



FINANCIAL AUDIT

7 DECEMBER 2022

Health 2022

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

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*.

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In accordance with section 52B of the *Government Sector Audit Act 1983*, I present a report titled '**Health 2022**'.

Margaret Crawford

Auditor-General for New South Wales
7 December 2022



RECONCILIATION COMMITMENT STATEMENT

The Audit Office of New South Wales pay our respect and recognise Aboriginal people as the traditional custodians of the land in NSW.

We recognise that Aboriginal people, as custodians, have a spiritual, social and cultural connection with their lands and waters, and have made and continue to make a rich, unique and lasting contribution to the State. We are committed to continue learning about Aboriginal and Torres Strait Islander peoples' history and culture.

We honour and thank the traditional owners of the land on which our office is located, the Gadigal people of the Eora nation, and the traditional owners of the lands on which our staff live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

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Section one

Health 2022

This report analyses the results of our audits of the Health cluster agencies for the year ended 30 June 2022.

1. Introduction

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

- financial reporting
- audit observations.


1.1 Snapshot of the cluster


Health


Providing a world-class, sustainable health system that delivers high-quality care and treatment, is personalised, invests in wellness, and is digitally enabled.


State outcomes

- 

People receive high-quality, safe care in our hospitals
Delivering world-class medical and surgical care within clinically recommended timeframes, with NSW Health managing the largest public hospital system in Australia.
- 

People can access care in out of hospital settings to manage their health and wellbeing
Extending beyond the hospital and connects across a range of care settings to reduce the burden of chronic disease, assist people with conditions to live well and avoid complications, support people to recover from illness and injury, and prevent avoidable hospitalisations.
- 

People receive timely emergency care
Managing and operating ambulance and emergency services.
- 

Keeping people healthy through prevention and health promotion
Promoting public health, controlling infectious disease, reducing preventive diseases and death, helping people manage their own health including mental health, and promoting equitable health outcomes in the community.
- 

Our people and systems are continuously improving to deliver the best health outcomes and experiences
Providing a skilled workforce with access to world-leading education and training, and a system that harnesses research and digital innovation to inform service delivery is essential to continuously improve outcomes and experiences across the system.

Key agencies



Source: NSW Budget Papers 2022–23.

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 2022.

Section highlights

- Unqualified audit opinions were issued for all cluster agencies required to prepare general purpose financial statements.
- The total gross value of corrected monetary misstatements for 2021–22 was \$353.3 million, of which, \$186.7 million related to an increase in the impairment provision for Rapid Antigen Tests.
- A qualified audit opinion was issued on the ministry's Annual Prudential Compliance Statements.

2.1 Cluster financial information 2022

The following table summarises the key financial metrics for the 2021–22 financial reporting period for the consolidated entity and two other independent agencies listed in Appendix A of the Treasury Direction TD21-02 'Mandatory Annual Returns to Treasury'. 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				
Health cluster	33,075.4	8,056.4	30,280.0	29,340.0
Ministry of Health - principal department	2,027.5	940.5	27,115.0	26,519.9
Other cluster agencies listed in Appendix A of Treasury Direction TD21-02				
Health Care Complaints Commission	7.0	3.6	23.8	21.5
Mental Health Commission of NSW	1.8	1.3	9.8	9.8

* Include other gains.

** Include other losses.

Source: Agencies audited 2021–22 financial statements.

2.2 Quality of financial reporting

Audit opinions

Unqualified audit opinions were issued on agencies' financial statements

Unqualified audit opinions were issued on all cluster agencies' 30 June 2022 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 of Health (the ministry) operated seven Residential Aged Care Facilities (RACF) in New South Wales 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.







We identified 20 instances of non-compliance (2020–21:19), 17 of which were material, relating to three of the 20 prudential requirements at five of the seven aged care facilities in 2021–22. We observed:

- written agreements were not evident for seven care recipients outlining the maximum accommodation amounts payable before the recipient entered the RACF
- written accommodation agreements were not executed with nine care recipients within 28 days of the recipient entering the RACF
- miscalculations of interest resulted in one overpayment and three underpayments being made on refunds of deposits to four care recipients.

The number and value of identified monetary misstatements increased in 2021–22

A monetary misstatement is an error in an amount recognised (or not recognised) in the financial statements initially submitted for audit.

The number of monetary misstatements identified during the audit of the cluster increased from 24 in 2020–21 (gross value: \$342.9 million) to 34 in 2021–22 (gross value: \$515.2 million). The table below shows the number and quantum of misstatements and whether they were corrected or uncorrected for the past two years.

Year ended 30 June	2022		2021	
				
Less than \$50,000	--	--	--	--
\$50,000 to \$249,999	--	1	1	1
\$250,000 to \$999,999	--	2	--	2
\$1 million to \$4,999,999	1	7	--	2
\$5 million and greater	8	15	11	6
Total number of misstatements	9	25	12	12
Gross value of misstatements (\$m)	353.3	161.9	250.2	92.7
Key		Corrected misstatements		Uncorrected misstatements

Source: Engagement Closing Reports issued by the Audit Office of New South Wales.

Refer to Appendix one for details of corrected and uncorrected monetary misstatements by agency.

Of the nine corrected monetary misstatements, eight had a gross value greater than \$5 million and related to the following:

Agency	Description of corrected misstatements > \$5 million
Health Administration Corporation - HealthShare NSW	<ul style="list-style-type: none"> • \$186.7 million understatement of the impairment provision with respect to Rapid Antigen Tests (RATs). Management was unable to provide a consumption plan to demonstrate how the existing stock would be utilised prior to expiry. • \$7.7 million understatement of the impairment provision in relation to general COVID-19 inventory. Management did not net off stock returns from stock issued to customers.
Central Coast Local Health District	<ul style="list-style-type: none"> • \$49.8 million overstatement in the net carrying value of land, buildings and infrastructure resulting from the application of incorrect indices.
Ministry of Health	<ul style="list-style-type: none"> • \$39.3 million overstatement in revenue and receivables relating to Commonwealth funding for State Public Health Payments. Management estimated higher expenses would be incurred in June when calculating the funding entitlement under the National Partnership Agreement on COVID-19 Response. • \$30.5 million overstatement in contract liabilities which relates to an upfront payment received under a Commonwealth agreement for the purpose of improving access to clinical trials by Australians living in rural, regional, and remote area. • \$16.8 million understatement relating to the value of storage facilities that are being used under a leasing arrangement entered in 2020 between Linfox and the State of New South Wales. • \$9.5 million overstatement in expenses and receivables relating to GST adjustments made on RATs under the Commonwealth's RAT Concessional Access Program. • \$8.7 million understatement in the June 2022 private hospitals viability payment expense estimates.

Of the 25 uncorrected monetary misstatements, 15 had a gross value of greater than \$5 million, which comprise the following:

Agency	Description of uncorrected misstatements > \$5 million
Western Sydney Local Health District	<ul style="list-style-type: none"> • \$28 million overstatement in the value of refurbished buildings at Blacktown Hospital which were completed in July 2020 but only transferred to the fixed asset register at 30 June 2022. • \$5.9 million understatement in property, plant and equipment. Management did not process an indexation adjustment for the period April 2022 to 30 June 2022 to reflect fair value at 30 June 2022. • \$5.2 million overstatement in buildings with an understatement in depreciation expense. This is in relation to the depreciation impact on the Westmead Hospital redevelopment and refurbishment project which is currently ongoing and expected to be completed in 2024. Management capitalised projects in stages and \$69 million of capitalised work in progress (WIP) which was completed and in use prior to 2020 was not capitalised into the fixed asset register which resulted in a missed depreciation expense of \$5.2 million for the period between 2020 to 30 June 2022.

