FINANCIAL AUDIT 15 DECEMBER 2021

Health 2021

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

audit office
OF NEW SOUTH WALES

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983,* and section 421E of the *Local Government Act 1993*.

AUDITOR-GENERAL NEW SOUTH WALES

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In accordance with section 52B of the *Government Sector Audit Act 1983*, I present a report titled **'Health 2021'**.

Margaret Crawford
Auditor-General for New South Wales
15 December 2021

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Health 2021

Auditor-General's foreword

This report analyses the results of our audits of the Health cluster agencies for the year ended 30 June 2021.

Our preferred approach is to table the 'Report on State Finances' in Parliament before any other cluster report. This is because the 'Report on State Finances' focuses on the audit results and observations relating to the Total State Sector Accounts, in effect a consolidation of all government agencies. This year the 'Report on State Finances' has been delayed due to significant accounting issues being considered in the Total State Sector Accounts and which may impact the Treasury and Transport clusters.

As there are no outstanding matters relating to audits in the Health cluster impacting the Total State Sector Accounts we have decided to break with normal practice and table this cluster report ahead of the 'Report on State Finances'.

Section one

Health 2021

This report analyses the results of our audits of the Health cluster agencies for the year ended 30 June 2021.

Report highlights

What the report is about

The results of Health cluster (the cluster) agencies' financial statements audits for the year ended 30 June 2021.

What we found

Unmodified audit opinions were issued for the financial statements of all Health cluster agencies.

The COVID-19 pandemic increased the complexity and number of accounting matters faced by the cluster. The total gross value of corrected misstatements in 2020–21 was $250.2 million, of which $226.0 million were pandemic related.

A qualified audit opinion was issued on the Annual Prudential Compliance Statement. The basis of the qualification related to 19 instances (18 in 2018–19) of non-compliance relating to three of the 20 prudential requirements across five aged care facilities.

What the key issues were

The total number of matters we reported to management across the cluster increased from 112 in 2019–20 to 116 in 2020–21. Of the 116 issues raised in 2020–21, three were high risk (one in 2019–20) and 57 were moderate risk (47 in 2019–20). Nearly one half of the issues were repeat issues.

The three new high-risk issues identified were:

Hotel Quarantine (HQ) fees
The absence of a tailored debt recovery strategy, data integrity issues and uncertainties around future HQ arrangements increased risks around the recoverability of HQ fees from travellers.

COVID-19 inventories
Data errors and anomalies in the impairment model and difficulties forecasting key factors impacting the management of Personal Protective Equipment (PPE) increased uncertainty associated with the valuation and impairment of COVID-19 inventories.

COVID-19 vaccines
The Commonwealth did not provide information about the cost of vaccines provided to NSW free of charge, which required the performance of internal valuations to reflect the consumption of vaccines in the financial statements.

What we recommended

Hotel Quarantine (HQ) fees
Develop a tailored assessment methodology to estimate recoverability of HQ fees and work with Revenue NSW to develop a tailored debt recovery strategy.

COVID-19 inventories
Review the current stocktaking and impairment methodology to incorporate validation of data key to the management of COVID-19 related PPE.

COVID-19 vaccines
Work with the Commonwealth to obtain primary price information on COVID-19 vaccines.

Fast facts

The Health cluster, comprising 15 local health districts, five pillars agencies, two specialty health networks and six shared state-wise services agencies, deliver health services to the people of New South Wales.

$23.5b
property, plant and equipment as at 30 June 2021

100%
unqualified audit opinions were issued on agencies 30 June 2021 financial statements

24
monetary misstatements were reported in 2020–21

$26.8b
total expenditure incurred in 2020–21

3
high risk management letter findings were identified

47.4%
of reported issues were repeat issues

1. Introduction

This report provides Parliament and other users of the Health cluster's financial statements with the results of our audits, our observations, analysis, conclusions and recommendations in the following areas:

- financial reporting
- audit observations.

1.1 Snapshot of the cluster

Source: NSW Budget Papers 2021–22.

2. Financial reporting

Financial reporting is an important element of good governance. Confidence and transparency in public sector decision-making are enhanced when financial reporting is accurate and timely. This chapter outlines our audit observations related to the financial reporting of agencies in the Health cluster (the cluster) for 2021.

Section highlights

- Unqualified audit opinions were issued for all cluster agencies required to prepare general-purpose financial statements.
- The total gross value of all corrected monetary misstatements for 2020–21 was $250.2 million, of which $226.0 million were related to complexities arising from the COVID-19 pandemic.
- A qualified audit opinion was issued on the Ministry's Annual Prudential Compliance Statement.

2.1 Cluster financial information

The following table summarises the key financial metrics for the 2020–21 financial reporting period for the consolidated entity and two other independent agencies listed in Appendix A of Treasury Direction TD21-02. Refer to Appendix four for detailed financial data for all health entities.

Agency	Total assets $m	Total liabilities $m	Total income* $m	Total expenses** $m
Principal department				
Ministry of Health - consolidated entity	29,529.4	7,619.9	27,095.5	26,789.7
Other independent cluster agencies listed in Appendix A of Treasury Direction TD21-02				
Health Care Complaints Commission	8.7	7.6	21.6	20.4
Mental Health Commission of NSW	1.9	1.5	9.9	9.8

* Includes other gains.

** Includes other losses.

Source: Agencies audited 2020–21 financial statements.

2.2 Quality of financial reporting

Audit opinions

Unqualified audit opinions were issued on agencies' general-purpose financial statements

Unqualified audit opinions were issued for agencies required to prepare general-purpose financial statements. Sufficient and appropriate audit evidence was obtained to conclude the financial statements were free of material misstatement.

A qualified audit opinion was issued for the compliance audit of the Ministry's Annual Prudential Compliance Statement

The Ministry operated eight residential aged care facilities in NSW during the year. The Ministry is required to comply with the Fees and Payments Principles 2014 (No.2) (Fees and Payments Principles) when entering into agreements with and managing payments to and from care recipients. Of these eight residential aged care facilities, one facility was transferred to private ownership during the 2020–21 financial reporting period.

We identified 19 instances of material non-compliance (18 in 2019–20) relating to three of the 20 prudential requirements at five of the eight aged care facilities in 2020–21 where we observed:

- written agreements were not evident for six care recipients outlining the maximum accommodation amounts payable before the recipient entered the residential aged care service
- written accommodation agreements were not executed with three care recipients within 28 days of the recipient entering care
- miscalculations of interest meant overpayments were made on refunds of deposits to ten care recipients.

Monetary misstatements identified and reported in 2020–21

A monetary misstatement is an error in a balance reported in the financial statements that were initially submitted for audit. These may be corrected or remain uncorrected at the end of the audit.

The total number of all monetary misstatements identified across the cluster decreased from 31 (gross value of $499.3 million) in 2019–20 to 24 (gross value of $342.9 million) in 2020–21. The table below shows the number, quantum and value distribution of all monetary misstatements for the past two years.

Year ended 30 June	2021		2020	
	✓	!	✓	!
Less than $50,000	--	1	--	1
$50,000 to $249,999	1	1	--	2
$250,000 to $999,999	--	2	--	8
$1 million to $4,999,999	--	2	3	7
$5 million and greater	11	6	5	5
Total number of misstatements	**12**	**12**	**8**	**23**

Key ✓ **Corrected misstatements** ! **Uncorrected misstatements**

Corrected monetary misstatements

Total corrected misstatements increased from eight in 2019–20 (gross value of $404.1 million[1]) to 12 in 2020–21 (gross value of $250.2 million). Of the 12 corrected misstatements in 2020–21, 11 misstatements had a gross value greater than $5.0 million. Adjustments were processed to correct for a:

