Bush Nursing Services, April 1987.

Victoria, Health Department, Annual Report 1985-86, October 1986.

Victoria, Health Department, Health Service Statistics 1983-84.

Victoria, Health Department, Review of Health Legislation, Discussion Paper No. 8 : Regulation of Health Care Agencies and Charities, August 1987.

Victoria, Second Report of the Auditor-General for 1985-86, March 1987.

APPENDIX A

LIST OF PUBLIC HOSPITALS IN VICTORIA

METROPOLITAN

SPECIAL

*	A	(7)	After Care Hospital (Collingwood)
	B	(6)	Cancer Institute (Melbourne)
	B	(7)	Caritas Christi Hospice (Kew)
		(8)	Caulfield Hospital
*	A	(8)	Hampton Rehabilitation Hospital
	B	(8)	Little Company of Mary Hospital Incorporated (Caulfield)
	B	(6)	Mercy Maternity Hospital Incorporated (East Melbourne)
*	A	(6)	Royal Children's Hospital (Parkville)
*	A	(6)	Royal Dental Hospital of Melbourne, The (Parkville)
*		(7)	Royal Talbot General Rehabilitation Hospital (Kew)
*	A	(6)	Royal Victorian Eye and Ear Hospital, The (East Melbourne)
*	A	(6)	Royal Women's Hospital, The (Carlton)

GENERAL

*	A	(8)	Alfred Hospital (Prahran)
*	A	(6)	Altona District Hospital
*	A	(6)	Amalgamated Melbourne and Essendon Hospitals, The (Parkville and Essendon)
*	A	(7)	Austin Hospital (Heidelberg)
*	A	(7)	Box Hill Hospital
		(8)	Brighton Community Hospital (Southern Memorial)
		(7)	Bundoora Extended Care Centre
*	A	(7)	Burwood and District Community Hospital
*	A	(8)	Dandenong and District Hospital
	B	(7)	Fairfield Hospital
*	A	(8)	Frankston Hospital (provides administration for Southern Peninsula, Rosebud)
*	A	(6)	Maribyrnong Medical Centre (Footscray, Sunshine and St. Albans)
*	A	(7)	Maroondah Hospital (East Ringwood)
*	A	(8)	Monash Medical Centre (Clayton, Moorabbin & Melbourne)
*	A	(8)	Mordialloc - Cheltenham Community Hospital
*	A	(7)	Preston and Northcote Community Hospital
*	A	(8)	Royal Southern Memorial Hospital, The (Caulfield)
*	A	(8)	Sandringham and District Memorial Hospital
*	A	(8)	Springvale and District Community Hospital
*	A	(7)	St. George's Hospital (Kew)
	B	(7)	St. Vincent's Hospital (Fitzroy)
*	A	(6)	Werribee District Hospital
*	A	(7)	William Angliss Knox and Sherbrooke Community Hospital, The (Upper Fern Tree Gully)
*	A	(7)	Williamstown Hospital, The

COUNTRY

BASE

*	A	(2)	Ballarat Base Hospital (provides administration for Lismore, Skipton and Ripon Peace, Beaufort)
*	A	(3)	Bendigo and Northern District Base Hospital, The (provides administration for Boort, Dunolly, Elmore and Heathcote)
*	A	(1)	Geelong Hospital, The (provides administration for Apollo Bay, Beeac, Lorne and Winchelsea)
*	A	(5)	Gippsland Base Hospital (Sale)
*	A	(4)	Goulburn Valley Base Hospital (Shepparton) (with Annexe at Tatura; also provides administration for Nathalia and Waranga, Rushworth)
*	A	(1)	Hamilton Base Hospital (provides administration for Heywood, Macarthur, Penshurst and Willaura)
*	A	(3)	Mildura Base Hospital (with Annexe at Red Cliffs)
*	A	(4)	Wangaratta District Base Hospital (provides administration for Rutherglen)
*	A	(1)	Warrnambool and District Base Hospital, The (provides administration for Timboon and Mortlake)
*	A	(2)	Wimmera Base Hospital (Horsham) (with Annexes at Jeparit and Murtoa; also provides administration for Dunmunkle Health Services)