Agency	Description of uncorrected misstatements > \$5 million
Health cluster	<ul style="list-style-type: none"> • \$13 million overstatement in the Visiting Medical Officer (VMO) provision relating to the Health Worker Appreciation Payment of \$3,000 (including superannuation) for eligible Health employees at 30 June 2022. The overstatement was because of changes between management's initial VMO headcounts compared to the number of VMOs who had an active contract at 30 June 2022 (and hence were eligible). • \$12.5 million overstatement in repairs and maintenance expenses and an understatement in plant and equipment relating to the incorrect application of the asset capitalisation threshold of \$10,000. • \$8.1 million understatement in the NSW Health employee provision relating to the Health Worker Appreciation Payment of \$3,000. The understatement was due to management's initial estimates being based on Full Time Equivalent (FTE) rates captured in the payroll system which did not account for additional hours which should be accounted for as part of the pro-rata appreciation payment calculation.
Hunter New England Local Health District	<ul style="list-style-type: none"> • \$13 million extrapolated overstatement in accrued payables and expenses relating to instances where estimates at 30 June 2022 were incorrectly calculated by management. • \$8.6 million extrapolated overstatement in operating expenses and an understatement in plant and equipment from instances where items of a capital nature were incorrectly expensed. • \$5.6 million understatement in land and buildings and overstatement in WIP balance for 13 projects that had been completed and were operational but had not been transferred into completed assets. • \$5 million extrapolated overstatement in inventory consumption expenses (separate to the operating expenses) and an understatement in plant and equipment from instances where items of a capital nature were incorrectly expensed.
Health Administration Corporation - Health System Support Group	<ul style="list-style-type: none"> • \$10 million understatement in grants and contribution revenue and operating expenses relating to the non-recognition of resources received free of charge received for COVID-19 contact tracing function.
Murrumbidgee Local Health District	<ul style="list-style-type: none"> • \$7.3 million understatement in assets as management did not process an indexation adjustment for the period April 2022 to 30 June 2022 to reflect fair value at 30 June 2022.
Southern NSW Local Health District	<ul style="list-style-type: none"> • \$7.1 million understatement in assets as management did not process an indexation adjustment for the period 1 April 2022 to 30 June 2022 to reflect fair value at 30 June 2022.
Ministry of Health	<ul style="list-style-type: none"> • \$5.2 million overstatement in liabilities relating to management's application of a two per cent growth rate to the National Weighted Activity Units for four states when estimating 2020–21 activities which is unsupported by border restrictions during 2020–21.
South Western Sydney Local Health District	<ul style="list-style-type: none"> • \$5 million potential overstatement in prepayments and understatement in intangible assets relating to payments made by South Western Sydney Local Health District to Western Sydney University for the right to use a shared space. Management did not provide sufficient documentation to support its recognition of a \$5 million prepayment.

Twenty-eight agencies were exempted from financial reporting in 2021–22

Part 3A Division 2 of the Government Sector Finance Regulation 2018 (GSF Regulation) prescribes certain kinds of GSF agencies not to be a reporting agency. For 2021–22, 28 cluster agencies (2020–21: 28) have been assessed as not having met the reporting exemption criteria under the GSF Regulation, and therefore were not required to prepare annual financial statements. These agencies are listed below:

Exempted agencies	GSF Regulation reference	Basis for reporting exemption
Special purpose staff agencies		
Agency for Clinical Innovation 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 GSF agency to exercise its function, it is not a reporting GSF agency. All 28 staff agencies satisfy this requirement and therefore are exempted from preparing financial statements in 2021–22.
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		
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 April 2022, NSW Treasury reissued Treasurer's Direction TD19-02 'Mandatory Early Close as at 31 March each year' (TD19-02) and released Treasury Policy and Guidelines TPG22-11 'Agency Direction for the 2021–22 Mandatory Early Close'. These pronouncements require the GSF agencies listed in Appendix A of TD19-02 to perform mandatory early close procedures and provide the outcomes to the audit team by 27 April 2022. The 17 mandatory procedures are listed in Appendix two. All cluster agencies met this deadline.

Agencies need to improve their completion of early close procedures

The following cluster agencies did not complete all mandatory early close procedures:

Cluster agencies	Not completed 	Description of incomplete early close procedures
Ministry of Health and the consolidated entity	1	<ul style="list-style-type: none"> Inter and intra (cluster) agency transactions and balances <p>The consolidated entity has put in place processes for the agree of inter and intra (cluster) agency transactions and balances, mainly between the ministry and controlled entities. However, there were delays in management's reconciliation process for seven inter entity accounts.</p>
Sydney Children's Hospital Network	1	<ul style="list-style-type: none"> Delegations <p>The Sydney Children's Hospital Network did not have current delegations in place to expend money from all their income sources.</p> <p>The current Delegation Manual was effective since April 2017. Management advised that they expect to finalise the new Delegation Manual in the next six to 12 months due to structural changes in the executive management structure. However, this was completed by management at the 30 June 2022.</p>

Source: Reports on early close procedures 2022 issued by the Audit Office of New South Wales.

Year-end financial reporting

NSW Treasury required all agencies to submit their financial statements by 1 August 2022

In June 2022, NSW Treasury issued a suite of Treasurer's Directions and Treasury Policy and Guidelines for 2021–22 financial reporting requirements and timetables:

- Treasurer's Direction TD21-02 'Mandatory Annual Returns to Treasury' (TD21-02) and Treasury Policy and Guidelines TPG22-16 'Agency Direction for the 2021–22 Mandatory Annual Returns to Treasury' require agencies listed in the Appendix A of TD21-02 to submit their 2021–22 financial statements to both NSW Treasury and the Audit Office by 1 August 2022.
- Treasury Policy and Guidelines TPG22-17 'Agency guidelines for the 2021–22 Mandatory Annual Returns to Treasury for NSW public sector agencies that are not included in TD21-02' requires NSW public sector agencies not listed in Appendix A of TD21-02 to submit their draft 2021–22 financial statements to NSW Treasury by 1 August 2022.
- Treasurer's Direction TD21-03 'Submission of Annual GSF Financial Statements to the Auditor-General' requires reporting GSF agencies that are not listed in Appendix A of TD21-02 to submit their annual financial statements within six weeks after the year end.

Financial statements were submitted on time for all cluster agencies

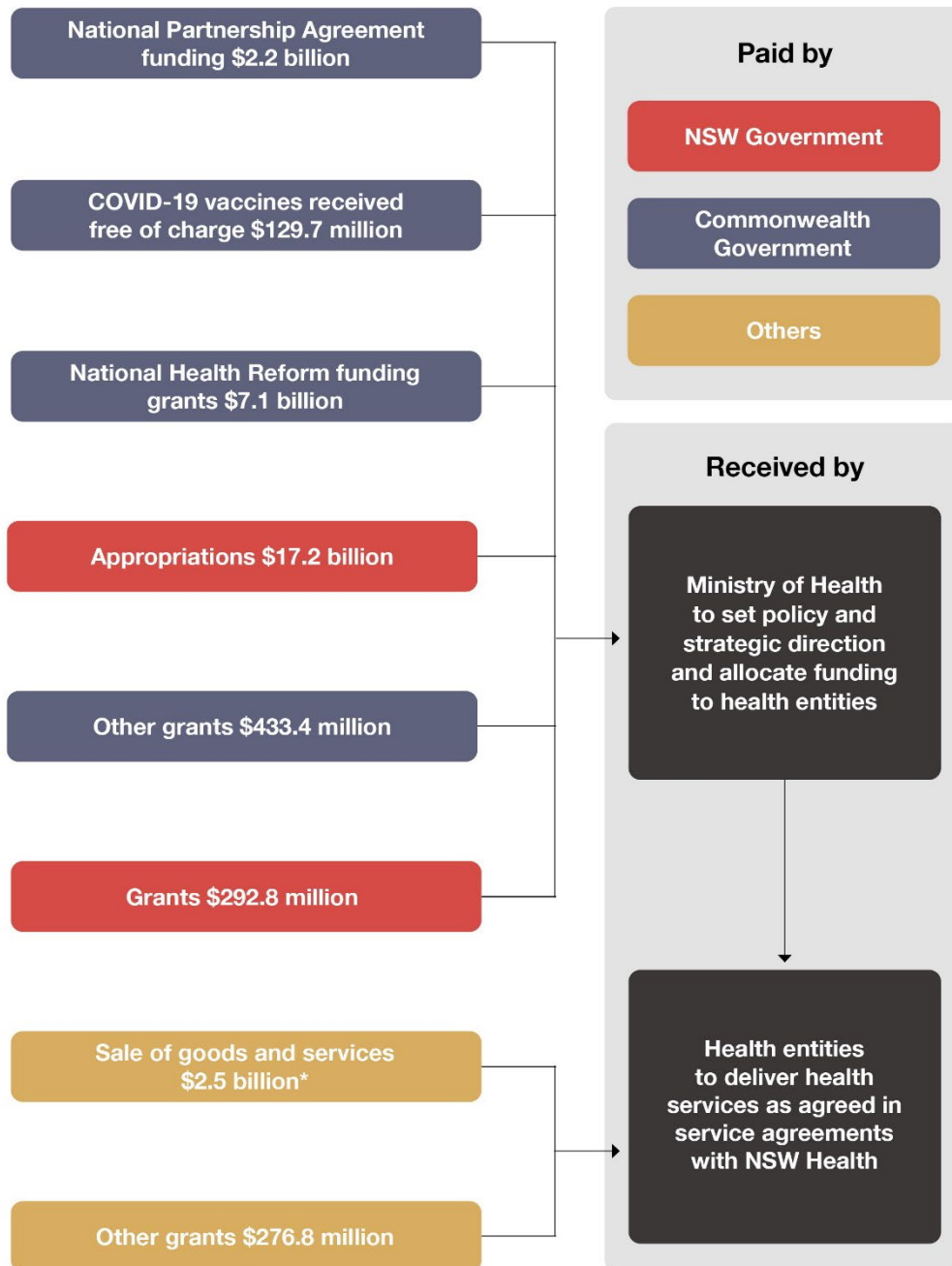
Cluster agencies met the reporting deadlines for submitting their 2021–22 year-end financial Appendix three shows the timeliness of the year-end financial reporting for cluster agencies.