- $83.8 million overstatement in the impairment provision for COVID-19 related inventories (personal protective equipment) resulting from anomalies in the accuracy of product best before dates[2] (BBDs) when comparing the BBD data contained within the Ministry of Health's impairment model calculation (using information extracted from the inventory system) to the actual BBD data contained on the product's physical packaging. The misstatements were caused by data input errors at the various warehouses managed by Health cluster agencies
- $30.4 million understatement in the impairment provision for COVID-19 related inventories (personal protective equipment) that resulted from amendments to anticipated consumption patterns of such inventories. Initial consumption forecasts were based on movements captured up until 30 June 2021. The projected usage assumed the historical trend would remain relatively consistent post year-end. As the impacts of the COVID-19 Delta variant began to result in increased demand for inventories, the original assumptions around consumption patterns were reviewed to consider actual usage data post year-end
- $27 million prior period error relating to the understatement of revenue, which should have been recognised in 2019–20 for COVID-19 personal protective equipment related inventories received under the National Partnership on COVID-19 Response (the Agreement). Under the Agreement, the Commonwealth agreed to fund the acquisition of certain types of COVID-19 related inventories. Inventories were purchased and received as at 30 June 2020 but the associated revenue was not brought to account in the 2019–20 year but rather in the 2020–21 year
- $22.3 million recognition of income for COVID-19 vaccines received free of charge from the Commonwealth under the Agreement. The Commonwealth procured and paid for the vaccines and provided them free of charge to NSW. Although no cost was incurred by the state, the fair value of the COVID-19 vaccine inventories needed to be recognised as revenue upon receipt, recorded as a cost upon use, and the unused inventories held at year-end recorded as an asset in the financial statements. Cost information could not be obtained from the Commonwealth and the cluster undertook an internal valuation to ascertain the value of the asset and the amounts associated with the supply to be recognised in the financial statements
- $17.1 million recognition of expenses for COVID-19 vaccines provided to the public free of charge (see item above). This cost related to the first-time recognition of the value of COVID-19 vaccines provided free of charge to the NSW public
- $18.1 million understatement in the Expected Credit Loss (ECL) relating to the collectability of outstanding fee charges at year-end for the Hotel Quarantine (HQ) Program. The HQ Program and the fees associated with it began in 2020–21. It was a new arrangement for NSW. Many people staying in HQ incurred personal debts for their stays, which they agreed to pay after they left HQ. The assessment methodology employed to estimate the value likely to be recovered from outstanding invoices relied upon historical data related to other health debtors. Debts from hospitalisations may have a different profile to HQ debtors. The methodology did not consider the differences between the general population of health debtors and debtors who had been required to go through the HQ Program, the deteriorating ageing profile of the HQ debtors or actual collection rates of HQ debtors post year-end. The additional impairment for ECL on HQ debtors took these additional factors into account

[1] $319.8 million of the prior year's misstatement related to inter-group adjustments between the Ministry and HealthShare for inventory procurement and were eliminated on consolidation.
[2] Also known as an expiry date.

- $16.1 million error relating to the incorrect accounting treatment for the disposal of the Shellharbour Hospital Redevelopment Stage 1 project. This adjustment relates to expenses on a development project where a decision had been made to no longer proceed with the project. Expenses remained capitalised as an asset, however because of the decision to not proceed with that particular project, no future economic benefit were to be derived from that expenditure and the costs should have been written off
- $12.2 million error where HealthShare NSW failed to recognise a liability to the Commonwealth in relation to COVID-19 inventories issued in advance from the federal stockpile during the initial stages of the pandemic. The payable was recognised when the Commonwealth issued an invoice after year-end
- $8.5 million error relating to under accruals for pathology services provided by private sector service providers to Medicare ineligible patients. This related to control weaknesses associated with cut off procedures in processing invoices at year-end
- $8.0 million error relating to the Albury Base Hospital's property, plant and equipment to reflect material fair value increases. This related to a material movement in the value of property, plant and equipment between full revaluation cycles
- $6.0 million error relating to an overstatement in grants expense associated with an agreement with Lifeline NSW to provide mental health services in 2020–21. This related to control weaknesses associated with cut off procedures in processing invoices at year-end.

Uncorrected monetary misstatements

Total uncorrected misstatements decreased from 23 in 2019–20 (gross value of $95.2 million) to 12 in 2020–21 (gross value of $92.7 million). Of the 12 uncorrected misstatements in 2020–21, six had a gross value greater than $5.0 million, and relate to judgemental errors with respect to a:

- $38.8 million understatement of expected credit losses relating to Hotel Quarantine receivables managed by the Sydney Local Health District
- $16.6 million under-accrual of revenue associated with the Commonwealth's State Public Health Payments managed by the Ministry of Health
- $10.5 million over-provision by the South Eastern Sydney Local Health District raised for costs associated with the planned future delivery of goods and services. However, there was no present obligation to deliver those goods and services
- $8.2 million understatement of the impairment provision by HealthShare NSW relating to COVID-19 related inventories due to errors found in best before dates
- $5.2 million overstatement in payables and $1.9 million overstatement in receivables relating to cross border activities because of applying a two per cent growth to estimate the volume of such activities in circumstances where that growth has not eventuated due to border closures and restrictions
- $5.2 million over-provision by the Northern Sydney Local Health District for costs associated with works that were anticipated to be undertaken in the 2021–22 year but for which there was no past event that gave rise to a present obligation.

New financial reporting provisions became effective from 1 July 2021

The financial reporting provisions in Division 7.2 of the *Government Sector Finance Act 2018* (GSF Act) commenced on 1 July 2021. All agencies in the Health cluster prepared their annual GSF financial statements for the 2020–21 financial year under these provisions.

Twenty-eight agencies were exempt from financial reporting in 2020–21

Part 3A Division 2 of the Government Sector Finance Regulation 2018 (GSF Regulation) prescribes certain kinds of GSF agencies not to be a reporting GSF agency. For 2020–21, the following cluster agencies have assessed and determined they met the reporting exemption criteria under the GSF Regulation, and therefore were not required to prepare annual financial statements:

Exempted agencies	GSF Regulation reference	Basis for reporting exemption
Special purpose staff agencies		
Agency for Clinical Innovation Special Purpose Service Entity Albury Wodonga Health Employment Division Ambulance Service of NSW Special Purpose Service Entity Bureau of Health Information Special Purpose Service Entity Cancer Institute NSW Special Purpose Service Entity Central Coast Local Health District Special Purpose Service Entity Clinical Excellence Commission Special Purpose Service Entity Far West Local Health District Special Purpose Service Entity Health Care Complaints Commission Staff Agency Health Education and Training Institute Special Purpose Service Entity Health Infrastructure Employment Division Hunter New England Local Health District Special Purpose Service Entity Illawarra Shoalhaven Local Health District Special Purpose Service Entity Justice Health and Forensic Mental Health Network Special Purpose Service Entity Mental Health Commission Staff Agency Mid North Coast Local Health District Special Purpose Service Entity Murrumbidgee Local Health District Special Purpose Service Entity Nepean Blue Mountain Local Health District Special Purpose Service Entity	Part 3A, Division 2, Section 9F of the GSF Regulation	GSF Regulation prescribes that where a GSF agency comprises solely of persons who are employed to enable another particular GSF agency to exercise its function not to be a reporting GSF agency. All 28 staff agencies satisfy this requirement and therefore are exempted from preparing financial statements in 2020–21.

Exempted agencies	GSF Regulation reference	Basis for reporting exemption
Special purpose staff agencies		
Northern NSW Local Health District Special Purpose Service Entity		
Northern Sydney Local Health District Special Purpose Service Entity		
NSW Health Pathology Special Purpose Service Entity		
Public Health System Support Employment Division		
South Eastern Sydney Local Health District Special Purpose Service Entity		
Southern NSW Local Health District Special Purpose Service Entity		
South Western Sydney Local Health District Special Purpose Service Entity		
Sydney Children's Hospitals Network (Randwick and Westmead) (incorporating The Royal Alexandra Hospitals for Children) Special Purpose Service Entity		
Western NSW Local Health District Special Purpose Service Entity		
Western Sydney Local Health District Special Purpose Service Entity.		

2.3 Timeliness of financial reporting

Early close procedures

Early close mandatory procedures were submitted on time for all cluster agencies

NSW Treasury introduced early close procedures to improve the quality and timeliness of year-end financial statements.

In March 2021, NSW Treasury reissued Treasurer's Direction TD19-02 Mandatory Early Close as at 31 March each year (TD19-02) and issued TPP21-01 Agency Direction for the 2020–21 Mandatory Early Close, requiring GSF agencies listed in Appendix A of TD 19-02 to perform early close procedures and provide the outcomes to the audit team by 26 April 2021.

Cluster agencies met the statutory deadlines for submitting their 2020–21 early close financial statements and other mandatory procedures. The table below summarises the agencies' timeliness of submitting the mandatory early close procedures and the status of those procedures.

Agency	Completed	Not completed	Not applicable
Principal department			
Ministry of Health (Consolidated entity)	15	--	1
Other cluster agencies listed in Appendix A of Treasury Direction TD19-02			
Health Care Complaints Commission	11	--	5
Mental Health Commission of NSW	11	--	5

Source: Reports on early close procedures 2021 issued by the Audit Office of New South Wales.