GENERAL

*	A	(4)	Alexandra District Hospital
*	A	(1)	Apollo Bay and District Memorial Hospital (administered from The Geelong Hospital)
*	A	(2)	Ararat and District Hospital
*	A	(6)	Bacchus Marsh and District War Memorial Hospital
*	A	(1)	Beeac and District Hospital (administered from the Geelong Hospital)
*	A	(4)	Benalla and District Memorial Hospital
*	A	(1)	Birregurra and District Community Hospital (administered from Colac District Hospital)
*		(3)	Boort District Hospital (administered from the Bendigo & Northern District Base Hospital)
*		(4)	Bright District Hospital
*	A	(1)	Camperdown District Hospital, The
*	A	(1)	Casterton Memorial Hospital
*	A	(5)	Central Gippsland Hospital (Traralgon)
*	A	(2)	Clunes District Hospital, The
*	A	(4)	Cobram District Hospital
*	A	(3)	Cohuna District Hospital
*	A	(1)	Colac District Hospital (provides administration for Birregurra)
*	A	(1)	Coleraine and District Hospital
*	A	(4)	Corryong District Hospital
*	A	(2)	Creswick District Hospital, The
*	A	(2)	Daylesford District Hospital
*	A	(2)	Dimboola District Hospital
*	A	(2)	Donald District Hospital
*	A	(2)	Dunmunkle Health Services (Minyip and Rupanyup) (administered by Wimmera Base Hospital)
*	A	(3)	Dunolly District Hospital, The (administered from The Bendigo & Northern District Base Hospital)

*	A	(5)	East Gippsland Hospital (Bairnsdale) (provides administration for Omeo and Orbost)
*	A	(3)	Echuca District Hospital Incorporated
*	A	(2)	Edenhope and District Memorial Hospital
*	A	(4)	Eildon and District Community Hospital
*	A	(3)	Elmore District Hospital (administered from The Bendigo & Northern District Base Hospital)
*	A	(7)	Healesville and District Hospital
*	A	(3)	Heathcote District Hospital (administered from The Bendigo & Northern District Base Hospital)
*	A	(1)	Heywood and District Memorial Hospital (administered from Hamilton Base Hospital)
*	A	(3)	Inglewood Hospital, The
		(2)	Jeparit Hospital (Annexe of Wimmera Base Hospital)
*	A	(2)	Kaniva District Hospital
*	A	(3)	Kerang and District Hospital
*	A	(4)	Kilmore Hospital, The
*	A	(1)	Koroit and District Memorial Hospital
*	A	(5)	Korumburra District Hospital
*	A	(4)	Kyabram and District Memorial Community Hospital
*	A	(3)	Kyneton District Hospital
*	A	(5)	Latrobe Valley Hospital (Moe)
*	A	(1)	Lismore and District Hospital (administered from Ballarat Base Hospital)
*	A	(1)	Lorne Community Hospital (administered from the Geelong Hospital)
*	A	(1)	Macarthur and District Memorial Hospital (administered from Hamilton Base Hospital)
*	A	(5)	Maffra District Hospital
*	A	(3)	Maldon Hospital
*	A	(3)	Manangatang and District Hospital (administered from Ouyen and District Hospital)
*	A	(4)	Mansfield District Hospital
*	A	(3)	Maryborough and District Hospital
*	A	(1)	Mortlake District Hospital, The (administered from The Warrnambool District Base Hospital)
*	A	(5)	Morwell and District Community Hospital
*	A	(3)	Mt. Alexander Hospital (Castlemaine)
		(2)	Murtoa Hospital (Annexe of Wimmera Base Hospital)
*	A	(4)	Myrtleford District War Memorial Hospital
*	A	(4)	Nathalia District Hospital (administered from Goulburn Valley Base Hospital)
*	A	(2)	Nhill Hospital, The
*	A	(4)	Numurkah and District War Memorial Hospital
*	A	(5)	Omeo District Hospital (administered from East Gippsland Hospital)
*	A	(5)	Orbost and District Hospital (administered from East Gippsland Hospital)
*	A	(3)	Ouyen and District Hospital (provides administration for Manangatang)
*	A	(4)	Ovens District Hospital (Beechworth)
*	A	(1)	Penshurst and District Memorial Hospital (administered from Hamilton Base Hospital)
*	A	(1)	Port Fairy Hospital
*	A	(1)	Portland and District Hospital
		(3)	Red Cliffs District Hospital (Annexe of Mildura Base Hospital)
*	A	(2)	Ripon Peace Memorial Hospital (Beaufort) (administered from Ballarat Base Hospital)