2.4 Key accounting issues

COVID-19 related matters

Overall funding envelope and revenue recognition

The Australian and NSW Governments continued to provide financial support to the cluster during 2021–22 for both core business and ongoing support for the pandemic. The following diagram describes the entire funding envelope available to, and recognised by, the cluster during 2021–22:

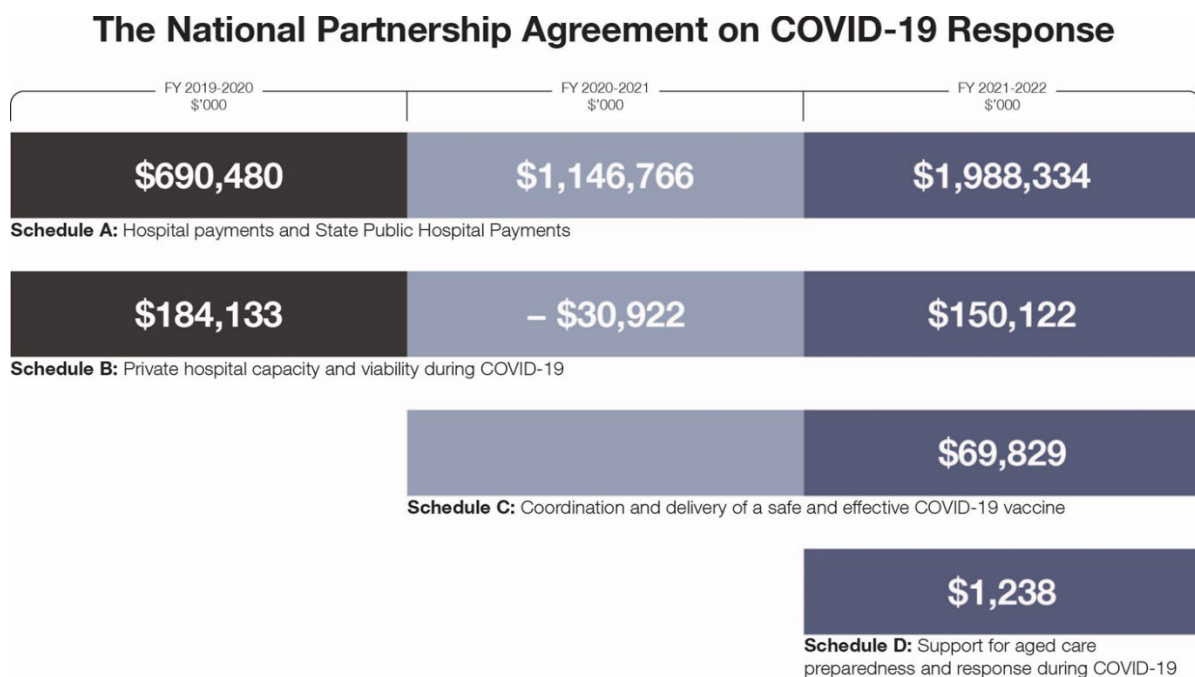


* Sale of goods and services include sales and recoveries of pharmaceutical supplies; sales of prostheses; fees for medical services rendered; fees for private usage of hospital's facilities and other hospital related services.

Key components of the Australian Government's funding to the cluster in 2021–22

National Partnership Agreement on the COVID-19 Response

The National Cabinet made up of the Prime Minister, Premiers and Chief Ministers was established in early 2020 as the COVID-19 pandemic evolved. During 2019–20 (13 March 2020), the National Partnership Agreement on COVID-19 Response (the NPA) was entered into by the Australian, states and territory Governments 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 NPA has evolved to include additional funding streams for specific needs as they have been identified. The following diagram summarises the timeline of schedules added to the NPA and the funding revenue associated with each of these streams from 2019–20 to 2021–22.



\$2.2 billion in revenue was recognised from the Commonwealth in relation to the NPA for 2021–22. Specific details of the material streams provided under each of the NPA's schedules are discussed below:

Schedule A - Hospital Payments and State Public Health Payments

In 2021–22, just under \$2 billion was recognised as revenue in relation to Schedule A of the NPA, with \$1.4 billion relating to State Public Health Payments. We identified overstatements netting to \$44.5 million in relation to the recognition of Schedule A NPA revenues.

Schedule B - Private Hospital Capacity and Viability expenses

Last year, we reported \$153.2 million was paid to the private hospital sector across 2019–20 and 2020–21. \$177.8 million was returned to the Australian Government during 2020–21. In 2021–22, with the outbreak of the Delta and Omicron variants, the cluster incurred additional expenses of \$150.1 million to private hospitals to make resources and capacities available for use by the public system in responding to the pandemic.

Schedule C - Coordination and delivery of a safe and effective COVID-19 vaccine

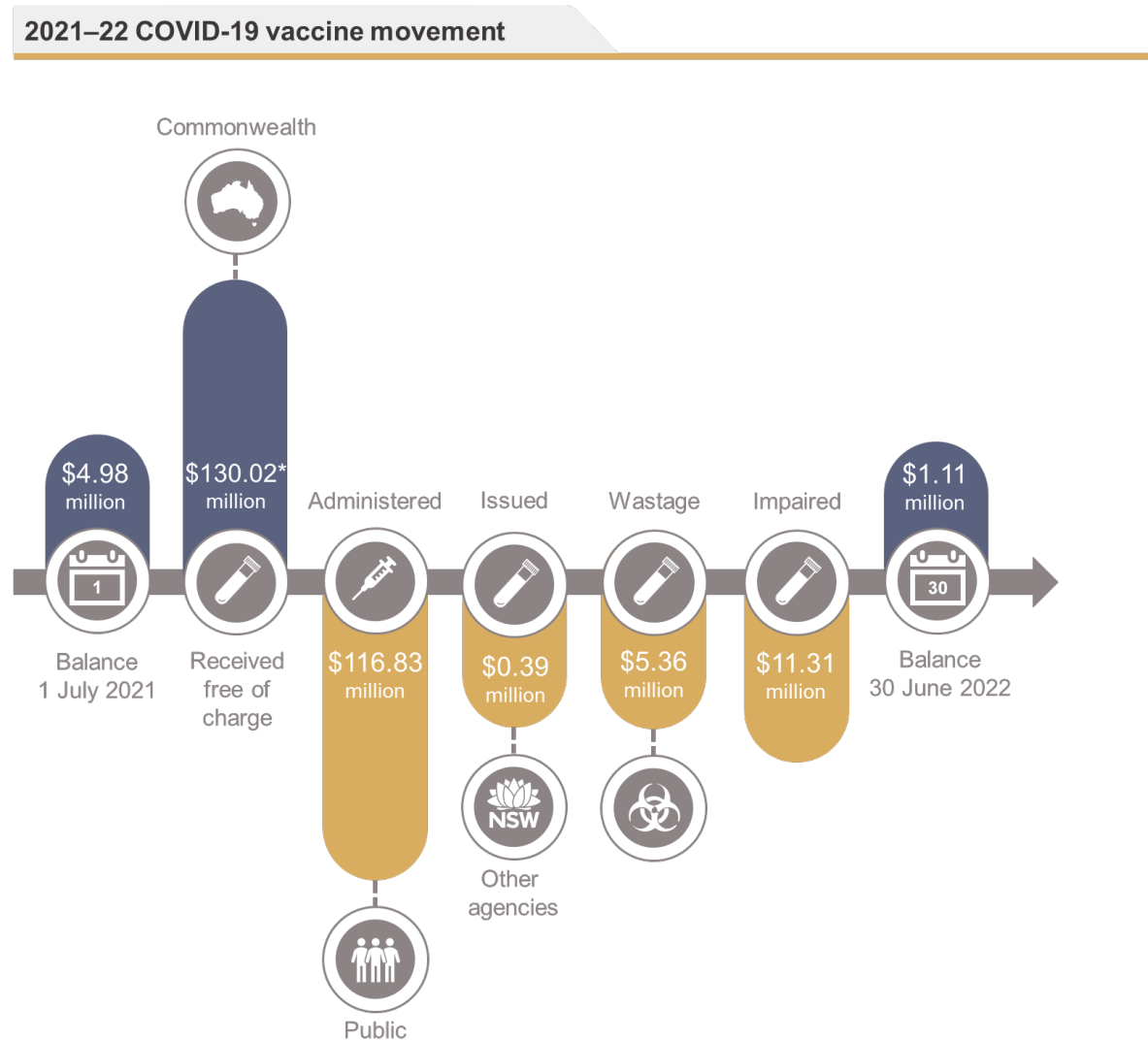
In 2021–22, \$69.8 million was recognised as revenue received in the support of the acceptance and delivery of COVID-19 vaccines to the New South Wales community. The \$69.8 million related to two revenue streams, namely a:

- \$32 million upfront payment
- \$37.8 million payment relating to a 50% contribution towards the cost of vaccine delivery.