Certain mandatory early close procedures are not applicable to agencies. For instance, if an agency did not have changes in accounting policy or a correction of material prior period error, those procedures would be considered as not applicable to the agency.

Year-end financial reporting

Annual reporting requirements

Cluster agencies met the statutory deadlines for submitting their 2020–21 financial statements as outlined in NSW Treasury Direction TD21-02 Mandatory Annual Returns to Treasury.

On 1 July 2021, the *Public Finance and Audit Act 1983* (PF&A Act) was renamed the *Government Sector Audit Act 1983* (GSA Act). Whilst the PF&A Act required the Auditor-General to audit agencies' financial statements within ten weeks of their receipt, the GSA Act does not specify the statutory deadline for issuing the Independent Auditor's Report.

The audits of all cluster agencies are now complete. 2020–21 annual reports must be submitted to relevant Ministers by 31 October 2021. The Independent Auditor's Reports were provided to all cluster agencies in time for the Ministry and the Consolidated Entity to meet the deadlines for submission of the annual report. Refer to Appendix three for the timing of financial reporting for all health entities.

2.4 Key accounting issues

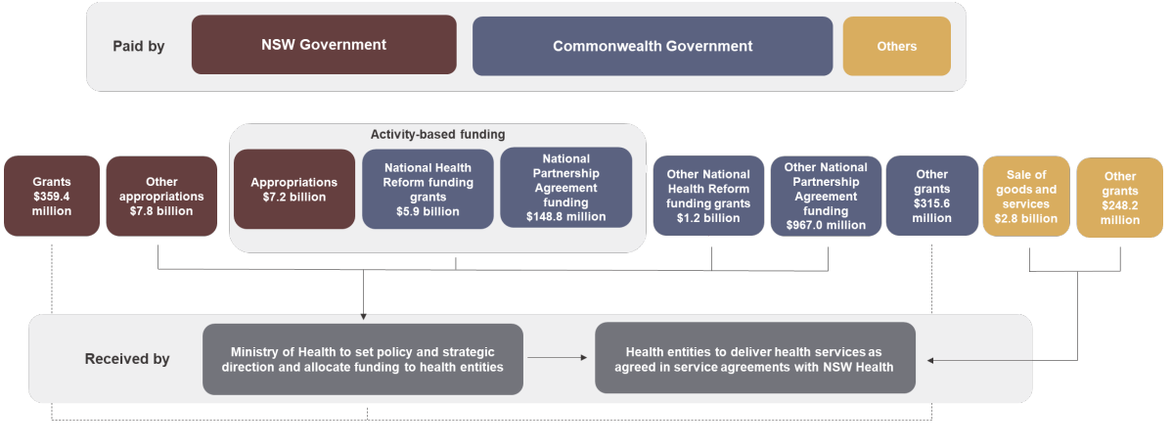
Responses to the COVID-19 pandemic

Key funding sources

The Commonwealth and NSW Government provided financial support to the NSW Health cluster during 2020–21 in relation to the cluster's core business. This financial support was in addition to funding supplied in response to the COVID-19 pandemic. During 2020–21, $15.02 billion of appropriation revenue through the NSW Parliament was recognised and accounted for by the cluster.

A National Cabinet made up of the Prime Minister, Premiers and Chief Ministers was established in early 2020 as the COVID-19 pandemic was evolving. On 13 March 2020, the National Partnership on COVID-19 Response (the Agreement) was entered into by the Commonwealth and the States and Territories in recognition of the anticipated additional costs that state health services were likely to incur in response to the COVID-19 outbreak. Since its inception, the Agreement has evolved to include additional funding streams for specific needs as they have been identified. A further $1.1 billion in revenue in relation to the Agreement was recognised by the cluster in the 2020–21 financial reporting period.

The following diagram summarises the key funding sources from the Commonwealth and NSW Government for 2020–21.



$7.21 billion in Minimum Guarantee Payment

In 2011, the National Health Reform Agreement (NHRA) was signed and introduced a new activity-based funding model for Australian public hospitals. Funding for hospitals is provided at the Commonwealth and State levels, based upon the assessment of likely growth rates in patient volumes, the mix of anticipated services to be delivered and the price of such services as determined by the Independent Hospitals Pricing Authority. These payments vary from year to year depending upon where mix and volume of services provided.

In May 2020, the Prime Minister declared a Minimum Guarantee Payment for both 2019–20 and 2020–21 to provide certainty during the pandemic. The Minimum Guarantee Payment which includes hospital services payment was $7.21 billion for 2020–21. In recognition of the specific performance obligations under the agreement, management reclassified $116.5 million from grant funding to revenue from services.

$1 billion in State Public Health Payments

$1 billion in Commonwealth revenue was recognised in relation to State Public Health Payments. A prior period error of $27 million was disclosed in the financial statements, relating to a batch of COVID-19 inventories received in 2019–20 for which revenue should have been recognised when the inventories were originally received.

Recommendation

There is a high level of complexity regarding the nature of Commonwealth funding streams and the types of transactional data required to ensure that revenue and expenses are valued accurately and recognised in the relevant financial reporting period. We have observed prior period errors in relation to these arrangements for the past two years.

We recommend management:

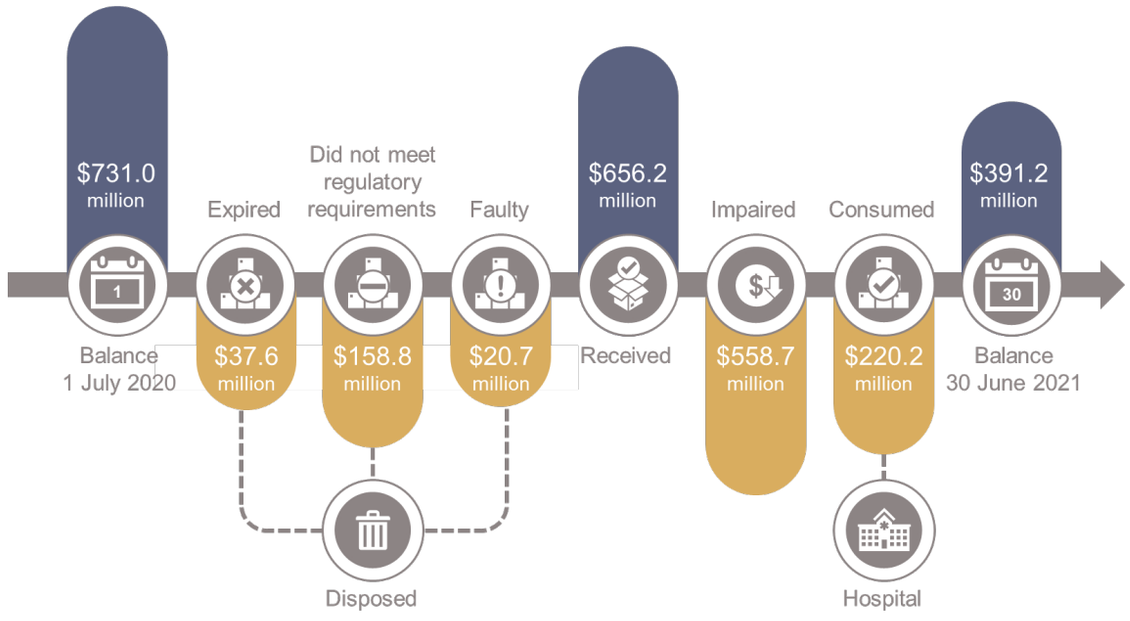
- **develop an enhanced system of control to ensure that a detailed review of all relevant expenditure incurred by the Group, for which Commonwealth funding is appropriate at year-end has occurred, to minimise the risk of future prior period errors and material misstatements in the financial statements.**

$775.9 million of COVID-19 inventory impairments and write offs

During 2020–21, HealthShare NSW procured $656.2 million of COVID-19 inventory, of which $220.2 million was consumed and $775.8 million was impaired or written off. More than 20 per cent of the total of the impairments and write offs related to personal protective equipment face masks that failed TGA regulatory requirements and are unable to be deployed for alternative uses.