*	A	(3)	Robinvale and District Hospital
*	A	(3)	Rochester and District War Memorial Hospital
*	A	(4)	Rutherglen District Hospital (administered from Wangaratta District Base Hospital)
*	A	(4)	Seymour District Memorial Hospital
*	A	(5)	Shelley Memorial Hospital (Bunyip) (administered from West Gippsland Hospital, Warragul)
*	A	(1)	Skipton and District Memorial Hospital (administered from Ballarat Base Hospital)
*	A	(8)	Southern Peninsula Hospital (Rosebud) (administered from Frankston Hospital)
*	A	(5)	South Gippsland Hospital (Foster)
*	A	(3)	St. Arnaud District Hospital
*	A	(2)	Stawell District Hospital
*	A	(3)	Swan Hill District Hospital
*	A	(4)	Tallangatta Hospital
		(4)	Tatura Annexe - Goulburn Valley Base Hospital
*	A	(4)	Tawonga District General Hospital (Mount Beauty)
*	A	(1)	Terang and District (Norah Cosgrave) Community Hospital
*	A	(1)	Timboon and District Hospital (administered from Warrnambool and District Base Hospital)
*	A	(4)	Waranga Memorial Hospital (Rushworth) (administered from Goulburn Valley Base Hospital)
*	A	(2)	Warracknabeal District Hospital, The
*	A	(5)	West Gippsland Hospital (Warragul) (provides administration for Shelley, Bunyip)
*	A	(8)	Westernport Memorial Hospital (Koo-Wee-Rup)
*	A	(1)	Willaura and District Hospital (administered from Hamilton Base Hospital)
*	A	(1)	Winchelsea and District Hospital (administered from The Geelong Hospital)
*	A	(4)	Wodonga District Hospital
*	A	(8)	Wonthaggi and District Hospital
*	A	(5)	Woorayl District Memorial Hospital (Leongatha)
*	A	(3)	Wycheproof District Hospital
*	A	(5)	Yarram and District Hospital
*	A	(4)	Yarrawonga District Hospital
*	A	(4)	Yea and District Memorial Hospital

HOSPITALS FOR THE AGED

*		(3)	Bendigo Home and Hospital for the Aged
*		(7)	Eastern Suburbs Geriatric Centre (Ringwood)
*		(5)	East Gippsland Centre for Rehabilitation and Extended Care (Bairnsdale)
*	A	(1)	Grace McKellar Centre (Geelong)
*	A	(6)	Greenvale Centre
*		(8)	Kingston Centre (Cheltenham)
*		(1)	Lyndoch, Warrnambool
*		(8)	Mount Eliza Centre, The (with Annexe at Lotus Lodge Hostel for the Aged, Rosebud)
*		(6)	Mount Royal Hospital (Parkville)
*		(4)	Ovens and Murray Hospital for the Aged (Beechworth)
*		(2)	Queen Elizabeth Geriatric Centre, The (Ballarat)
		(6)	Western Geriatric Complex (Society) (St. Albans)

INSTITUTES FOR MATERNAL AND INFANT WELFARE (SUBSIDISED)

	(7)	Canterbury Family Care Centre (Forster Hospital Wing)
B	(7)	Grey Sisters' Mother and Child Care Centre (Croydon)
B	(6)	Queen Elizabeth Centre Family Care and Child Development (Carlton)
B	(6)	Tweddle Baby Hospital, The (Footscray)

NOTES :

* Indicates that the hospital is incorporated under the Hospitals and Charities Act

A or B Indicates hospital as being listed under Schedule 5, Table A or Table B.

(7) Indicates the hospital is located in Health Region 7.

APPENDIX B

LIST OF WITNESSES

WITNESS	POSITION/ORGANISATION	DATE OF HEARING
Mr R.G. Humphry	Auditor-General	13 May 1987
Mr F. Belli	Assistant Auditor-General	
Mr L.J. Fewster	Chief Director of Audits (Operations) Group 1, Office of the Auditor-General	
Mr R.G. Hamilton	Chief Director of Audits (Operations) Group 2, Office of the Auditor-General	
Mr J. Pinnis	Chief Director of Audits (Resources), Office of the Auditor-General	
Mr M. Kane	Director, Research and Evaluation Division, Office of the Auditor-General	
Mr F. Belli	Assistant Auditor-General	23 June 1987
Mr L.J. Fewster	Chief Director of Audits (Operations) Group 1, Office of the Auditor-General	
Mr G. Towers	Director of Audit, Office of the Auditor-General	
Mr J. Dyke	Acting Director of Audit, Office of the Auditor-General	
Mr B. Joyce	Acting Director, Finance and Administration, Health Department Victoria	23 June 1987
Mr A. Clifford	General Manager, Budget Accounting and Control, Health Department Victoria	
Mr Graham Carpenter	Comptroller-General, Department of Management and Budget	7 October 1987
Mr Allan Hughes	Executive Director, Victorian Hospitals' Association Ltd.	15 October 1987
Ms Pauline Ross	Deputy Executive Director, Victorian Hospitals' Association Ltd.	
Ms Mavis Smith	Executive Officer, Finance, Victorian Hospitals' Association Ltd.	
Dr Ian Brand	Deputy Chairman, Victorian Hospitals' Association Ltd. and Chief Executive Officer, Preston and Northcote Community Hospital	
Mr Stan Capp	Chief Executive Officer, Frankston Community Hospital	