It should be noted that the \$69.8 million does not relate to the recognition of the value of vaccines received from the Commonwealth (and then, in turn, administered). The \$69.8 million relates to the provision of payments to establish the infrastructure and / or the cost of physically delivering the vaccines.

As part of the COVID-19 Vaccine National Roll-out Strategy which commenced in March 2021, the Australian Government procures and distributes 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.

At 30 June 2022, the cluster reported \$1.1 million worth of COVID-19 vaccine on hand with the key movements in relation to COVID-19 vaccines summarised in the following diagram:



* Of the \$130.02 million, \$0.32 million relates to COVID-19 vaccines received free of charge from external third parties.

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. Consistent with 2020–21, the ministry could not obtain cost information from the Australian Government because of non-disclosure agreements signed by the Australian Government and the pharmaceutical companies supplying the vaccines.

An internal valuation based on publicly available information was undertaken on the four inventory lines relevant at 30 June 2022 (Pfizer, Astra-Zeneca, Moderna and Novavax). The value of the inventory received from the Commonwealth and administered was recognised at \$129.7 million and \$116.83 million, respectively.

As vaccination efforts achieved targeted levels, management assessed that there was an amount of \$11.31 million which was unlikely to be consumed before expiration and this was impaired as at 30 June 2022.

In certain circumstances, vaccines are not able to be used. This can occur, for example, if a vial is dropped; not stored correctly or not fully utilised as intended. Through the course of the year, \$5.36 million of vaccine inventory was written off as wasted stock.

National Health Reform Agreement

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 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 the mix and volume of services provided. In February 2022, the Federal Treasurer and Federal Minister for Health and Aged Care declared a Minimum Guarantee Payment for NSW Health for the 2021–22 financial year of \$7.7 billion. This is to provide continued certainty during the pandemic with increased reliance on public hospital health services.

As a result of the year end reconciliation processes undertaken by the Australian Government, management reclassified \$116.6 million from funding without specific performance obligations to funding with specific performance obligations.

Recommendation

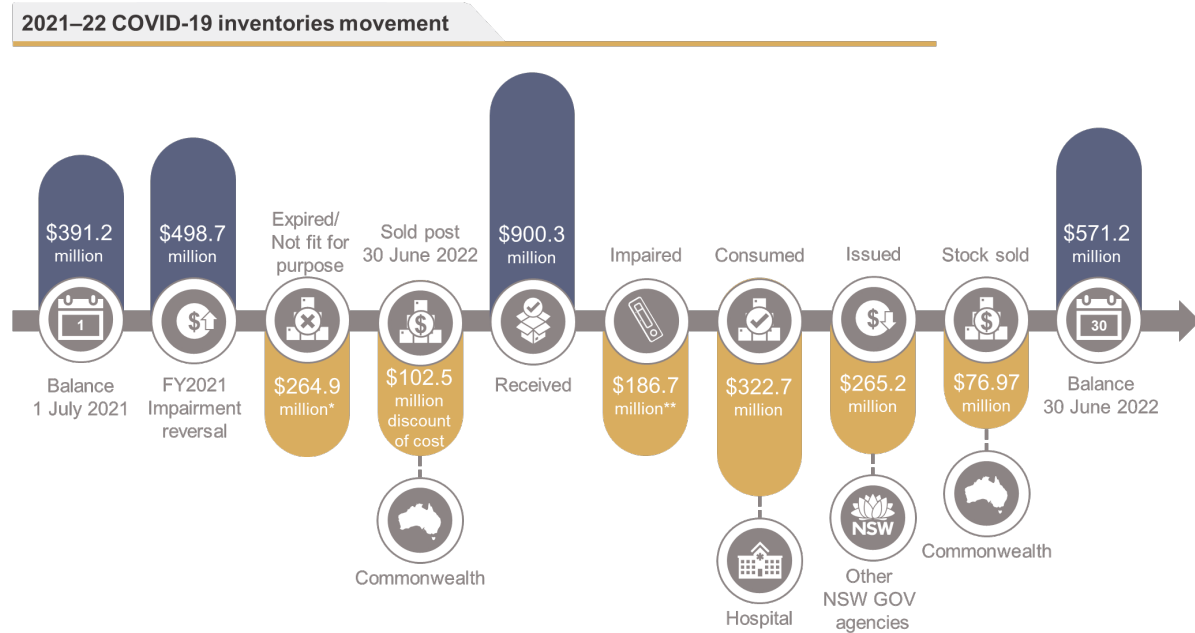
There continued to be a high level of complexity regarding the nature of Australian Government funding streams and the types of transactional data required to ensure that revenue and expenses are valued accurately and recognised in the relevant financial reporting period. We note continued challenges exist in relation to these arrangements.

We recommend management:

- **continue to undertake detailed reviews of all Australian Government streams, to minimise the risk of future material misstatements in the financial statements.**

COVID-19 inventory impairments and write offs

As at 30 June 2022, COVID-19 related inventories were reported at \$571.2 million. COVID-19 related inventories includes items such as masks, gowns, gloves, sanitisers and other medical consumables. The key movements in relation to COVID-19 inventories, including Rapid Antigen Tests (RATs), are summarised in the following diagram:



* For details relating to the \$264.9 million of COVID-19 inventories expired or not fit for purpose, refer to the section titled 'General COVID-19 inventories' in this report.

** For details relating to the \$186.7 million impaired RATs, refer to the section titled 'Impairment of RATs' in this report.

General COVID-19 inventories

HealthShare NSW assessed the impairment status of general COVID-19 inventories (excluding RATs, the impairment of which was assessed through a separate process) through the impairment model which was developed and implemented in 2020-21. This resulted in \$264.9 million of COVID-19 inventories identified and accounted for as being expired or not fit for purpose. The model uses two key factors, namely the Best Before Date (BBD) and forecast consumption patterns. The BBD should be consistent with the product's packaging and/or the manufacturer's guidelines. Forecast consumption rates are based on historical average consumptions levels. In general terms, if consumption is anticipated to occur past the BBD, the value of that excess inventory would be impaired. The model therefore relied on two key inputs, being the:

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

We observed improvements in the integrity of the inputs on which the general COVID-19 impairment assessment model relied. HealthShare NSW processed a \$7.7 million adjustment to correct an understatement of the impairment provision due to not accurately accounting for returned stock from customers. This compares to the \$114.2 million of adjustments processed to the impairment provision in 2020-21.

Impairment of RATs

HealthShare NSW reported 102.6 million RATs on hand with a value of \$500.5 million at 30 June 2022 but had not included this inventory group in the general COVID-19 impairment assessment described above. Management procured the RATs in circumstances where it was very difficult to predict a future demand driven model. In doing so, management prepared for a worst-case scenario and stockpiled RATs to be able to respond to a range of demand settings. However, that worst-case scenario has yet to eventuate which means that charges for impairment of the stockpile will continue as the RATs approach expiry. Based on management's current forecast projected use, 38.3 million of RATs are unlikely to be consumed before they expire. RATs have a limited useful life, with the last batch scheduled to expire in August 2024. This resulted in a corrected understatement to the impairment provision with respect to RATs of \$186.7 million.

This is considered a high-risk issue and is discussed further in Section 3.

Recommendation

There is a high degree of estimation uncertainty regarding the assessment of COVID-19 inventories. The accuracy of the underlying data, including any assumptions applied, needs to be evidence based.

We recommend management:

- **consider recent developments and ensure consumption patterns used in all impairment assessments are supported by relevant data and plans.**

\$29.4 million disposal provision for impaired COVID-19 inventories

HealthShare NSW has reported that a plan for disposing impaired COVID-19 inventories has now been formulated and the first phase of that plan will be executed shortly. HealthShare NSW has obtained quotes sourced from relevant suppliers who can undertake this work in an environmentally friendly manner. A \$29.4 million disposal provision was recognised at 30 June 2022.

\$426.2 million provision for Health worker appreciation payments

The NSW Government announced in June 2022 a \$3,000 payment (inclusive of superannuation) to all eligible health employees who were employed on 1 April 2022 and continued to be employed on 30 June 2022. This is in recognition of their work on the frontline of the COVID-19 pandemic. The cluster recognised a \$426.2 million at 30 June 2022 for health workers including NSW Health employees, Visiting Medical Officers (VMOs) and employees of affiliated health organisations.

