Special Commission of Inquiry into Healthcare Funding

Statement of Adjunct Professor Alfa D'Amato

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1. This statement made by me accurately sets out the evidence that I would be prepared, if necessary, to give to the Special Commission of Inquiry into Healthcare Funding as a witness. The statement is true to the best of my knowledge and belief.

A. BACKGROUND

2. I am the Deputy Secretary, Financial Services and Asset Management, NSW Ministry of Health (**MOH)** and Chief Financial Officer of NSW Health). In this role, I am responsible for the financial performance and strategy of NSW Health, including governance frameworks, accounting, insurance, financial data analysis and reporting, strategic procurement, corporate services and business improvement, and statewide strategic asset management.

3. Before commencing in the role of Deputy Secretary and Chief Financial Officer in April 2021, my previous roles included: Executive Director of System Financial Performance and the Deputy Chief Financial Officer of NSW Health, a Director of the Activity Based Funding (**ABF**) Taskforce, Person Assisting the Administrator of the National Health Funding Body, and the Associate Director of Financial Operations at South Eastern Sydney Illawarra Health Service. I was involved in ABF and in the implementation of the National Health Reform Agreement (**NHRA**) and its nationally consistent ABF approach in NSW.

4. I have a Bachelor of Social Science and Master of Policy and Applied Social Research from Macquarie University, a Master of Health Services Management from the University of NSW, a Master of Professional Accounting from the University of New England and I am a Certified Public Accountant. I am also an Adjunct Professor at the University of Technology Sydney Business School.

5. I am a member of the Boards of Ambulance NSW, Health Infrastructure, and HealthShare NSW.

6. A copy of my CV is exhibited to this statement (Exhibit A.53 MOH.9999.0006.0001).

B. SCOPE OF STATEMENT

7. This statement addresses Term of Reference B concerning the governance and accountability structure of NSW Health and Term of Reference D concerning waste and efficiency. It addresses the financial governance structure of NSW Health, financial reporting, and waste and efficiency. Finally, it provides some consideration of some opportunities to improve the financial governance of NSW Health.

8. The governance and accountability structure of NSW Health derives from disparate sources: legislative, policy and historical custom and practice. Where I refer to source documents, the source document speaks for itself, but I describe my understanding of the effect of the source document. Where I refer to the manner in which things are done according to a historical custom or practice, I will endeavour to make that distinction clear.

9. I have provided to this Inquiry a joint report dated 27 November 2023 with Ms Deb Willcox, who at that time was the Acting Secretary of NSW Health (Exhibit A.53 MOH.9999.0005.0001). We gave oral evidence to this Inquiry on 30 November 2023.

10. As much as possible, this statement does not re-canvass the matters discussed in that report or in oral evidence on 30 November 2023, except where I perceive those matters as relevant to respond to the issues raised by the Inquiry or to address Terms of Reference B and D.