APPENDIX C

EXTRACTS FROM THE RECORDS OF PARLIAMENT

MINUTES OF THE PROCEEDINGS OF THE LEGISLATIVE COUNCIL

Wednesday 25 September 1985

2 **Economic and Budget Review Committee** - The Honourable Evan Walker moved, by leave, That the Honourables W.R. Baxter, G.P. Connard, J.V.C. Guest and D.E. Henshaw be members of the Economic and Budget Review Committee from 1 October 1985.

Question - put and resolved in the affirmative.

Thursday 30 April 1987

3 **Economic and Budget Review Committee** - The Honourable Evan Walker moved, by leave, that the Honourable W.R. Baxter be discharged from attendance upon the Economic and Budget Review Committee, and that the Honourable R.M. Hallam be added to that Committee.

Question - put and resolved in the affirmative.

VOTES AND PROCEEDINGS OF THE LEGISLATIVE ASSEMBLY

Wednesday 25 September 1987

5 **Economic and Budget Review Committee** - Motion made, by leave, and question - That Mr Gavin, Mrs Gleeson, Mr Harrowfield, Mr Hayward, Mr McNamara, Mr Rowe, Mr Sheehan and Mr Stockdale by appointed members of the Economic and Budget Review Committee from 2 October 1985 (Mr Fordham) - put and agreed to.

PREVIOUS REPORTS AND DISCUSSION PAPERS OF THE ECONOMIC AND BUDGET REVIEW COMMITTEE

REPORT NUMBER	TITLE	DATE
1.	Improving Government Management and Accountability : A Review of the Audit Act 1958	April 1983
2.	Dry Docking and Repair Facilities in the Port of Melbourne	June 1983
3.	Proposals Contained in the Local Authorities Superannuation (Amendment) Bill (No.2)	October 1983
4.	Proposals Contained in the State Employees Retirement Benefits (Amendment) Bill	October 1983
5.	Proposals Contained in the Hospitals Superannuation (Amendment) Bill (No.2)	November 1983
6.	Matters Raised in the Education Department by the Auditor-General of Victoria	March 1984
7.	Royal Southern Memorial Hospital	March 1984
8.	A Review of Superannuation in the Victorian Public Sector	April 1984
9.	Summary of Victorian Public Sector Superannuation Schemes	April 1984
10.	Final Recommendations and Options for the Future Reform of Victorian Public Sector Superannuation	September 1984
11.	Review and Recommendations of the Victorian Parliamentary Superannuation Scheme; The Judges Superannuation Schemes; The Governor's Pension and other Special Superannuation Schemes	October 1984
12.	Wine Industry in Victoria	April 1985

REPORT NUMBER	TITLE	DATE
13.	Method of Remuneration for Visiting Medical Staff at Public Hospitals	October 1985
14.	A Labour Market Study for Radiologists	October 1986
15.	Aspects of State-Federal Financial Relations	October 1986
16.	Accountability Requirements Affecting Subsidiary Companies of Government Organisations with Special Reference to V/Line Industries	November 1986
17.	Matters Concerning the National Gallery of Victoria	December 1986
18.	State Insurance Office : The Accounting Measurement of Compulsory Third Party Outstanding Claims Liabilities	December 1986
19.	Review of Bush Nursing Services in Victoria	April 1987
20.	The Accounting Treatment of Fixed Interest Security Switches with Special Reference to the Construction Industry Long Service Leave Board	October 1987
21.	The Relationship Between the Economic and Budget Review Committee and the Office of the Auditor-General	October 1987
22.	A Report on Activities of the Committee, 1985-87	November 1987

DISCUSSION PAPER

1.	Review of Budget Estimates by Parliament	July 1987

F D Atkinson Government Printer Melbourne