\$103.6 million contribution to the Australian Government's RAT Concessional Access Program

On 5 January 2022, the National Cabinet agreed to support concession card holders to obtain free RATs through community pharmacies in order to promote more equitable access to RATs for lower income members of the community. The National Cabinet agreed that under the NPA, the Australian Government, together with the state and territory governments would each fund 50% of the costs of the program. 18.7 million RATs were distributed to New South Wales concession card holders and the cluster's share of the costs totalled \$103.6 million in 2021–22.

\$58.6 million in Hotel Quarantine receivables

Australia implemented international border restrictions early during the pandemic to prevent the spread of COVID-19. During 2020–21, we reported the Sydney Local Health District had recognised \$214 million in revenues associated with the Hotel Quarantine (HQ) program. \$107 million of outstanding debts was recognised as a receivable at 30 June 2021. Management assessed that \$28.2 million is unlikely to be collected.

Since 1 November 2021, international travellers who are fully vaccinated against COVID-19 are not required to enter HQ which has effectively ended the HQ program. At 30 June 2022, outstanding debts totalled \$58.6 million and management recognised a \$38.6 million amount which is unlikely to be collected. The majority of this relates to overseas passengers without readily available contact information and domestic travellers who have not entered a payment plan with Revenue NSW.

Since inception of the HQ program until 30 June 2022, invoices totalling \$324.9 million have been issued, of which, \$224.3 million have been paid, \$42 million have been adjusted or waived and a further \$38.6 million identified as being unlikely to be collected, leaving a net receivable of \$20 million at 30 June 2022.

Recommendation

There is a continued high degree of estimation uncertainty associated with forecasting recovery of HQ debtors. Factors such as 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 includes review of historic rates of collection**
- **work with Revenue NSW to understand and consider the impact of Revenue NSW's use of garnishee and other powers on the collection of domestic debtors.**

\$33.9 million in leases associated with the Linfox leasing arrangements

On 3 April 2020, the NSW Police Force (NSWPF) and Linfox entered a logistics arrangement for stock management and warehousing of COVID-19 related inventories. The agreement had an initial term of six months expiring on 3 October 2020 with an automatic three-month option to extend, unless either party gave at least one month's notice that it did not wish to extend the agreement beyond the Initial Term. The initial agreement did not detail specifics around which warehouses were going to be used, or what the costs per pallet would be. The category of services was defined as 'Warehouse Services' whereby Linfox would provide all required resources (including people, information technology systems and material handling equipment).

On 4 November 2020, amendments were executed by the parties, which introduced a volume floor whereby the customer agreed to a minimum storage volume of 50,000 pallets throughout the Term of the Agreement. The weekly charge for Pallet Storage (Ambient) activity was calculated based on the guaranteed minimum volume commitment of 50,000 pallets per week, per annum. The agreement was based on Linfox entering a leasing arrangement for the new St Marys warehouse until January 2024. This amendment has shifted this arrangement from 'Warehouse Services' to a 'Leasing Arrangement'.

As a result of the above, a prior period error was disclosed in the financial statements in recognition of the gross value of the storage facilities that are being used under this leasing arrangement of \$33.9 million in the ministry's financial statements. The total value of all payments made by the ministry on behalf of HealthShare NSW to NSWPF of \$30.5 million as resources provided free of charge was also corrected and reflected in HealthShare NSW's financial statements.

Non COVID-19 accounting matters

The changes in office accommodation arrangement with Property NSW resulted in derecognition of right-of-use assets and lease liabilities

Property NSW (PNSW) is responsible for managing most of the state government agencies leased real estate property portfolio. During 2021–22, PNSW made some changes to its intra-government lease arrangements, including rewriting the standard Client Acceptance Letter (CAL) to include a 'Relocation and substitution right' clause. This clause allows PNSW to relocate agencies to other locations and remove their right to control the use of the identified accommodations. As a result, the new CALs no longer constitute a lease under AASB 16 'Leases'. The changes became effective from 30 June 2022. The ministry, on behalf of the cluster, accepted the changes to their office accommodation arrangements with PNSW. This has resulted in the:

- derecognition of \$640.4 million of assets available for use under leasing arrangements
- derecognition of \$765.7 million of lease liabilities
- recognition of \$125.3 million of other gains.

Going forward, cluster agencies will recognise the office accommodation payments as expenses in their respective Statement of Comprehensive Income and continue to recognise the fit-outs and make good provisions. Cluster agencies have included appropriate disclosures in their year-end financial statements, detailing the accounting policies, significant judgments made and impact of the derecognition of the ROU assets and lease liabilities at 30 June 2022.

\$138.6 million of work in progress (WIP) not rolled out timely upon completion

We identified anomalies in three health entities relating to delays in the capitalisation of WIP totalling \$138.6 million, which had a flow-on impact in understatement of depreciation expense:

- Central Coast Local Health District:
 - \$36 million on Wyong Hospital redevelopment with a \$2.5 million understatement in depreciation expense
- Hunter New England Local Health District
 - \$5.6 million relating to 13 land and building projects
- Western Sydney Local Health District
 - \$28 million on the Blacktown Hospital refurbishment project which was included in both the 2020–21 comprehensive valuation and the WIP balance at 30 June 2022
 - \$69 million on the Westmead Hospital redevelopment and refurbishment project with an estimated \$5.2 million understatement in depreciation expense and a \$5.9 million understatement in relation to the indexation uplift on this project.

Recommendation

Delays in transfer of completed projects increases the risk of material misstatements in financial statements due to the flow on impact to any depreciation charges.

We recommend management:

- **liaise with Health Infrastructure to establish more thorough and frequent communication on project management**
- **perform regular inquiry and review on the progress of existing WIP projects to assist in more timely roll outs.**

\$135.5 million adjustment in superannuation guarantee contributions for annual leave loading

Superannuation Guarantee Charges are payable on ordinary time earnings. Per an administrative ruling issued by the Australian Taxation Office, annual leave loading, an entitlement compensating employees for the lost opportunity to receive overtime and/or penalty rates while on annual leave, is not considered ordinary time earnings if the ministry was able to sufficiently demonstrate that the loading represented this notional loss of opportunity to work overtime.

The ministry revisited its previous superannuation assessment concluding it was unable to demonstrate a sufficient nexus between leave loading paid and a notional loss of opportunity to work overtime. As a result, unpaid superannuation contributions were accounted for in the financial statements submitted by the ministry for audit.

On 27 July 2022, after the balance date, the Federal Circuit and Family Court of Australia released a decision in the matter of *Finance Sector Union of Australia v Commonwealth Bank of Australia (2022)* that dealt with whether annual leave loading formed part of ordinary time earnings and therefore, required superannuation contributions to be made. The decision introduced an element of uncertainty as to whether there was a current probable or possible obligation in respect of superannuation contributions on annual leave loading under 'AASB 137 Provisions, Contingent Liabilities and Contingent Assets'.

The ministry, in conjunction with NSW Treasury, evaluated the outcomes of the Federal Court decision concluding that no liability arises to pay superannuation on annual leave loading, noting that the recent ruling supersedes the administrative ruling issued by the Australian Taxation Office. This change constitutes a Type 1 subsequent event under 'AASB 110 Events after the Reporting Period', resulting in adjustments to the balances and disclosures reported in the financial statements of the ministry and the consolidated entity.

\$30.5 million adjustment relating to the Rural, Regional and Remote Clinical Trial Enabling Infrastructure grant

During 2021–22, the ministry received \$30.5 million from the Commonwealth for the Rural, Regional and Remote Clinical Trial Enabling Infrastructure grant. We reviewed management's assessment and the underlying agreement in assessing the appropriate revenue accounting treatment for this arrangement. Our procedures identified an incorrect revenue accounting treatment where management has deferred this revenue. This is on the basis that whilst the agreement specifies the outcome for which the funding relates to, it is not specific with actual deliverables and what are the specific goods or services to be transferred back to the Australian Government.

The following adjustments were processed to correct the error:

- \$27.5 million transfer from contract liability to revenue
- \$3 million transfer from contract liability to other liability for portion relating to acquiring of non-financial assets.

Recommendation

Incorrect application of revenue accounting standards could result in material misstatement in the financial statements.

We recommend management:

- **perform a detailed analysis to identify actual deliverables specified in the agreement to assess the appropriate revenue accounting treatment.**

\$14.4 million misstatement due to incorrect application of the asset capitalisation threshold

NSW Health applies an asset capitalisation threshold of \$10,000. NSW Treasury's recommended level for capitalisation is \$5,000.