The key movements in relation to COVID-19 inventories are summarised in the following diagram:

2020–21 COVID-19 inventories movement



HealthShare NSW developed and implemented a model for assessing impairment of COVID-19 inventories. The model uses two key factors, namely the Best Before Date (BBD) and forecast consumption. The BBD should be consistent with the product's packaging and / or the manufacturer's guidelines. Forecast consumption rates are based on historical average consumption levels. In general terms, if consumption is anticipated to occur past the Best Before Date (BBD), the value of that excess inventory would be impaired. The model therefore relied on two key inputs:

- the integrity of the BBD data
- the assumption that the historical rate of usage would continue for the foreseeable future.

Both inputs proved problematic. HealthShare NSW was unable to substantiate BBDs for 14 per cent of the sample tested. We also observed weaknesses in the general stocktaking methodology, which while verifying location, descriptions and numbers of inventory lines, had not specifically required verification of BBD data. This resulted in a corrected understatement of the impairment provision of $30.4 million.

With regards to projected consumption, HealthShare NSW's initial forecasts were based on averages from early 2020 through to 30 June 2021. As the COVID-19 Delta variant increased case numbers, the usage of inventories also increased. Management re-cast the projected consumption to account for increases in the post balance date usage as the Delta outbreak escalated. Management corrected an overstatement in the impairment provision of $83.8 million. The pandemic is still unfolding and factors such as immunisation rates, new treatments and vaccines, and the opening of borders nationally and internationally may significantly change usage rates in the future. It is important that impairment model assumptions regarding usage also consider current and anticipated events as well as historical usage.

Recommendation

There is a high degree of estimation uncertainty regarding the impairment assessment for COVID-19 inventories (including personal protective equipment). The accuracy of the underlying data with respect to BBDs requires validation through a comprehensive stocktaking approach. Key assumptions supporting the model also need to be revisited to reflect events and experience, rather than just historical data.

We recommend management:

- **review the current stocktaking methodology to incorporate validation of data, such as the BBD, which is key to the impairment model**
- **consider recent developments and other data to help accurately predict future patterns of inventory consumption.**

$331 million in Private hospital capacity and viability payments

The Commonwealth provided funding of $331 million to NSW in 2019–20 under the Agreement to support the health sector more broadly if hospitalisations of COVID-19 patients increased beyond the capacity of the public hospital system. $153.2 million was paid to the Private Hospital Sector across 2019–20 and 2020–21. $177.8 million was returned to the Commonwealth during 2020–21.

$107 million in Hotel Quarantine receivables

During 2020–21, Sydney Local Health District reported $214 million in revenues associated with the Hotel Quarantine (HQ) program. $107 million remained outstanding in debts and was recognised as a receivable at 30 June 2021. Management initially assessed the amount they would be unlikely to recover at $10.1 million. We reviewed the basis for that assessment and found it lacked:

- a tailored assessment methodology. Management relied on historical data from debt recoveries from general hospital debtors relating to hospitalisations. However, HQ debtors were settling their debts far more slowly than other hospital debtors and the ageing profile of HQ debts was deteriorating
- consideration of the extent to which weaknesses in the integrity of the underlying debtor data (addresses, contact details and phone numbers of returning travellers was less reliable and likely impede future collections)
- an understanding of the collection strategy likely to be put into place by Revenue NSW as the agency responsible for debt management.

Further analysis resulted in a $18.08 million correction to increase the provision for expected credit losses on HQ debts.

Recommendation

There is a high degree of estimation uncertainty associated with forecasting the recovery of hotel quarantine debtors. Factors such as the reliability of data gathered from returning travellers, their ability and willingness to settle the debts, as well as the effectiveness of Revenue NSW's debt collection strategy will require ongoing consideration when assessing future ECL provisions.

We recommend management:

- **develop a tailored assessment methodology to estimate likely recoverability, which should include (at a minimum):**
  - **an analysis of the underlying debtors' data to understand how complete, accurate and reliable it is**
  - **an assessment of recovery strategies best suited for hotel quarantine debtors**
- **work with Revenue NSW to understand and develop a tailored debt recovery plan.**

$22.3 million impact of first-time recognition of COVID-19 vaccine inventory

As part of the COVID-19 Vaccine National Roll-out Strategy, the Commonwealth is responsible for procuring and distributing COVID-19 vaccines free of charge to states and territories. States and territories then provide the vaccine free of charge to the Australian public in a manner determined by those states and territories. On the basis that the state controls the inventory once it is distributed to it from the Commonwealth, the value of the inventory received, distributed and wasted requires recognition where a reliable measurement can be ascertained.

As the COVID-19 vaccines were received for nil consideration, it is considered a good or service received free of charge. The value attributable to the goods received and the corresponding vaccine inventory on hand is measured at its fair value based on replacement cost. The Ministry of Health was unsuccessful in obtaining cost information from the Commonwealth because of non-disclosure agreements signed by the Commonwealth and the pharmaceutical companies supplying the vaccines.

An internal valuation was undertaken on the two key inventory lines relevant at 30 June 2021, being Pfizer and Astra-Zeneca based on publicly available information. The value of the inventory received and distributed was recognised at $22.3 million and $17.1 million, respectively. However, the supply of vaccines will increase in 2021–22 and future years, both in terms of brands and quantum. Obtaining the original cost data will increase the accuracy and reliability of reported financial information.

Recommendation

We recommend management continue to:

- **work with the Commonwealth to obtain primary price information on COVID-19 vaccines rather than rely on publicly available data, which is less reliable**
- **assess the inputs used for the 2020–21 valuation to ensure that the approach adopted remains valid in future years.**

Payable to Commonwealth of $12.2 million not recognised for COVID-19 inventory

In early 2020–21 the Commonwealth provided support through the provision of COVID-19 inventory from the national stockpile, with an obligation to repay 50 per cent of the value of the inventory back to the Commonwealth prior to 30 June 2021. This agreement had not been accounted for. The net impact was the recognition of a payable to the Commonwealth of $12.2 million. An adjustment was processed to correct the error.

$8.5 million of expenses for COVID-19 lab tests not recognised

The Consolidated Entity contracts Laverty Pathology (amongst others) to assist in the processing of COVID-19 tests. At 30 June 2021, a liability of $8.5 million for the work performed in providing this testing support to Medicare ineligible patients had not recognised. An adjustment was processed to correct the error.

$6.6 million overstatement of grant expenses for mental health support

Additional mental health support was funded through grant arrangements with Lifeline NSW. The expenditure had been expensed in the 2020–21 financial reporting period but relates to services to be delivered in the 2021–22 financial reporting period. An adjustment was processed to correct the error.

Non COVID-19 accounting matters

$307.8 million increment recognised on revaluation of land, buildings and infrastructure systems

Seven health entities (the five LHDs of Far West; South Eastern Sydney; Western Sydney; Illawarra Shoalhaven; and Nepean Blue Mountains in addition to the Justice Health and Forensic Mental Health and Sydney Children's Hospitals Networks) conducted full revaluations of land, buildings and infrastructure systems in 2020–21. All remaining health entities have undertaken reviews of market indices to understand whether the assets remain fairly stated at their fair values. For the Ministry, land, buildings and infrastructure systems were last revalued in 2018–19. The Ministry engaged a valuer to perform a desktop valuation of all relevant asset classes in 2020–21 to confirm the assets were fairly stated at fair value and that an out of cycle comprehensive valuation was not required.

During 2020–21, a net revaluation increment of $307.8 million was recognised as a collective result of the full revaluation process undertaken within the nominated health entities. The Ministry and all other remaining health entities concluded that no factors existed at 30 June 2021 that would indicate that assets were not stated other than at their fair values.

An amount of $16.05 million was identified relating to expenses that were incorrectly capitalised with regards to the disposal of the Shellharbour Hospital Redevelopment Stage 1 (Brownfields) Project.

$46.4 million current year misclassification found in relation to capital prepayments

Nepean Blue Mountains Local Health District provided prepayments to Health Infrastructure of $390.9 million for the Nepean Hospital and Integrated Ambulatory Services Redevelopment. The balance of these prepayments was $60.0 million and $46.4 million at 30 June 2020 and 2021 respectively and classified as non-current in both financial years.

We identified that as at the 30 June 2021, $46.4 million prepayment is expected to be drawn down by Health Infrastructure by December 2021. This would render this balance as current, rather than non-current. Management adjusted the current year disclosure deficiency only. The previous year's balances, of which $13.6 million was current at 30 June 2020 is noted as a disclosure deficiency and remains unadjusted. We agreed with management's determination that the disclosure deficiency was not material to the financial statements as a whole.

