

3 Bills for Introduction

4 Appointments

Not relevant



5 Other Matters

Not relevant



6 Cabinet Notes

Not relevant



602 FINANCIAL MANAGEMENT IMPROVEMENT PROJECT IN THE
DEPARTMENT OF HEALTH (John Hill) - NOTED

Not relevant



602

Minutes forming Enclosure to:

TO: THE PREMIER FOR CABINET TO NOTE

RE: FINANCIAL MANAGEMENT IMPROVEMENT PROJECT IN THE DEPARTMENT OF HEALTH

1. PROPOSAL

1.1 That Cabinet notes the progress to date on the Financial Management Improvement Project (FMIP) in the Department of Health (DH).

2. BACKGROUND

2.1 In June 2005 Cabinet was informed of the key findings of the Ernst and Young Report of the Financial Management Review of the former Department of Human Services. The report confirmed the significant deficiencies in the past financial management of the former Department. Cabinet supported the thrust of the recommendations and noted that although considerable progress had already been made with many of the recommendations it was a multi year undertaking to achieve "best practice" financial management. Approximately \$4 million was allocated over several financial years to support financial management improvement reforms.

2.2 In January 2006 Cabinet noted a progress report on the FMIP underway in DH. This is a further update.

3. DISCUSSION

3.1 The deficiencies in practices had previously been identified by departmental management and the following key reforms were introduced prior to the completion of the Ernst and Young report:

- a finance committee was established with revised financial reporting tools providing improved analysis of the underlying budget position and factors impacting on performance
- restructuring of the finance workforce to streamline accountability to the Finance Director in order to achieve better integration and coordination
- an internal departmental budget was developed that aligned the internal budget to the Cabinet approved budget in current year and forward estimates period

- improved shared knowledge and understanding between the Department of Treasury and Finance (DTF) and DH
- implemented Cabinet mandated reforms for consolidated reporting to DTF; and
- a Senior Finance Officer forum established for the portfolio to improve coordination and understanding of operational and strategic financial management matters of relevance to the health portfolio and DTF.

3.2 Significant completed tasks by the FMIP since the last progress report include:

- the Senior Finance Officer (SFO) forum has taken a lead role in defining financial management policy and procedures. It should be noted that in the past commonality of practice had often been lacking as a consequence of the various separately incorporated bodies that make up the health system adopting different approaches and interpretations to financial management issues. The SFOs, under a structure based on regions rather than individual health units, have been very influential in developing a portfolio wide approach to financial policy, procedures, reporting, budgeting and technical issues
- adoption of an agreed set of monthly financial reporting requirements to suit the whole portfolio
- endorsement of a common Chart of Accounts for the health portfolio
- allocation of resources to regions to evaluate capacity of regions to implement change and to identify gaps in their current processes and systems. These resources are also assisting in implementing reforms
- developed and endorsed as departmental policy a set of accrual accounting principles for management reporting to be implemented across the portfolio
- pilot site implementations to ensure compliance to new definitions and accruals at sites in Central Northern Adelaide Health Service and Southern Adelaide Health Service
- formulation of a key set of agreed principles around the reporting of Specific Purpose Funds (non-operating funds received by health units)
- implementation of a Central Data Warehouse in order to store all the financial data collected from health units. This will be used as the platform for reporting to all levels across the health portfolio

- reconciled the funded staff plan for DH between the human resource system and the financial system; and
- agreement on common practices in the CHRIS payroll system that will enable categorisation of workforce by funding source.

3.3 The project is on track with the planned timetable. Critical milestones to be achieved over the next 12 months include:

- implement accrual accounting in health regions from 1 July 2007 in order that their financial information is compatible with the rest of Government
- develop and implement a budget model for regions that is reconcilable to the budget provided by DTF for current year and the forward estimates period
- include non-operating funds in monthly reporting for health units to show the full financial situation in all health units
- forward budget estimates amended to reflect the income and expenditure trends for Specific Purpose Funds
- implement revised monthly reporting processes utilising the Central Data Warehouse as the primary source of financial data for the health portfolio and replacing other sources wherever possible, thereby, enabling resources to be redirected to other areas of need
- continuation of training and awareness so that finance staff involved in the health portfolio have a much improved understanding of the financial management framework used across the health portfolio and Government generally; and
- introduction of revised workforce reporting that will incorporate staff funded from Specific Purpose Funds, whom are currently not included in existing management reporting.

3.4 The achievements are being made despite some constraints that limit progress or make progress difficult. These include:

- the financial systems used in DH are not common across the portfolio. Further, they utilise technologies and software packages that are old and generally have been adapted over the years to interface with the patient management systems that underpin patient care.

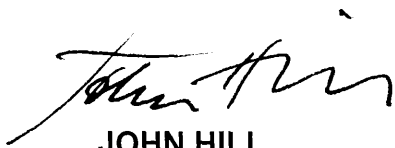
Common financial systems would significantly improve capability, but the replacement cost is also significant and no budget is available for this purpose. In the meantime, the Department's approach is to make the most of what is currently available rather

than wait for replacement systems. However, the outcomes being achieved are less than what would be the case with a common and more contemporary financial system

- availability of resources to make the required changes to processes and systems in regions and health units in addition to fulfilling routine financial management responsibilities, as well as, supporting a variety of other initiatives required by Government, Treasury and DH; and
- health unit staff financial management knowledge levels need to be increased, especially, in small health units.

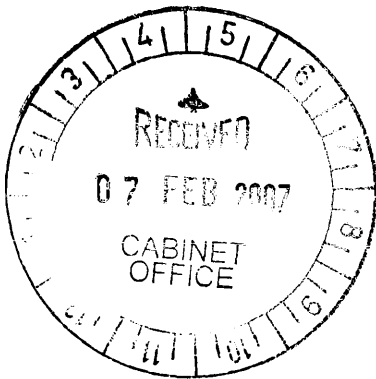
4. RECOMMENDATION

4.1 That Cabinet notes the progress made to date on the Financial Management Improvement Project.



JOHN HILL
MINISTER FOR HEALTH

Date: 3/2/07



In Cabinet

12 FEB 2007