During 2021–22, we further analysed the application of the threshold to understand whether there were any reportable findings or errors from its application of the \$10,000 threshold. Our work identified the following factual errors, which remain uncorrected at year-end whereby equipment:

- costing more than \$10,000 totalling \$14.5 million had been erroneously expensed across 2020–21 and 2021–22, with a depreciation impact of \$1.99 million calculated
- was recognised within the wrong expense items within the financial statements totalling \$19.4 million across 2020–21 and 2021–22.

Recommendation

A threshold is an accounting expedient and should be regularly reviewed to ensure that its application does not result in a material error to the financial statements.

We recommend management:


- **undertake further review to fully understand the exposure of applying a \$10,000 threshold**
- **conclude as to whether a reduction to the recommended \$5,000 (or more) should take place.**

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 significant cluster agencies.

	Key financial statement risk	Audit response
 <p data-bbox="294 587 469 680">Valuation of Property, plant and equipment</p>	<p data-bbox="497 506 925 785">At 30 June 2022, NSW Health, which comprises the ministry and its consolidated agencies, reported \$26.3 billion in infrastructure, property, plant and equipment measured at fair value. This is comprised of \$24.2 billion in land and buildings, \$1.5 billion in plant and equipment, and \$711.8 million in infrastructure systems.</p> <p data-bbox="497 799 918 857">This was considered a key audit matter due to the:</p> <ul data-bbox="497 871 925 1691" style="list-style-type: none"> • financial significant, 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: <ul data-bbox="546 1313 925 1691" style="list-style-type: none"> – 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. 	<p data-bbox="951 506 1265 529">The following was conducted:</p> <ul data-bbox="951 543 1443 1715" style="list-style-type: none"> • 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
 <p>COVID-19 vaccine inventories</p>	<p>At 30 June 2022, NSW Health reported COVID-19 vaccine received from the Commonwealth and distributed to the public for no consideration at \$130.02 million and \$116.8 million, respectively.</p> <p>This was considered a key audit matter due to the:</p> <ul style="list-style-type: none"> • 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 New South Wales. 	<p>The following was conducted:</p> <ul style="list-style-type: none"> • 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 2022 financial reporting period • tested a sample of transactions verifying quantities back to source documentation. <p>For more details, refer to section 1.4 of this report.</p>
 <p>Existence and valuation of COVID-19 general inventories</p>	<p>At 30 June 2022, HealthShare NSW reported \$571.2 million (post impairment) of COVID-19 inventories.</p> <p>This was considered a key audit matter due to the:</p> <ul style="list-style-type: none"> • 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. 	<p>The following was conducted:</p> <ul style="list-style-type: none"> • 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. <p>For more details, refer to section 1.4 of this report.</p>

	Key financial statement risk	Audit response
 <p>Recognition and measurement of Commonwealth grants and contributions revenue</p>	<p>During the year, over \$9 billion was received in Commonwealth grants and contributions through the National Health Reform Agreement (NHRA) and the National Partnership Agreement (NPA) in 2021–22.</p> <p>This was considered a key audit matter due to the:</p> <ul style="list-style-type: none"> • 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. 	<p>The following was conducted:</p> <ul style="list-style-type: none"> • 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. <p>For more details, refer to section 1.4 of this report.</p>

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 cluster.

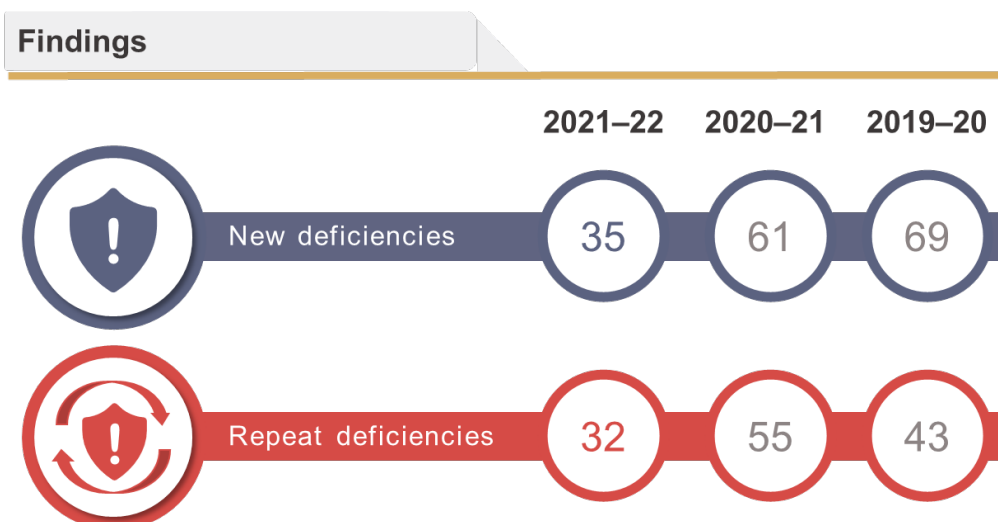
Section highlights

- The total number of internal control deficiencies has decreased from 116 in 2020–21 to 67 in 2021–22. Of the 67 issues raised in 2021–22, four were high (2020–21: 3) and 37 were moderate (2020–21: 57); with nearly half of all control deficiencies reported in 2021–22 being repeat issues.
- The following four issues were reported in 2021–22 as high risk:
 - impairment of COVID-19 inventories
 - inadequate review over the appropriateness of asset capitalisation threshold
 - forced-finalisation of HealthRoster time records
 - COVID-19 vaccination inventories – data quality issue at 31 March 2022.
- Management of excessive leave balances and poor quality or lack of documentation supporting key agreements continued to be the key repeat issues observed in the 2021–22 financial reporting period.

3.1 Findings reported to management

The number of findings reported to management has decreased with 47.8% of all issues reported being repeat matters

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 agencies. The Audit Office of New South Wales does this through management letters, which include observations, related implications, recommendations and risk ratings.



In 2021–22, there were 67 findings raised across the cluster (116 in 2020–21). 47.8% of all issues were repeat issues (47.4% in 2020–21). Of the 32 repeat issues reported this year, two issues were rated high risk and 18 issues were rated as moderate risk.

A delay in implementing audit recommendations increases the risk of error 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. For these reasons, it is important that management address repeat issues as soon as possible.

2021–22 audits identified four high-risk findings








High-risk findings, including repeat findings, were reported at the following cluster agencies.






Agency	Description
2021–22 findings	
HealthShare NSW (repeat finding)	<p>Impairment of COVID-19 inventories</p> <p>As discussed in Section 2.4, in 2021–22 we continued to identify issues around management's impairment assessment in relation to COVID-19 related inventory. These findings include the following:</p> <ul style="list-style-type: none"> errors in the consumption data used as an input to the inventory impairment model which incorrectly included stock items returned to the warehouse which resulted in a \$7.7 million understatement in impairment management did not consider Rapid Antigen Tests (RATs) in the inventory impairment model and upon Audit's request, an assessment was performed which resulted in a \$187.6 million understatement in the impairment provision for RATs management was unable to reconcile the consumption data used in the inventory impairment model with that recorded in the general ledger. Although Audit was able to perform additional high-level procedures to obtain assurance that there were no material misstatements, a stronger reconciliation process is required for 2022–23.
NSW Health (new finding)	<p>Inadequate review over the appropriateness of asset capitalisation threshold</p> <p>As discussed in Section 2.4, TPG22-06 Financial Reporting Code for NSW General Government Sector Entities nominates a \$5,000 asset capitalisation threshold (or a different threshold determined by the entity), compared to the level set by the ministry which is \$10,000 across the consolidated entity.</p> <p>Management has advised that the asset capitalisation threshold has not been reviewed since 2006.</p> <p>For details, refer to the 'Emerging trends' section of this report.</p>
NSW Health (repeat finding)	<p>Forced-finalisation of HealthRoster time records</p> <p>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 2021–22, a total of 2.6 million time records were force approved, which represented 7.6% of total time records.</p> <p>During the year, we are unable to obtain reports to quantify the potential misstatements associated with this issue.</p> <p>For details, refer to the 'Key repeat issues' section of this report.</p>




Agency	Description
2021–22 findings	
NSW Health (new finding)	COVID-19 vaccination inventories - data quality issue at 31 March 2022 During our interim phase, we reported on anomalies within the COVID-19 vaccination data set provided by the State Health Emergency Operation Centre (SHEOC). This resulted in re-work and delays in being able to finalise our procedures. Although we did not find similar issues during the final phase of the audit, it was an issue identified through the course of our interim audit.