$22.4 million misstatement in relation to incorrect application of AASB 137 Provisions, Contingent Liabilities and Contingent Assets

We identified provisions totalling $22.4 million that were brought to account by three LHDs. We found that there was insufficient supporting documentation for these provisions, or that the basis for recognition did not meet the requirements of the Accounting Standards. These provisions, which were not adjusted by management in the financial statements were:

- $2.3 million related to anticipated operating expenses associated with training, education and study leave entitlements and expected repairs and maintenance costs that the LHD considered may be incurred in the future. However, no past event had transpired that gave rise to a present obligation to support the recognition of a liability at 30 June 2021 (Central Coast Local Health District)
- $9.6 million related to potential future expenses regarding record scanning and various repairs ($5.2 million) and expenses associated with claims regarding junior medical officers ($4.4 million), neither of which arose from a past event that would give rise to a present obligation. Accordingly, the recognition criteria to raise a provision was not satisfied (Northern Sydney Local Health District)
- $10.5 million in relation to expected expenses that the LHD expect to incur in the future relating to repairs and maintenance and staff training support activities. However, no past event had transpired that gave rise to a present obligation to support the recognition of a liability at 30 June 2021 (South Eastern Sydney Local Health District).

We agreed with management's determination that the misstatements were not material to the financial statements as a whole.

Recommendation

We recommend management:

- **work with cluster agencies to ensure that there is a common understanding as to identifying relevant accruals and provisions and accounting for them consistently at year-end**
- **perform a detailed assessment at year-end to ensure that accruals and provisions meet the recognition criteria under the applicable Accounting Standards.**

$16.1 million recognition through Trust Funds note disclosure

The secretariat function was transferred from South Australia Health to the Ministry in February 2021 for National Funded Centres (NFC), and in March 2021 for Health Chief Executives Forum (HCEF). As a result of this transfer, a cash balance of $16.1 million relating to NFC and HCEF was also transferred into a bank account in the name of the Ministry.

Such arrangements were initially not disclosed on the basis that the Ministry did not have control over the cash as it only performs secretariat function for NFC and HCEF. We agreed with the Ministry's determination that it does not recognise the $16.1 million as a cash asset, but found that disclosures were necessary to describe the custodian role exercised over the monies. The Ministry made additional disclosures to address the deficiency.

$7.1 million judgemental error in relation to Cross Border Agreements

Interstate patient flows are payments between states relating to the cost of treating patients residing in another state. The payments are determined by Cross Border Agreements.

We reviewed management's calculations and estimates used in calculating cross border expenses and revenues. Our procedures identified an incorrect assumption regarding the expected growth rate. A rate of two per cent had been applied to National Weighted Activity Units of four states when estimating 2020–21 activities. As borders had remained closed between states for a significant portion of the year, the growth rate applied was inaccurate. The application of this rate led to an overstatement of cross border payables and receivables of $5.2 million and $1.9 million, respectively. Management did not to adjust for these potential differences. We have reported this as an uncorrected judgemental misstatement.

We agreed with management's determination that the misstatements were not material to the financial statements as a whole.

We noted in 2019–20, that several Cross Border Agreements were unsigned. This remains the case in 2020–21, with agreements with Victoria and Queensland remaining unsigned.

Recommendation

With complex and varied arrangements, complete and accurate documentation is a fundamental control in understanding each party's role; the nature of any deliverables expected to be completed and the rights and obligations bestowed on each party. The absence of documentation increases the risk of misinterpretation by the parties of their respective rights and obligations and misstatements in the financial statements.

We recommend management ensure that such agreements are in place and properly executed as soon as possible.

Implementation of new accounting standards

AASB 1059 Service Concession Arrangements: Grantors

The implementation of AASB 1059 Service Concession Arrangements: Grantors (AASB 1059) had a significant impact on the cluster's 2020–21 financial statements because entities within the consolidated entity have several arrangements with private providers to provide public services. Upon initial application of AASB 1059 at 1 July 2019, the cluster collectively recognised service concession assets of $886.4 million, comprising:

- a reclassification of $88.6 million from land
- a reclassification of $634.2 million from buildings, plant and equipment
- a reclassification of $49.1 million from emerging assets
- an additional $70.1 million in assets recognised from the Northern Beaches Hospital car park
- an increase of $44.4 million resulting from valuing reclassified assets under AASB 1059.

The relevant health entities processed the necessary modifications to implement AASB 1059 in 2020–21, although we identified the following errors relating to the implementation of the new standard, the relevant health entities processed these errors during early close:

- Nepean Blue Mountains Local Health District understated its service concession assets relating to the Hawkesbury Hospital by $4 million.
- South Eastern Sydney Local Health District:
  - St George Hospital had not reclassified land valued at $3.5 million to service concession assets and had understated the Grant of a Right to the Operator Liability (GORTO) by $434,000 relating to a carpark that services the hospital
  - Randwick Hospital had understated its GORTO liability by $1.8 million relating to a carpark that services the hospital.
- Northern Sydney Local Health District:
  - Royal North Shore Hospital had understated its service concession asset by $2.7 million relating to the land under the new carpark and had not reclassified land valued at $7.1 million to service concession assets relating to a carpark
  - Northern Beaches Hospital had understated the GORTO liability by $1.2 million relating to a carpark that services the hospital.

Murrumbidgee Local Health District had identified a service concession arrangement of $5.3 million after the finalisation of the 2020–21 audit. This resulted in a $5.3 million reclassification from land, buildings and infrastructure systems to service concession assets in 2019–20.

2.5 Key financial statement risks

The table below details our specific audit coverage and response over key areas of financial statements risks that had the potential to impact the financial statements of cluster agencies.

	Key financial statement risk	Audit response
Valuation of Property, plant and equipment	At 30 June 2021, NSW Health, which comprises the Ministry of health and its consolidated agencies, reported $23.5 billion in infrastructure, property, plant and equipment measured at fair value. This is comprised of $21.5 billion (Land and buildings), $1.4 billion (Plant and equipment) and $0.6 billion (Infrastructure systems). This was considered a key audit matter due to the: • financial significance, geographical distribution and specialised or unique nature of health and health infrastructure assets • high degree of management judgement required in respect of classifying project costs as capital or expense • complexities associated with the application of AASB 13 Fair Value Measurement being dependent on assumptions that require significant judgement in areas such as: – identifying components of buildings and determining their current replacement cost – forecasting remaining useful lives – application of discount rates – assessment of the conditions of the assets – assessment of the financial impact of indicators of impairment.	The following was conducted: • assessed the adequacy of management's review of the valuation process • assessed the competence, capabilities, and objectivity of management's valuers • reviewed the scope and instructions provided to valuers and obtained an understanding of the methodology used and its appropriateness with reference to relevant Australian Accounting Standards and Treasurer's Directions • assessed the appropriateness of the components of buildings used for measuring gross replacement cost with reference to common industry practice • tested a sample of costs allocated to work in progress to assess the appropriateness of capitalisation in accordance with the Australian Accounting Standards • evaluated whether the useful lives applied to the various asset classes were consistent with management's planned usage of those assets • assessed the reasonableness and appropriateness of judgement used by management to assess non-financial assets for impairment. This included the process employed to monitor impairment indicators • assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards and Treasurer's Directions.

	Key financial statement risk	Audit response
COVID-19 vaccine inventories	At 30 June 2021 the Ministry of Health reported COVID-19 vaccines received from the Commonwealth and distributed to the public for no consideration at $22.3 million and $17.1 million, respectively. As part of the COVID-19 Vaccine National Roll-out Strategy, the Australian Government assumes responsibility for procuring and distributing vaccine supplies to states and territories. Vaccines are received for nil consideration and are provided to the public free of charge. This was considered a key audit matter due to the: • complexities of the procurement and distribution processes with the Commonwealth • complexities associated in obtaining a reliable measurement basis for the vaccines • evolving nature of the systems and processes in place to manage, track and account for physical inventory movements across a variety of distribution centres spread around NSW.	The following was conducted: • obtained an understanding of the systems and processes introduced to manage vaccine flows • reviewed and verified the key components of management's approach to valuing the two key inventory lines relevant for 2021 financial reporting period • tested a sample of transactions verifying quantities back to source documentation.
Existence and valuation of COVID-19 general inventories	At 30 June 2021, the Ministry of Health reported $390.1 million of COVID-19 inventories. This was considered a key audit matter due to the: • significance of the balance relative to the consolidated entity's Statement of Financial Position • variety and number of inventory items managed across several locations • subjectivity and high degree of judgement required in respect of the calculations and modelling supporting management's assessment of impairment, particularly with regards to COVID-19 inventory balances.	The following was conducted: • observed the performance of management's stocktaking procedures at a selection of warehouses • obtained an understanding of management's impairment calculator by seeking to test the: – mathematical accuracy of the model – robustness of the model's key inputs, which relied on 'best before dates' and 'consumption data' • substantiated a sample of transactions to verify 'best before dates' and 'consumption data'.