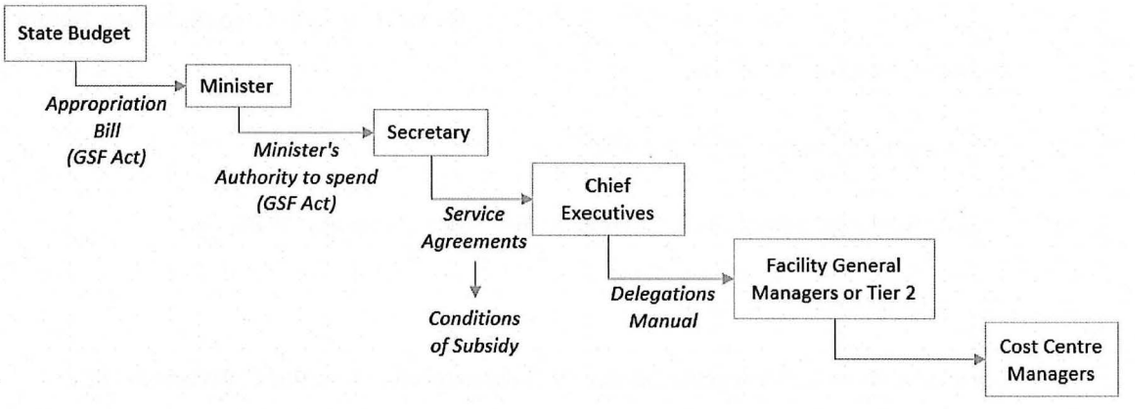
C. FINANCIAL GOVERNANCE STRUCTURE

General Overview

11. This statement covers the process established by NSW Health to govern funds (State, Commonwealth and other funding such as patient fees) from the time the funds are

determined through the State budget process. The annual State budget process, including how the total budget for NSW Health is set was covered in the Joint Report.

12. The financial governance structure for NSW Health is complex and dictated largely by a range of legislative requirements. The chart below illustrates the high level process by which funding is appropriated.

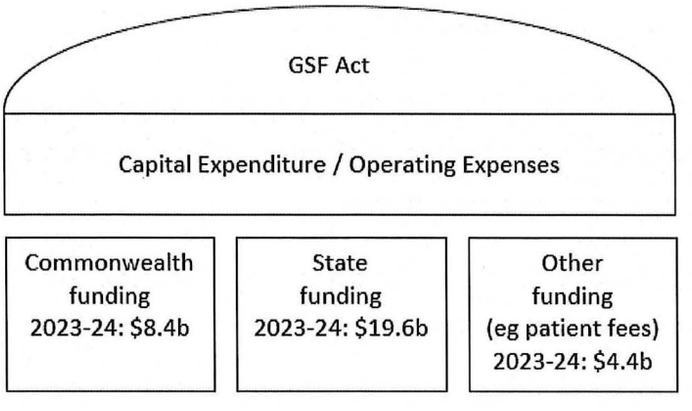


13. NSW Health receives funding predominantly from:

a. the NSW Government, via the Appropriations Bills as published in Budget Paper No 4. The 2023-24 Budget appropriation was $19.6 billion; and

b. the Commonwealth, through a number of different sources including the NHRA ($8.4 billion in 2023-24). Those sources are governed through different instruments and are subject to various reporting requirements.

c. In addition to State and Commonwealth funding, NSW Health received funding from other sources, including patient fees and own source revenue. Funding from other sources was $4.4bn in 2023-24.



Payments to NSW Health – Legislative and Policy Environment

14. Various Acts and Regulations set requirements for financial governance, including:

    a. *Health Services Act 1997* (***HS Act***);

    b. *Health Administration Act 1982 (**HA Act**)*;

    c. *Government Sector Finance Act 2018* (***GSF Act***) and the Government Sector Finance Regulation 2018;

    d. *Government Sector Audit Act 1983*;

    e. the annual Appropriation Acts such as the *Appropriation Act 2023*;

    f. *Constitution Act 1902*, and

    g. intergovernmental agreements made between NSW and the Commonwealth.

15. The various requirements of these legislative instruments are set out further below.

16. Under section 39 of the *Constitution Act 1902* (NSW), the NSW Consolidated Fund consists of all public monies (including securities and all revenue, loans and other moneys whatsoever) collected, received, or held by any person for or on behalf of the State. The annual Appropriation Act appropriates a sum of money to the Minister for Health out of the Consolidated Fund for the services of the Ministry of Health for that financial year (see for example section 11 of the *Appropriation Act 2023*). Money can be appropriated in other ways – for example, money that agencies have traditionally treated as 'own source revenue' are generally considered to be 'deemed appropriation money' under section 4.7 of the *GSF Act.* Part 4, Division 4.2 of the *GSF Act* sets out the legislative requirements for appropriations generally.