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

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

Risk rating	Issue
Information technology	
<p> Moderate: 4 new, 1 repeat</p> <p> Low: 0 new, 2 repeat</p>	<p>We identified internal control deficiencies relating to technology processes and controls that support the integrity of financial data used to prepare financial statements. Of particular concern are new issues associated with:</p> <ul style="list-style-type: none"> • access to vendor master files not appropriately restricted • cyber security controls require improvements • lack of review of user access for <ul style="list-style-type: none"> - HealthRoster - Patient Billing and Revenue Collection System. <p>Repeat issues included:</p> <ul style="list-style-type: none"> • deficient password control • cyber security and patch management • no independent review for data integrity of any changes made to HealthRoster.
Internal control deficiencies or improvements	
<p> High: 1 new, 2 repeat</p> <p> Moderate: 9 new, 5 repeat</p> <p> Low: 7 new, 6 repeat</p>	<p>We identified internal control deficiencies across key business processes, including new issues relating to:</p> <ul style="list-style-type: none"> • untimely capitalisation of WIP projects • employee remuneration rates exceeding policy rates without delegated approval being sought or granted • annual leave approved by management after leave was taken <p>Repeat issues included:</p> <ul style="list-style-type: none"> • impairment of COVID-19 inventories • forced finalisation of rosters to finalise processing of payroll • management of excessive annual leave.
Financial reporting	
<p> Moderate: 1 new, 3 repeat</p> <p> Low: 3 new, 2 repeat</p>	<p>We identified internal control deficiencies in financial reporting. New issues included:</p> <ul style="list-style-type: none"> • weaknesses in the bank reconciliation process • items incorrectly expensed by management when they should be recorded as plant and equipment. <p>Repeat issues included:</p> <ul style="list-style-type: none"> • expected rate of recoverability of outstanding Hotel Quarantine fees • recognition of provisions not in accordance with the accounting standard.

Risk rating	Issue
Governance and oversight	
 High: 1 new, 0 repeat  Moderate: 5 new, 8 repeat  Low: 3 new, 2 repeat	<p>We identified internal control deficiencies in governance and oversight processes with new issues including:</p> <ul style="list-style-type: none"> inadequate review over the appropriateness of asset capitalisation threshold set at \$5,000 outdated policies and procedures interhospital transport agreements between Ambulance Services NSW and Local Health Districts not signed for 2021–22 financial year. <p>Repeat issues included:</p> <ul style="list-style-type: none"> delegations manual for Health Infrastructure remains in draft and has done so since 2017 ensure better documentation around governance arrangements for major health capital works delivered by Health Infrastructure.
Non-compliance with key legislation and/or central agency policies	
 Moderate: 0 new, 1 repeat  Low: 1 new, 0 repeat	<p>We identified deficiencies in agencies' compliance with key legislation and central agency policies, including:</p> <ul style="list-style-type: none"> non-compliance with the <i>Government Information Act (Public Access) Act 2009</i>, specially relating to Western NSW Local Health District assessment of <i>Government Sector Finance Act 2018</i>, still remains outstanding.

-  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.

3.2 Complexities arising from the COVID-19 response

Procurement, management and impairment of COVID-19 inventories

For key movements in relation to the COVID-19 inventories during the year, refer to section 1.4 of this report. 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.

While we did not have any reportable matters in relation to the stocktaking methodology applied by HealthShare NSW in 2021–22, we have identified issues where management did not include RATs in initial impairment assessments, which led to a corrected understatement to the impairment provision of \$186.7 million.

We have continued to report this matter as a high-risk issue in 2021–22.

Expected rate of recovery of outstanding Hotel Quarantine (HQ) invoices

In 2020–21, we reported this as a high-risk matter. For further details, refer to section 1.4 of this report.

In 2021–22, we identified areas of improvement in management's ECL provision assessment which includes:

- developing a tailored assessment methodology to estimate likely recoverability, which includes review of historic rates of collection
- working with Revenue NSW to understand and consider the current approach to collection.

While we have noted additional points listed above, the current year's approach is more reflective of the characteristics of the population, and as a result, we have lowered our risk assessment from high to moderate.

3.3 Emerging trends

Appropriateness of asset capitalisation threshold

TPG22-06 Financial Reporting Code for NSW General Government Sector Entities nominates a \$5,000 asset capitalisation threshold. The level set by the ministry is currently \$10,000 and this is applied by all entities across the consolidated entity. The application of any threshold must be regularly reviewed to ensure that the risks of material misstatement are not outweighed by the operational benefits that the application of a threshold is aimed at promoting.

The key risk with asset capitalisation thresholds is that there is a material value of assets are expensed which, had the threshold been different, may not have had a material impact. Expensing assets in this manner can also contribute to the consolidate entity's net cost of services. This becomes more prevalent in times of economic uncertainty and expanded procurement, both of which have been present over the past several years as NSW Health has been dealing with COVID-19. Management has advised that the asset capitalisation threshold has not been reviewed since 2006.

Untimely capitalisation of WIP projects

We have identified several issues which resulted in errors relating to WIP capitalisation:

- Western Sydney Local Health District (WSLHD)
 - Blacktown Hospital refurbishment (HI project # 56055) with a balance of \$27.95 million was completed in July 2020 but remained as WIP until June 2022. The refurbishment was considered by the independent valuer during the comprehensive valuation in Dec 2020. Therefore, it resulted in a double count of WIP and building balances and led to misstatements in financial statements.
 - Institute Of Clinical Pathology and Medical Research refurbishment project with a balance of \$69.61 million appeared to have related to a different project being the Westmead Hospital refurbishment project. The major components of the project were gradually completed between 2017 and 2019 while the WIP balance was not transferred until June 2022. It resulted in an understatement of depreciation expense in prior financial years.
- Central Coast Local Health District
 - Wyong Hospital redevelopment which included \$36 million of WIP at 30 June 2022 which should have been capitalised by 30 June 2022. The maximum estimated impact to depreciation expense of \$2.5 million remained uncorrected in the financial statements.
- Hunter New England Local Health District
 - Delays in capitalisation between WIP and land and buildings for 13 projects with a total asset value of \$5.6 million.

3.4 Key repeat issues

Forced-finalisation of HealthRoster time records

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 2021–22, a total of 2.6 million (two million in 2020–21) time records were force approved, which represents 7.5% (5.7% in 2020–21) of total time records. The process of finalising rosters occurs once a delegate is satisfied that the roster and timesheets are accurate. When rosters are finalised to process employee pay, changes to planned or unplanned leave taken; general variations or allowances may not necessarily be captured in the roster and hence the pay run may be inaccurate.

As HealthRoster is a largely decentralised system, obtaining cluster wide data around the composition of the rosters finalised (for example, by employee; ward; dollar value associated with each shift being forced finalised or forced finalised shifts subject to post edits) could not be obtained.

As part of our 2022–23 audit approach, we will be seeking to further explore this issue by specific management strategies employed at the health entity level.

Recognition of provisions without sufficient support

In 2020–21, we reported several NSW Health entities raised accruals and provisions, 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.

During the year, we continued to find similar issues across a number of health entities. Whilst these errors remain uncorrected in the financial statements, we recommend management increase training and guidance to ensure that treatment within the cluster is consistent and reflect events that have occurred and give rise to present obligations.

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 and status of these capital projects.

Cross border patient funding agreements

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 New South Wales 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 New South Wales and other jurisdictions.

Jurisdiction	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21 onwards
QLD	✓	✓	✓	✓	✓	!	
VIC	!	!	!	!	!	!	
ACT	✓	✓	✓	✓	✓	✓	Negotiation in progress
SA	✓	✓	✓	✓	✓	✓	
TAS	✓	✓	✓	✓	✓	✓	
NT	✓	✓	✓	✓	✓	✓	
Key	✓ Signed		✓ Agreed via letter		! None		

Section two

Appendices

Appendix one – Misstatements in financial statements submitted for audit

	2021–22			2020–21		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Ministry of Health - consolidated entity	3	--	3	--	--	--
Ministry of Health	1	6	7	2	5	7
Central Coast Local Health District	1	1	2	1	--	1
Far West Local Health District	1	--	1	--	--	--
Hunter New England Local Health District	7	--	7	--	--	--
Illawarra Shoalhaven Local Health District	--	--	--	1	1	2
Mid North Coast Local Health District	--	--	--	--	--	--
Murrumbidgee Local Health District	1	--	1	--	--	--
Nepean Blue Mountain Local Health District	1	--	1	1	--	1
Northern NSW Local Health District	--	--	--	--	--	--
Northern Sydney Local Health District	1	--	1	2	--	2
South Eastern Sydney Local Health District	1	--	1	1	--	1
South Western Sydney Local Health District	1	--	1	--	--	--
Southern NSW Local Health District	2	--	2	--	--	--
Sydney Local Health District	--	--	--	1	1	2
Western NSW Local Health District	--	--	--	--	--	--
Western Sydney Local Health District	3	--	3	--	--	--
The Sydney Children's Hospitals Network	--	--	--	--	--	--
Justice Health and Forensic Mental Health Network	--	--	--	1	--	1

	2021–22			2020–21		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Agency for Clinical Innovation	--	--	--	--	--	--
Bureau of Health Information	--	--	--	--	--	--
Cancer Institute NSW	--	--	--	--	--	--
Clinical Excellence Commission	--	--	--	1	--	1
Health Education and Training Institute	1	--	1	--	--	--
Albury Base Hospital	--	--	--	--	1	1
Graythwaite Charitable Trust	--	--	--	--	--	--
Health Administration Corporation	1	2	3	1	4	5
TOTAL	25	9	34	12	12	24

Source: Engagement Closing Reports issued to cluster agencies.