	Key financial statement risk	Audit response
Recognition and measurement of Commonwealth grants and contributions revenue	During the year, over $8 billion was received in Commonwealth grants and contributions through the National Health Reform Agreement (NHRA) and the National Partnership Agreement (NPA) in 2020–21. This was considered a key audit matter due to the: • significance of the balance relative to the consolidated entity's Statement of Comprehensive Income • different types of performance obligations attached to each revenue stream • continuous funding received over more than one financial reporting period • evolving nature of the funding arrangements in response to the emerging COVID-19 pandemic.	The following was conducted: • documented and understood the nature of the key revenue streams relating to the Hospital Service and State Public Health Payments; Private Hospital Capacity and Viability Payments; and Payments for the Co-ordination and Delivery of a Safe and Effective COVID-19 vaccine • reviewed the terms and conditions contained within the key funding agreements entered with the Commonwealth • assessed the key accounting treatments applied to each type of grant funding stream.
Valuation of Hotel Quarantine receivables	At 30 June 2021, NSW Health reported a gross receivables balance of $107 million with an associated expected credit loss (ECL) of $10 million, relating to returning travellers processed through the NSW Hotel Quarantine system. Returning travellers are charged a fixed fee for their stay, with fees being effective since 18 July 2020. This was considered a key audit matter due to the: • significance of the balance relative to the Consolidated Entity's total receivables balance • high level of estimation uncertainties and complexities around inputs used in calculating the expected credit loss (ECL) • evolving nature of the processes and controls involved in managing the balance in response to the COVID-19 pandemic.	The following was conducted: • assessed the adequacy of management's methodology and the underlying assumptions in calculating the ECL • reviewed the movements in the receivables profile and analysed collection rates from July 2020 to post year-end to understand potential patterns of collectability • performed testing, on a sample basis, of subsequent receipts post year-end.

3. Audit observations

Appropriate financial controls help ensure the efficient and effective use of resources and administration of agency policies. They are essential for quality and timely decision-making. This chapter outlines our observations and insights from our financial statement audits of agencies in the Health cluster.

Section highlights

- The total number of internal control deficiencies has increased from 112 issues in 2019–20 to 116 in 2020–21. Of the 116 issues raised in 2020–21, three were high (one in 2019–20) and 57 were moderate (47 in 2019–20); with nearly one half of all control deficiencies reported in 2020–21 being repeat issues.
- The complexities arising from accounting for agreements between governments to respond to the COVID-19 pandemic presented three new high risk audit findings with respect to the:
  - expected rate of recoverability of outstanding Hotel Quarantine fees
  - procurement, stocktaking and impairment of COVID-19 inventories
  - valuation and recognition of COVID-19 vaccines received from the Commonwealth Government.
- Management of excessive leave balances and poor quality or lack of documentation supporting key agreements were amongst the repeat issues observed again in the 2020–21 financial reporting period.

Findings reported to management

The number of findings reported to management has increased, with 47.4 per cent of all issues being repeat issues

Breakdowns and weaknesses in internal controls increase the risk of fraud and error. Deficiencies in internal controls, matters of governance interest and unresolved issues were reported to management and those charged with governance of cluster agencies. The Audit Office does this through our management letters, which include observations, implications, recommendations and risk ratings.

In 2020–21, there were 116 findings raised across the cluster (112 in 2019–20). 47.4 per cent of all issues were repeat issues (38.4 per cent in 2019–20).

A delay in implementing audit recommendations increases the risk of intentional and accidental errors in processing information, producing management reports and generating financial statements. This can impair decision-making, affect service delivery and expose agencies to fraud, financial loss and reputational damage. Poor controls may also mean agency staff are less likely to follow internal policies, inadvertently causing the agency not to comply with legislation, regulation and central agency policies.

The table below describes the common issues identified across the cluster by category and risk rating.

Risk rating	Issue
Information technology	
Moderate: 7 new, 3 repeat Low: 4 new, 5 repeat	We identified the need for agencies to improve information technology processes and controls that support the integrity of financial data used to prepare agencies' financial statements. Of particular concern are issues associated with: • lack of reviews of user access and privileged user access for – HealthRoster – Assets and Facilities Management Online – vMoney Powerhouse – Patient Billing and Revenue Collection system. Repeat issues included: • deficient password controls • no independent review for data integrity of any changes made to HealthRoster • incomplete reviews of StaffLink User Access.
Internal control deficiencies or improvements	
High: 1 new, 0 repeat Moderate: 6 new, 12 repeat Low: 10 new, 4 repeat	We identified internal control weaknesses across key business processes, including new issues relating to: • procurement, stocktaking and impairment of COVID-19 inventories (personal protective equipment) • instances where employees' timesheets were approved in advance • monthly reconciliations not reviewed in a timely manner • asset revaluation processes at Illawarra Shoalhaven Local Health District. Repeat issues included: • forced finalisation of rosters in order to finalise processing of payroll • partial repeat issue relating to HealthShare NSW's stocktake process, refer to details in the following section of this report.
Financial reporting	
High: 2 new, 0 repeat Moderate: 6 new, 1 repeat Low: 8 new, 3 repeat	We identified weaknesses with respect to financial reporting in relation to the: • expected rate of recoverability of outstanding Hotel Quarantine fees • valuation and recognition of COVID-19 vaccines received from the Commonwealth Government. • application of AASB 16 'Leases' • improvement in health agencies' grant register to better support management's accounting treatment under the applicable revenue accounting standards.

Risk rating	Issue
Governance and oversight	
Moderate: 9 new, 5 repeat Low: 2 new, 2 repeat	We identified opportunities for agencies to improve governance and oversight processes, including: • ensure better documentation around governance arrangements for major health capital works delivered by Health Infrastructure • absence of documented practices at health agencies level relating to Visiting Medical Officer claims. Repeat issues include: • delegations manual for Health Infrastructure remains in draft and has done so since 2017.
Non-compliance with key legislation and/or central agency policies	
Moderate: 1 new, 7 repeat Low: 5 new, 13 repeat	We identified the need for agencies to improve compliance with key legislation and central agency policies, with new findings including: • bank signatories list not updated to remove terminated employees • subsequent changes made to Junior Medical Officers' approved rosters not approved by an authorised delegate. Repeat issues include: • management of excessive annual leave • non-compliance with the *Government Information (Public Access) Act 2009* (GIPA Act) by Ambulance NSW.

Extreme risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

High risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

Moderate risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

Low risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

Note: Management letter findings are based either on final management letters issued to agencies, or draft letters where findings have been agreed with management.

Complexities arising from the COVID-19 response

The 2020–21 audit identified three new high-risk findings

COVID-19 has presented the cluster with several new accounting challenges. New and evolving matters arose from changes to operating conditions, which characterised the 2020–21 financial reporting period. Issues with a high degree of estimation uncertainty will require ongoing attention as the strategies employed to deal with the COVID-19 pandemic evolve.

Expected rate of recovery of outstanding Hotel Quarantine invoices

The estimation of the amount likely to be recovered is complicated not only by the uncertainties that exist regarding the assumptions those estimations rely upon, but also the debt collection processes and strategies put into place to manage the accumulated debtors' balance. Debt collection is not administered by the cluster, but rather Revenue NSW. We observed an absence of a methodology to assess the likelihood of recovery. Instead, Sydney Local Health District was relying on Revenue NSW to develop and execute on a collection strategy. Sydney Local Health District was using the same approach to hotel quarantine debts as it did to other Health receivables. As the approach to managing international borders evolves over time, so too will the cluster's need to develop robust estimation models to assess the likely collectability of debtors.

Procurement, management and impairment of COVID-19 inventories

$656.2 million of COVID-19 inventories were procured in 2020–21, with $220.2 million consumed; $558.7 million impaired and a further $217.1 million written off. Estimates of the degree to which inventories are expired, not fit for purpose or are faulty is often based on management judgement at all stages in the procurement cycle.

