



SENATOR THE HON. CHRISTOPHER ELLISON

Minister for Human Services
Senator for Western Australia

C07/3930

Senator Mitch Fifield
Chair
Senate Standing Committee on Finance and Public Administration
Parliament House
CANBERRA ACT 2600

Dear Senator ~~Fifield~~ *Mitch*

7 - AUG 2007

Health Services Australia

At the hearings of the Senate Standing Committee on Finance and Public Administration of 24 May 2007, Senator Penny Wong raised a number of issues relating to procurement decisions taken by Health Services Australia Ltd (HSA). Subsequently, in response to a question in the Senate from Senator Kate Lundy raising similar issues on 12 June 2007, I noted that I had asked the Secretary of the Department of Human Services to report back to me on the issues, and that I would advise the Senate Committee when that information was to hand.

On 25 May 2007, the day following the Senate hearings, I asked the Secretary of my Department, Ms Helen Williams, to examine the issues raised in relation to this matter, including relevant procurement processes as they were applied in relation to HSA's procurement of radiology services, and to report back to me as soon as possible. Ms Williams' report took account of all relevant material including the findings of an independent review by Mallesons Stephen Jaques commissioned by the HSA Board and was provided to me on 13 July 2007. Her review focussed particularly on the issues of possible conflict of interest, HSA procurement processes and the procurement of, and contracts for, radiology services particularly in Perth and Melbourne.

The review by Mallesons Stephen Jaques found that Mr Kmet did not engage in unlawful conduct in relation to those contracts. In particular, the investigation found that he had not breached the Corporations Act or any other law, that he did not exceed his delegated authority and that he did not act contrary to applicable Commonwealth or company guidelines.

In her report, the Secretary found no basis to dispute those legal findings. She did, however, identify areas where better practice would improve the management approach.

I am also able to advise that the HSA Board and Mr Kmet have mutually agreed that is in the best interests of both parties that Mr Kmet pursue other career opportunities. Mr Kmet subsequently ceased employment as Managing Director with HSA on 27 July 2007.

While management decisions are clearly a matter for the HSA Board, I am satisfied with the approach the Board has adopted.

The Secretary's report to me (which incorporated the Mallesons Stephen Jaques report) also identified areas of improvement in HSA's processes, including in the area of corporate governance, and I have asked the Board to report back to me as a matter of urgency on steps it will be taking to strengthen HSA's procurement and corporate governance procedures.

The HSA Board has advised that it is in the process of reviewing, and will implement changes to, its corporate governance procedures, including those matters identified in the reports of the Secretary and Mallesons Stephen Jaques in such areas as delegations and authority limits (in terms of both financial and qualitative limits), procurement procedures, conflict of interest policy and Board oversight.

I have also asked the Board to report to me in the future on the implementation of these measures.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Chris Ellison'.

CHRIS ELLISON
Senator for Western Australia