Government Sector Finance Act

17. Under section 5.5 of the *GSF Act*, the Secretary and government officers must ensure that the expenditure of money by a given agency occurs in a way that is authorised. Expenditure is authorised if it is done:

    a. in accordance with a delegation or sub-delegation from a person with power regarding the expenditure of the money (for example, goods and services

expenditure within the MOH is 'authorised' if it is approved in accordance with the goods and services delegation from the Minister for Health), or

b. under the authority of the *GSF Act* or any other law (for example, expenditure by officers of a given NSW Health entity of moneys paid to that entity by way of subsidy under s127 of the *Health Services Act.* There is no delegation from the Minister for Health to officers of NSW Health entities to expend monies appropriated from the Consolidated Fund. As such, expenditure will be authorised for the purposes of section 5.5 of the GSF Act as the expenditure occurs under the authority of 'any other law', being the HS Act.

18. Section 9.7 of the *GSF Act* provides that the following functions are delegable functions, including a function that is conferred or imposed on a person or other entity:

a. by or under the *GSF Act* (including in respect of consultations);

b. by or under the *GSF Act* or any other legislation (including an annual Appropriation Act) regarding the expenditure of money (including out of the Consolidated Fund);

c. under a financial arrangement to which the person or other entity is a party (regardless of how it is conferred or imposed), and

d. by or under the *GSF Act* or any other legislation to make payments for a use or purpose from a Special Deposits Account (**SDA**) or statutory special purpose fund.

19. Section 9.7 of the *GSF Act* provides a note of an example that the authority given to a Minister by an annual Appropriation Act to expend money forming part of the Consolidated Fund is a delegable function covered by paragraph (b) (described in the GSF Act as an 'appropriation expenditure function'). Section 5.2 enables a Minister to impose terms and conditions on the delegation or sub delegation of an appropriation expenditure function so as to limit the amounts and purposes for which expenditures of monies are permitted, and requires the delegate or subdelegate to exercise the function in accordance with those terms and conditions.

20. Section 4.15 of the *GSF Act* provides that there is to continue to be a SDA which is to consist of all accounts of money the Treasurer (under statutory authority) is required to hold in an account other than the Consolidated Fund, and all accounts of money that are directed or authorised to be paid to the SDA by or under legislation.

21. Section 4.6 of the *GSF Act* provides that money must not be paid out of the Consolidated Fund except under authority of the *GSF Act* and must not be paid out of an SDA except for the purposes of the account and under the authority relevant to the constitution of the account.

Health Administration Act

22. Section 21 of the *HA Act* provides the Minister for Health, Health Secretary or Health Administration Corporation may, by written instrument, delegate such of their functions (other than the power to delegate) conferred or imposed by the HA Act or another Act to a specified person or a specified office.

23. The *Combined Delegations Manual* (Exhibit 54 NSW Health Tranche 4 Consolidated Exhibit List) sets out the administrative, financial and staff delegations of powers and functions that have been delegated by the Minister for Health, the Health Secretary and the Health Administration Corporation.

Health Services Act

24. Section 127(3) of the *HS Act* provides that the Minister may, after considering any recommendation from the Secretary, determine what amounts of money should be paid out of money appropriated from the Consolidated Fund in any financial year to any such local health district, statutory health corporation or affiliated health organisation. Section 127(4) provides that the Minister may attach to the payment of any subsidy (or any part of any subsidy) such conditions as the Minister determines from time to time. This function of attaching conditions to the subsidy has been delegated to the Secretary, as set out in delegation F23 (Subsidies for Local Health Districts and Statutory Health Corporations) of the *Combined Delegations Manual*.

25. The Secretary (as a delegate of the Minister) has determined that it is a condition of subsidy that public health organisations must comply with the *Accounts and Audit Determination for Public Health Entities in NSW* (Exhibit B.23.035 MOH.0001.0278.0001) (***Accounts and Audit Determination***). Specifically, the Accounts and Audit Determination provides that the Secretary has determined that public health entities and HAC entities must comply with:

    a. the Accounts and Audit Determination;

    b. the Accounting Manual for Public Health Organisations, and

c. Directions, Policy Directives, Information Bulletins, Guidelines, Manuals or other policies or procedures issued or approved by the Health Secretary or the Minister.