With respect to the stocktaking methodology applied, the following issues were identified:

- discrepancies noted in the stock bin listing provided for audit
- discrepancies in the recount sheet generated
- inconsistent application of the stocktake methodology
- inconsistent labelling of quarantined stock
- a lack of an approach for validating stock expiry dates, which is a key input to the impairment calculations.

Although management had developed processes and a methodology to count as well as to assess the level of inventory that was not fit for purpose, ongoing attention to the operating environment that emerges post pandemic will be important in assessing the degree to which existing COVID-19 inventories can be integrated into a 'business as usual' model going forward. Further refinement of the key elements of the stocktaking methodology will also be required to ensure that key inputs upon which management relies to calculate the year-end inventory impairment provision can be appropriately validated.

Valuation and recognition of COVID-19 vaccines received from the Commonwealth Government

The 2020–21 financial reporting period saw the Commonwealth acquire COVID-19 vaccines and provide these to state jurisdictions to dispense to their communities. The vaccines, although provided free of charge require recognition. However, Health entities were not responsible for acquiring the vaccines and data on the vaccines' cost was not shared by the Commonwealth. Management undertook a valuation using publicly available data to estimate the value to attribute to the vaccine inventory; developed new systems and leveraged existing pharmacy systems to track physical quantities received from the Commonwealth and ultimately distributed to NSW citizens. As the response to the pandemic evolves, larger quantities, and new lines of vaccine stock will be dealt with, and policy settings will need to adapt when patterns of distribution of those vaccines (e.g., timing of third booster shots) emerge. The Ministry of Health will need to ensure that the valuations applied to the prices of inventory distributed and held in stock are as accurate as possible. This can be done through further refinement of the existing valuation methodology, obtaining price information from the Commonwealth and engaging specialist pharmaceutical valuers.

Emerging trends

Recognition of provisions without sufficient support

Several NSW Health entities raised accruals and provisions in 2020–21, which did not have an appropriate basis for recognition. Liabilities can only be recognised where there is a present obligation to make a payment arising from a past event. A number of these errors remain uncorrected in the financial statements of those entities as they are not material, individually or in aggregate to the financial statements as a whole. Increased training and guidance are required to ensure that treatment within the cluster is consistent and reflects events that have occurred and give rise to obligations.

Treatment of Commonwealth funding

In the 2020–21 and 2019–20 financial reporting periods, we observed prior period errors arising from the treatment of Commonwealth funding. These errors related to recognising revenue under funding agreements entered into with the Commonwealth in the incorrect period. The conditions of these funding arrangements, the transactional information requiring validation and the circumstances when revenue should be recognised are not always clear and can be complex. Early and continuous engagement with the Commonwealth is required to ensure that revenue recognition principles are consistently applied across the cluster.

Key repeat issues

Management of excessive annual leave

NSW Treasury guidelines stipulate annual leave balances exceeding 30 days are considered excess annual leave balances. Managing excess annual leave balances has been reported as an issue for the cluster for more than five years, with the average percentage of employees with excessive leave balances over the last five years being 36.1 per cent (35.5 per cent over five years covering 2015–16 to 2019–20).

The operational demands required to manage the COVID-19 pandemic have presented new challenges for the cluster in trying to manage its excessive leave balances. 39.2 per cent of employees now have excess leave balances at 30 June 2021 (35.4 per cent at 30 June 2020).

The state's leave policy C2020-12 Managing Accrued Recreation Leave Balances requires agencies to manage excessive leave balances to 30 days or less to maintain their workforces physical and mental health.

Accurate time recording

Forced-finalisation of time records by system administrators within HealthRoster remains an issue and we continue to observe time records forced-finalised by system administrators so pay runs can be finalised on a timely basis. During 2020–21, a total of two million (2.2 million in 2019–20) time records were force approved, which represents 5.7 per cent of total time records (6.9 per cent in 2019–20).

Existence, completeness and accuracy of key agreements

Delivery of major capital projects

Health Infrastructure (a division of the Health Administration Corporation) is responsible for the delivery of major capital projects with a budgeted spend of more than $10.0 million. Health Infrastructure oversee the planning, design, procurement, and construction phases. Capital works in progress are recognised in the financial statements of the health entity that intends to use those assets upon completion. The health entities recognise both the capital work in progress and the revenue associated with the capital funding from the Ministry for the construction of the assets. Capital funding is currently agreed with health entities as part of the annual Service Agreement. The assumption that the health entities control the assets during their construction is consistent with Health Infrastructure's role as an agent for the health entity and the Ministry's policy directive PD2020-033 'Management and control of Health Administration Corporation owned Real Property'.

We continued to observe a lack of clarity regarding agreements between Health Infrastructure, the Ministry and the cluster agency that will eventually receive the completed asset. This can lead to confusion and uncertainty around the rights and obligations of each party to the transaction.

Cross border patient funding arrangements

When patients require medical care in a jurisdiction where they are not generally domiciled, there are arrangements in place to provide funding to support cross border patient treatments. We have previously observed that agreements between NSW and other jurisdictions have not been finalised, and this continues to be the case. In the case of Victoria, no agreement has been finalised for the past seven years.

We continue to note that the cluster has long outstanding receivables and payables with other states. The absence of formal agreements between the states hampers the settlement of the debts relating to the treatment of cross border patients. The following table shows the status of Cross Border Agreements between NSW and other jurisdictions:

States	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21
Queensland	✓	✓	✓	✓	✓	!	!
Victoria	!	!	!	!	!	!	!
Australian Capital Territory	✓	✓	✓	✓	✓	✓	!
South Australia	✓	✓	✓	✓	✓	✓	!
Tasmania	✓	✓	✓	✓	✓	✓	!
Northern Territory	✓	✓	✓	✓	✓	✓	!
Western Australia	✓	✓	✓	✓	✓	✓	!

Key ✓ **Signed** ! **Not finalised**

Albury Base Hospital

Albury Base hospital is located on the border of NSW and Victoria and services residents of both states. Documentation supporting the extension of the expired Intergovernmental Agreement 2009–2017 between NSW and Victoria in relation to the integration of health services in Wodonga and Albury could not be located.

Section two

Appendices

Appendix one – Misstatements in financial statements submitted for audit

	2020–21			2019–20		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Cluster lead entity						
Ministry of Health	2	5	7	1	1	2
Local Health Districts (LHDs)						
Central Coast LHD	1	--	1	--	--	--
Far West LHD	--	--	--	--	--	--
Hunter New England LHD	--	--	--	--	2	2
Illawarra Shoalhaven LHD	1	1	2	--	1	1
Mid North Coast LHD	--	--	--	--	--	--
Murrumbidgee LHD	--	--	--	--	--	--
Nepean Blue Mountain LHD	1	--	1	2	--	2
Northern NSW LHD	--	--	--	1	--	1
Northern Sydney LHD	2	--	2	2	--	2
South Eastern Sydney LHD	1	--	1	4	1	5
South Western Sydney LHD	--	--	--	1	1	2
Southern NSW LHD	--	--	--	--	--	--
Sydney LHD	1	1	2	4	--	4
Western NSW LHD	--	--	--	1	--	1
Western Sydney LHD	--	--	--	--	--	--
Sydney Children's Hospitals Network	--	--	--	1	1	2
Justice Health and Forensic Mental Health Network	1	--	1	1	--	1
Pillar agencies						
Agency for Clinical Innovation	--	--	--	--	--	--
Bureau of Health Information	--	--	--	--	--	--
Cancer Institute NSW	--	--	--	--	--	--
Clinical Excellence Commission	1	--	1	2	--	2
Health Education and Training Institute	--	--	--	--	--	--
Share state-wide services						
Health Administration Corporations	1	4	5	3	1	4
Other controlled health entities						
Albury Base Hospital	--	1	1	--	--	--
Graythwaite Charitable Trust	--	--	--	--	--	--
Total	**12**	**12**	**24**	**23**	**8**	**31**

Source: Engagement Closing Reports issued to cluster agencies.