Appendix two – Early close procedures

No.	Procedure	Description
1	Proforma financial statements	Complete proforma financial statements and ensure management has reviewed the statements and the supporting working papers.
2	Fair value assessment of property, plant and equipment	Perform and document an annual assessment of the fair value of property, plant and equipment, 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 by early close.
4	Update employee annual leave provisions	Reconcile and calculate annual leave provisions. The balances calculated for the early close 31 March financial statements must be rolled forward with adjustments for monthly accruals and actual payments as part of the 30 June financial statements.
5	Inter and intra (cluster) agency transactions and balances	Agree and confirm all inter and intra (cluster) agency balances and transactions with the counterparty agency.
6	Significant management judgements and assumptions	Document all significant management judgements and assumptions made when estimating transactions and balances.
7	Reconciliation of key account balances	Reconcile all key account balances (including annual leave provisions) and clear reconciling items.
8	Reconcile March 2022 month-end Prime submission to the proforma financial statements	Reconcile the March 2022 month-end Prime submission to the proforma financial statements and provide explanations for variances above \$5.0 million.
9	Changes in accounting policy	Review and agree changes in accounting policy with the principal cluster agency.
10	Finalise right-of-use assets and lease liability balances	Ensure that all lease arrangements are accurate and complete.
11	Finalise assessment of all revenue contracts	Ensure revenue is accurate and complete and has been correctly accounted for under AASB 15 'Revenue from Contracts with Customers' or AASB 1058 'Income of Not-for-Profit Entities'.
12	Correction of material prior period errors	Confirm there are no changes to the 2020–21 closing balances. Proposed changes are accompanied by journals, explanations and proposed disclosures.
13	Monthly management reports	Perform variance analysis with meaningful explanations for actuals versus budget, and year-to-date actuals for the previous year.
14	Accounting treatment for restructures and discontinued /abolished agencies	Identify and document the accounting treatment for changes to agency structures resulting from legislative or other changes.
15	Delegations	Ensure all material transactions are supported by appropriate delegations.

No.	Procedure	Description
16	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).
17	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 2021–22 financial year.

Appendix three – Timeliness of financial reporting

Cluster agencies	2021–22 Financial statements submission	Date audit report was issued
Ministry of Health	✓	20 October 2022
Agency for Clinical Innovation	✓	30 September 2022
Albury Base Hospital	✓	19 October 2022
Bureau of Health Information	✓	27 October 2022
Cancer Institute of NSW	✓	29 September 2022
Central Coast Local Health District	✓	5 October 2022
Clinical Excellence Commission	✓	30 September 2022
Far West Local Health District	✓	30 September 2022
Graythwaite Charitable Trust	✓	19 October 2022
Health Education and Training Institute	✓	10 October 2022
Hunter New England Local Health District	✓	14 October 2022
Illawarra Shoalhaven Local Health District	✓	29 September 2022
Justice Health and Forensic Mental Health Network	✓	29 September 2022
Mid North Coast Local Health District	✓	30 September 2022
Murrumbidgee Local Health District	✓	4 October 2022
Nepean Blue Mountain Local Health District	✓	28 September 2022
Northern NSW Local Health District	✓	30 September 2022
Northern Sydney Local Health District	✓	28 September 2022
South Eastern Sydney Local Health District	✓	30 September 2022
South Western Sydney Local Health District	✓	5 October 2022
Southern NSW Local Health District	✓	7 October 2022
Sydney Local Health District	✓	4 October 2022
Sydney Children's Hospital Network	✓	30 September 2022
Western NSW Local Health District	✓	30 September 2022
Western Sydney Local Health District	✓	7 October 2022
Health Administration Corporation	✓	19 October 2022

Cluster agencies	2021–22 Financial statements submission	Date audit report was issued
Mental Health Commission of New South Wales	✓	4 October 2022
Health Care Complaints Commission	✓	24 October 2022
NSW Health Foundation	✓	27 October 2022

- ✓ Treasury's reporting deadline was met.
- Treasury's approved extension timeframe was met.
- ! Treasury's reporting deadline was not met.

Appendix four – Financial data

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2022 \$m	2021 \$m	2022 \$m	2021 \$m	2022 \$m	2021 \$m	2022 \$m	2021 \$m
Cluster lead entity								
Ministry of Health - consolidated entity	33,075.4	29,557.2	8,056.4	7,647.5	30,280.0	27,095.5	29,340.0	26,789.5
Ministry of Health	2,027.5	1,627.1	940.5	1,168.9	27,115.0	23,614.6	26,519.9	24,348.8
Local Health Districts (LHD)								
Central Coast LHD	1,174.9	1,113.0	201.3	240.8	1,010.3	1,061.3	1,010.2	971.7
Far West LHD	159.9	144.1	26.6	24.2	149.0	125.5	145.9	131.0
Hunter New England LHD	3,320.8	2,862.2	628.0	535.0	2,673.8	2,739.4	2,733.4	2,552.6
Illawarra Shoalhaven LHD	865.6	782.6	249.0	203.8	1,168.3	1,131.4	1,200.1	1,117.1
Mid North Coast LHD	824.9	746.9	165.4	145.8	832.6	822.7	833.3	750.8
Murrumbidgee LHD	941.5	795.6	133.0	110.5	800.6	810.1	783.6	740.3
Nepean Blue Mountains LHD	1,259.8	1,097.3	220.0	188.1	1,131.3	1,176.7	1,062.6	982.9
Northern NSW LHD	1,231.7	939.8	179.3	157.8	1,200.1	1,022.2	1,005.9	951.9
Northern Sydney LHD	3,179.7	2,946.9	1,396.6	1,357.1	1,995.3	1,995.0	2,074.2	2,036.5
South Eastern Sydney LHD	2,572.3	2,327.7	515.3	439.3	2,179.7	2,175.4	2,165.5	2,041.6
South Western Sydney LHD	2,740.1	2,436.7	569.2	503.8	2,521.9	2,543.3	2,378.0	2,226.1
Southern NSW LHD	657.4	552.6	83.9	69.7	553.6	571.4	544.0	507.0
Sydney LHD	2,582.4	2,483.1	516.7	440.2	2,482.7	2,522.2	2,621.5	2,235.7
Western NSW LHD	1,548.7	1,404.8	374.9	339.1	1,108.0	1,095.8	1,146.7	1,057.4
Western Sydney LHD	3,214.8	3,031.4	563.1	470.9	2,298.9	2,138.4	2,408.6	2,104.3
Sydney Children's Hospitals Network	1,071.7	982.7	200.7	160.1	1,022.1	1,069.4	1,007.4	952.1
Justice Health and Forensic Mental Health Network	139.2	135.7	129.4	123.8	278.0	282.9	287.5	282.4

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2022 \$m	2021 \$m	2022 \$m	2021 \$m	2022 \$m	2021 \$m	2022 \$m	2021 \$m
Pillar agencies								
Agency for Clinical Innovations	0.9	1.9	6.8	7.0	36.4	37.2	37.1	38.6
Bureau of Health Information	0.2	0.2	1.2	1.2	9.2	9.9	9.3	10.0
Cancer Institute of NSW	9.7	10.6	16.4	17.7	172.3	170.7	171.9	173.8
Clinical Excellence Commission	1.6	1.5	4.7	4.1	22.2	20.5	22.7	20.7
Health Education and Training Institute	1.5	2.0	7.9	6.6	38.1	37.0	39.9	38.4
Share state-wide services								
Health Administration Corporation	4,629.0	3,779.2	2,144.8	1,703.6	6,055.6	4,334.5	5,696.1	4,930.2
Other controlled health entities								
Albury Base Hospital	78.3	73.6	0.0	0.0	0.0	0.0	3.9	3.2
Graythwaite Charitable Trust	50.6	46.2	0.0	0.0	0.0	0.0	1.1	1.1
Other entities in the cluster								
Health Care Complaints Commission	7.0	8.7	3.6	7.6	23.8	21.6	21.5	20.4
Mental Health Commission of NSW	1.8	1.9	1.3	1.5	9.8	9.9	9.8	9.8
Health Professional Councils [^]	70.8	67.9	25.0	27.2	45.2	40.1	40.1	38.1
NSW Health Foundation	6.5	6.2	0.0	0.0	0.2	0.0	0.4	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 2021–22 financial statements.

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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.

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