26. NSW Health policy directive *Delegations of Authority – Local Health Districts and Specialty Networks* PD2012_059, prescribes further detailed requirements for NSW Health entity delegations, including delegation of expenditure functions, a copy of which is exhibited to this statement (Exhibit 116 NSW Health Tranche 4 Consolidated Exhibit List).

27. Section 127(2A) provides that the Minister is also to have regard to the NHRA and Schedule 6A of the *HS Act* contains provisions relating to the health funding arrangements under the NHRA. Section 127(6) provides that this section does not affect the operation of the provisions relating to health funding arrangements under the NHRA.

The National Health Reform Agreement

28. The majority of Australian Government funding is provided to NSW through payments under NHRA. The NHRA is an agreement between the Australian Government and all state and territory governments and determines that the Australian Government contributes funds to the states and territories for public hospital services, including services delivered through emergency departments, hospitals and community health settings. A copy of the NHRA and subsequent Addendums to the NHRA are exhibited to this statement (Exhibits A.24 SCI.0001.0020.0001, A.26 SCI.0001.0022.0001, and A.27 SCI.0001.0023.0001). A consolidated version of the NHRA, incorporating the Addendums, is also exhibited to this statement (A.28 SCI.0001.0024.0001).

29. Schedule 6A of the *HS Act* contains provisions to give effect to health funding arrangements and requirements under the NHRA including establishing the office of the Administrator of the National Health Funding Pool and establishing the NSW State Pool Account (which forms part of the National Health Funding Pool) for the purpose of funding under the NHRA.

NSW Health Funding – Appropriation

30. The State Budget is handed down in June each year reflecting the culmination of budget planning and negotiation between agencies and NSW Treasury, and decisions of Government over the preceding months to meet the costs of both ongoing services and also new services.

31. The NSW Budget Papers include the appropriation bills which enable distribution of the budget allocations to portfolios, including to Health – it includes both expenses and capital expenditure.

32. Money paid to the Minister of Health via an appropriation Act leaves the Consolidated Fund and is paid to MoH. MOH as system manager recommends the annual allocation of the NSW Health Budget across NSW Health entities. The Minister for Health determines the subsidy to be paid to each public health organisation under Chapter 10 of the *HS Act*.

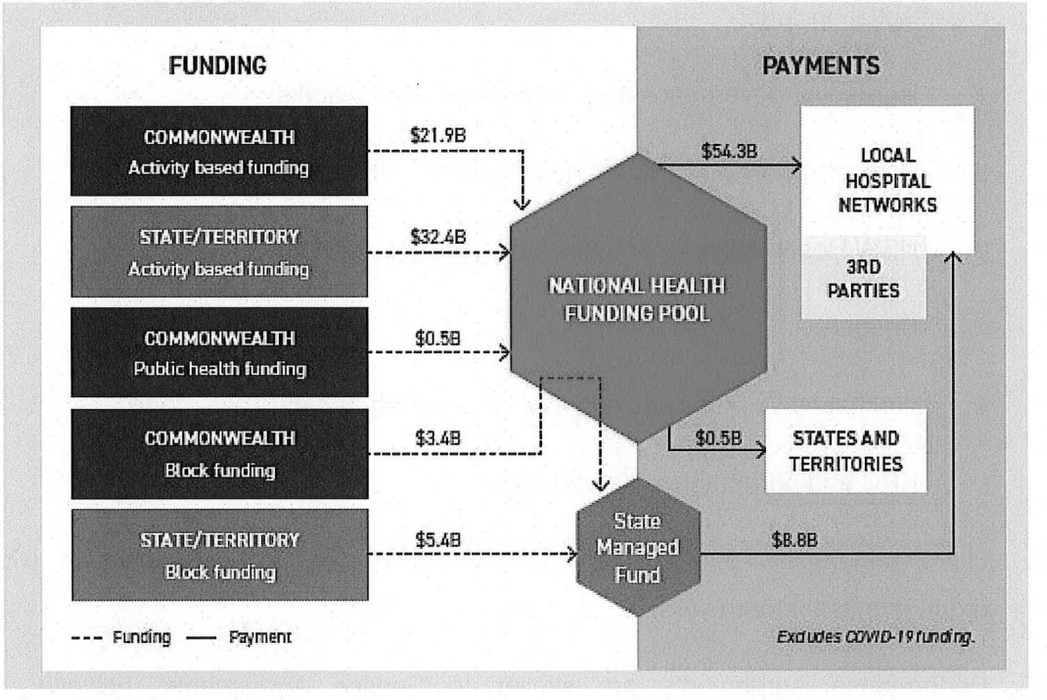
Payments for health services in accordance with the NHRA