Appendix two – Early close procedures

#	Procedure	Description
1	Proforma financial statements	Complete proforma financial statements and ensure management has endorsed the statements and reviewed the supporting working papers. Reconcile the March 2021 month-end Prime submission to the proforma financial statements and provide explanations for variances exceeding $5 million.
2	Fair value assessment of property, plant and equipment	Perform and document an annual assessment of the fair value of property, plant and equipment (PPE), their useful lives and residual values, and the reasons why the carrying value was not materially different to the fair value. This assessment is performed between comprehensive revaluations.
3	Revaluation of property, plant and equipment	Complete the comprehensive revaluation of property, plant and equipment (PPE) by early close.
4	Inter and intra (cluster) agency transactions and balances	Agree and confirm all inter and intra (cluster) agency balances and transactions with the counterparty agency.
5	Significant management judgements and assumptions	Document all significant management judgements and assumptions made when estimating transactions and balances.
6	Reconciliation of key account balances	Reconcile all key account balances (including annual leave provisions) and clear reconciling items.
7	Changes in accounting policy	Review and agree changes in accounting policy with the Principal Cluster Agency.
8	Finalise right-of-use assets and lease liability balances	Ensure that all lease arrangements are accurate and complete.
9	Finalise assessment of all revenue contracts	Ensure revenue is accurate and complete and correctly accounted for under AASB 15 ‘Revenue from Contracts with Customers’ or AASB 1058 ‘Income of Not-for-Profit Entities’.
10	Correction of material prior period errors	Confirm there are no changes to the 2019–20 closing balances except for adjustments for AASB 1059 ‘Service Concession Arrangements: Grantor’ and TPP06-08 ‘Accounting for Privately Financed Projects’. Proposed changes are accompanied by journals, explanations and proposed disclosures.
11	Monthly management reports	Perform variance analysis with meaningful explanations for actuals versus budget, and year-to-date actuals for the previous year.
12	Changes to legislation	Identify and document changes to legislation affecting agency structures and/or financial reporting requirements.
13	Delegations	Ensure all material transactions are supported by appropriate delegations.
14	Prior year Management Letter and Engagement Closing Report issues	Agreed action plans are in place to address prior year Management Letter and Engagement Closing Report issues. Explanations are provided for any unresolved issues(s).
15	Complete Commonwealth Funding Agreement – Revenue Assessment Form for Commonwealth Funding Agreements	Complete and return the ‘Commonwealth Funding Agreement – Revenue Assessment Form for Commonwealth Funding Agreements’ for all new and amended Commonwealth Funding Agreements entered or amended during the 2020–21 financial year.
16	New and updated accounting standards	Supporting workpapers evidencing how management has considered the requirements of new and updated accounting standards.

Appendix three – Timeliness of financial reporting

Cluster agencies	Financial statements submission deadline met	Date audit report was issued
Ministry of Health	✓	29 October 2021
Agency for Clinical Innovation	✓	6 October 2021
Albury Base Hospital	✓	27 October 2021
Bureau of Health Information	✓	6 October 2021
Cancer Institute of NSW	✓	1 October 2021
Central Coast Local Health District	✓	15 October 2021
Clinical Excellence Commission	✓	6 October 2021
Far West Local Health District	✓	26 October 2021
Graythwaite Charitable Trust	✓	27 October 2021
Health Education and Training Institute	✓	7 October 2021
Hunter New England Local Health District	✓	6 October 2021
Illawarra Shoalhaven Local Health District	✓	15 October 2021
Justice Health and Forensic Mental Health Network	✓	5 October 2021
Mid North Coast Local Health District	✓	6 October 2021
Murrumbidgee Local Health District	✓	18 October 2021
Nepean Blue Mountain Local Health District	✓	15 October 2021
Northern NSW Local Health District	✓	15 October 2021
Northern Sydney Local Health District	✓	5 October 2021
South Eastern Sydney Local Health District	✓	19 October 2021
South Western Sydney Local Health District	✓	6 October 2021
Southern NSW Local Health District	✓	8 October 2021
Sydney Local Health District	✓	22 October 2021
Sydney Children's Hospitals Network	✓	6 October 2021
Western NSW Local Health District	✓	6 October 2021
Western Sydney Local Health District	✓	14 October 2021
Health Administration Corporation	✓	27 October 2021
Mental Health Commission of New South Wales	✓	28 September 2021
Health Care Complaints Commission	✓	13 October 2021
NSW Health Foundation	✓	29 October 2021

Appendix four – Financial data

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Cluster lead entity								
Ministry of Health - consolidated entity	29,529.4	28,947.8	7,619.9	7,550.8	27,095.5	27,998.6	26,789.7	24,864.4
Ministry of Health	1,599.3	2,512.3	1,141.3	1,330.0	23,614.6	23,065.9	24,349.0	22,335.0
Local Health Districts (LHD)								
Central Coast LHD	1,113.0	979.4	240.8	196.8	1,061.3	977.2	971.7	954.4
Far West LHD	144.1	138.1	24.2	19.1	125.5	127.6	131.0	128.1
Hunter New England LHD	2,862.2	2,640.2	535.0	499.8	2,739.4	2,547.0	2,552.6	2,467.9
Illawarra Shoalhaven LHD	782.6	723.1	203.8	198.1	1,131.4	1,055.6	1,117.1	1,066.8
Mid North Coast LHD	746.9	667.4	145.8	134.3	822.7	772.5	750.8	705.9
Murrumbidgee LHD	795.6	726.2	110.5	110.8	810.1	803.3	740.3	700.5
Nepean Blue Mountains LHD	1,097.3	867.0	188.1	174.6	1,176.7	1,099.4	982.9	935.7
Northern NSW LHD	939.8	862.9	157.8	151.2	1,022.2	979.9	951.9	909.5
Northern Sydney LHD	2,946.9	2,956.8	1,357.1	1,316.8	1,995.0	1,902.8	2,036.5	1,877.5
South Eastern Sydney LHD	2,327.7	2,058.1	439.3	393.1	2,175.4	2,016.1	2,041.6	1,980.5
South Western Sydney LHD	2,436.7	2,086.0	503.8	470.4	2,543.3	2,298.1	2,226.1	2,100.4
Southern NSW LHD	552.6	483.1	69.7	64.7	571.4	519.1	507.0	475.3
Sydney LHD	2,483.1	2,305.6	440.2	453.4	2,522.2	2,063.6	2,235.7	1,992.8
Western NSW LHD	1,404.8	1,372.8	339.1	345.5	1,095.8	1,105.8	1,057.4	1,039.2
Western Sydney LHD	3,031.4	2,885.3	470.9	476.2	2,138.4	2,145.9	2,104.3	2,016.9
Sydney Children's Hospitals Network	982.7	851.8	160.1	163.5	1,069.4	967.1	952.1	928.0
Justice Health and Forensic Mental Health Network	135.7	124.3	123.8	121.8	282.9	295.0	282.4	297.1
Pillar agencies								
Agency for Clinical Innovations	1.9	3.0	7.0	6.8	37.2	36.9	38.6	37.4
Bureau of Health Information	0.2	0.5	1.2	1.3	9.9	9.2	10.0	9.6
Cancer Institute of NSW	10.6	14.3	17.7	18.3	170.7	180.5	173.8	179.9

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Clinical Excellence Commission	1.5	1.3	4.1	3.7	20.5	19.9	20.7	19.7
Health Education and Training Institute	2.0	2.5	6.6	5.7	37.0	39.4	38.4	40.4
Share state-wide services								
Health Administration Corporation	3,779.2	4,744.0	1,703.6	2,067.9	4,304.0	5,090.0	4,899.7	3,780.7
Other controlled health entities								
Albury Base Hospital	73.6	68.8	--	--	--	--	3.2	3.2
Graythwaite Charitable Trust	46.2	47.3	--	--	--	0.1	1.1	1.0
Other entities in the cluster								
Health Care Complaints Commission	8.7	8.1	7.6	8.1	21.6	20.9	20.4	21.4
Mental Health Commission of NSW	1.9	2.3	1.5	1.8	9.9	13.4	9.8	13.2
Health Professional Councils^	67.9	66.4	27.2	27.8	40.1	38.1	38.1	39.9
NSW Health Foundation	6.2	6.1	--	--	--	--	0.2	0.2

* Total revenue Includes other gains and gain on disposal, which were shown separately on the financial statements.

** Total expense includes other losses, impairment losses on financial assets, and losses on disposal which were shown separately on the financial statements.

^ Health Professional Councils is the aggregate of the Psychology, Physiotherapy, Pharmacy, Osteopathy, Occupational Therapy, Nursing and Midwifery, Medical Radiation Practice, Medical, Dental, Chiropractic, Chinese Medicine, and Aboriginal and Torres Strait Islander Health Practice Councils.

Source: Agencies audited 2020–21 financial statements.

Professional people with purpose

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help Parliament hold government accountable for its use of public resources.

OUR VALUES

Pride in purpose

Curious and open-minded

Valuing people

Contagious integrity

Courage (even when it's uncomfortable)

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