33. In accordance with the level of annual subsidy to organisations that has been determined by the Minister, payments are made by the Ministry of Health to public health organisations. The administration of the payments takes place in accordance with the NHRA and Schedule 6A of the *HS Act*. In broad terms, different arrangements apply to ABF funded services and block funded services as follows:

    a. ABF funded services – the State contribution to such services is required to be paid through the State Pool Account. The Ministry pays the State contribution into the State Pool Account. The Administrator advises the Commonwealth of its funding contribution (which is based on the amount of the State contribution in accordance with the NHRA), which is paid by the Commonwealth into the State Pool Account, along with Commonwealth public health funding. Payments from the State Pool Account (including both the Commonwealth and State contributions) are then made by the Administrator to public health organisations, and

    b. Block funded services – State funds are paid directly by the Ministry into the State Managed Fund, which is required to be established by Schedule 6A of the *Health Services Act*. Commonwealth contributions to block funded services are paid through the State Pool Account to the State Managed Fund. Payments are made from the Fund (including both the Commonwealth and State contributions) to public health organisations for the purpose of funding block funded services. State funding for teaching training and research is also made through the State Managed Fund.

34. The funding payment flows are outlined below, noting this reflects national payments.



Source: Administrator National Health Funding Pool, National Funding Flows and Payments Annual Report 2022-23.

35. Clause 11(2) of Schedule 6A of the *HS Act* provide that payment of money from the State Pool Account can only be made by the Administrator in accordance with the directions of the Minister.

Payments to Public Health Entities

Service Agreements, Performance Agreements and Statements of Service

36. MOH as system manager is responsible for oversight of expenditure on service delivery by NSW Health entities. This is administered through:

a. Service Agreements issued to the Local Health Districts (LHDs), Specialty Health Networks (SHNs) and NSW Ambulance;

b. Performance Agreements issued to Pillars; and

c. Statements of Service issued to Divisions of the Health Administration Corporation (with the exception of NSW Ambulance).

37. Annual Agreements, entered into by the Secretary, NSW Health and a Health organisation include:

    a. legislative, governance and performance frameworks;

    b. strategic priorities for NSW Health and the NSW Government;

    c. NSW Health services and networks (Service Agreements only);

    d. Budget;

    e. purchased volumes and services (Service Agreements only), and

    f. KPIs and performance deliverables.

38. LHDs and SHNs publish their Service Agreements online consistent with the requirements under the NHRA.

39. Performance Agreements are similar to Service Agreements, however, these agreements do not include a section concerning purchased volumes and services as their services and functions do not involve the delivery of patient activity and they won't generate activity based funding.

40. HealthShare NSW, eHealth NSW and NSW Health Pathology are all Divisions of the Health Administration Corporation and provide the majority of their services to local health districts under a Statement of Service.

41. The Agreements set out Health organisations' budgets including a schedule of additional funding available provided they deliver on KPIs and specified outcomes, and, where applicable, purchased volumes and services (measured by National Weighted Average Unit).

42. As noted above, under the *HS Act*, the Minister can and does attach conditions to the payment of any subsidy (or part of any subsidy) to a public health organisation. As a condition of subsidy, all funding provided for specific purposes must be used for those purposes unless different purposes are approved by the Health Secretary. Those current conditions are set out in the *Financial Requirements and Conditions of Subsidy (Government Grants)* (***Conditions of Subsidy***) document for the year ending 30 June 2024 (SCI.0001.0048.0001). The *Conditions of Subsidy* is an annual policy document issued by MOH.

43. Health organisations are required to comply with the *Conditions of Subsidy*, which include financial accountability, budget management, and compliance with accounting standards and government policies, as well as the NSW Health Performance Framework and ensure both short-term and long-term financial sustainability. The Conditions of Subsidy also clarify that government grants and payments should be recognised as revenue and outlines the authority to spend deemed appropriations. It provides guidance on compliance with the *HS Act*, reporting requirements, and financial policies. The policy applies to all NSW Health entities. The *Conditions of Subsidy* is divided into the following sections:

    a. key background information and purpose of this policy document;

    b. mandatory reporting requirements and any associated performance metrics, and

    c. application guidance for Chief Executives and Directors of Finance in applying the reporting requirements.

44. Chief Executives, Directors of Finance, and their direct reports are responsible for understanding and complying with this policy. Non-compliance may result in performance review meetings.

45. The *Conditions of Subsidy* provides all Health entities must comply with NSW Treasury Policy *TPP17-06 Certifying the Effectiveness of Internal Controls over Financial Information*, a copy of which is exhibited to this statement (Exhibit 74 NSW Health Tranche 4 Consolidated Exhibit List) which provides further information on Treasury's required certification of effective internal controls over financial information, and Public Health Organisations (**PHOs**), which include St Vincent's Hospital, are required to submit an internal control questionnaire and certification required by that policy. They also require that PHOs comply with the *NSW Health Accounting Policy Manual*, a copy of which is exhibited to this statement (Exhibit 48 NSW Health Tranche 4 Consolidated Exhibit List). That *Manual* provides guidance on the preparation and presentation of its financial information and performance to ensure compliance with the *Government Sector Finance Act 2018* and the Government Sector Finance Regulation 2018.

46. The *Conditions of Subsidy* also set out:

    a. annual reporting timelines, including due dates;

    b. annual requirements and timelines;

c. monthly requirements and timelines;

d. provide application guidance and sets conditions of subsidy;

e. statutory reporting and audit compliance;

f. budgeting, forecasting & Efficiency Improvement Plans (EIPs);

g. capital reporting;

h. asset management reporting;

i. procurement;

j. cash, banking, and liquidity management, and

k. other financial report guidance - submit monthly performance narratives and balance sheet and other reporting requirements.

Funding of Affiliated Health Organisations

47. The MOH provides funding to affiliated health organisations (**AHOs**) - non-profit, religious, charitable or other non-government organisations and institutions that provide health services which are treated as part of the public health system, such as St Vincent's Hospital Network, Calvary Health Care, Hammondcare and Karitane.

48. The authority to determine the subsidy received by an AHO for its recognised establishments and recognised services and the conditions that should attach to the subsidy are set out in the *Combined Delegations Manual* (delegation F24 (Subsidies for Afiliated Health Organisations). The delegation provides that one condition of subsidy of an AHO is compliance with the *Accounts and Audit Determination*.

In practice, AHOs operate under local service agreements with the respective LHDs which have various performance requirements, similar to those required of LHDs – in these cases the LHD that is a party to the agreement is with administers the agreement and the funding. One exception to this is the St Vincent's Hospital Network. St Vincent's Hospital Network has been declared to be a Networked AHO for the purposes of section 62B of the *HS Act*, it is funded in accordance with the arrangements in Schedule 6A of the *HS Act* in the same way as an LHD, and accordingly it has a Service Agreement with MOH, rather than an LHD.

Monitoring and Governance

49. Performance is monitored through a number of Committees.

Health System Performance Monitor Committee

50. The Health System Performance Monitor Committee supports the Secretary to monitor and manage system performance risks, performance issues related to Shared Service Entities and issues of strategic performance across the NSW Health System. The Committee meets monthly and includes the Secretary, Deputy Secretaries and several Executive Directors.

Ministry Executive Meeting

51. Ministry Executive supports the Secretary in leading the business of MOH and the NSW Health system, oversighting system performance and managing responses to emerging critical issues. The Ministry Executive includes the Secretary and Deputy Secretaries and meets weekly.

Health System Strategy Group

52. Health System Strategy Group (**HSSG**) supports the Secretary in providing oversight of progress against Future Health ensuring alignment across key system and government priorities. HSSG provides advice on prioritisation and system capacity for programs that will enable the achievement of Future Health Strategic Outcomes. It enables collaborative leadership in driving system change across Ministry branches, Pillars of NSW Health and Statewide organisations. HSSG is also a forum for discussion of other key matters of relevance to the NSW Health executive. Membership includes the Secretary, Deputy Secretaries and Chief Executives of the Pillars, Statewide Health Services and Shared Services. Meetings are held every second month.

Senior Executive Forum

53. The Senior Executive Forum brings together the leadership of the NSW Health system to inform strategy and share learning and information to support the delivery of strategic priorities and system performance. The Forum also supports the effective operation of the NSW Health system and the management of emerging critical issues. Membership includes Chief Executives of LHDs and SHNs, shared services, statewide health services, pillar organisations, the Secretary and Deputy Secretaries. The Chair of SEF is appointed for a 12 month term. The SEF meets monthly.

Financial Governance Interface with Health Entities

Directors of Finance and other Finance Groups

54. The Directors of Finance *Forum* is a long standing strategic, information sharing and collaborative forum which traditionally meets quarterly face to face but in more recent times, particularly through the COVID-19 pandemic, incorporates virtual attendance and virtual meetings. The meetings last for most of the day, chaired by the Executive Director, System Financial Performance and Deputy CFO and includes a system update from the Deputy Secretary, Financial Services and Asset Management and CFO. One of the meetings includes the chairs of the Audit and Risk Committee.

55. The Directors of Finance *Drop In* meet virtually every fortnight for one hour and is comprised of all the Executive Directors and Directors of Finance and their delegates of all Health entities and is chaired by the Executive Director, System Financial Performance and Deputy CFO. It is a forum to discuss operational items, identify emerging challenges, collaborate, gather opinion on policy matters and other current relevant matters. Where required, other teams/branches are included to discuss changes to policy, procedure and processes.

56. The Ministry conducts a Management Accountants Forum on occasions where the need arises to consider more technical accounting matters with the last one held in mid 2023.

57. The Financial Accounting Forum (**FAF**) is held over one day, twice a year and in person and brings together all the financial accounting staff from all Health entities to discuss changes in accounting standards, legislation, compliance and reporting. These forums are also used to provide education and training on different aspects which is mostly provided by the Director of Financial Accounting from the Ministry.

58. The frequency and delivery of FAF was changed in 2020 during the COVID pandemic to a monthly virtual forum for approximately two hours.

D. FINANCIAL REPORTING AND COMPLIANCE

Public Disclosure, Reporting, and Risk and Audit

59. NSW Health is required to comply with its reporting requirements under the *GSF Act*, Government Sector Finance Regulation 2018 and the Treasurer's Directions. The required reporting is included in the NSW Health Annual Report together with the independent auditor's report. NSW Health's annual reports include the audited financial statements of MOH and of reporting entities controlled by the MOH and certified by the Secretary and Deputy Secretary, Financial Services and Asset Management and Chief Financial Officer:

    a. as having been prepared in accordance with:

        i. Australian Accounting Standards;

        ii. Applicable requirements of the *GSF Act and* Government Sector Finance Regulation 2018, and

        iii. Treasurer's Directions,

    b. that the financial statements present fairly the MOH's financial position and the finance performance and cash flows for the year, and

    c. that they are not aware of any circumstances which would render any particulars in the financial statements to be misleading or inaccurate.

60. Section 7.6 of the *GSF Act* states that GSF agencies, as defined by sections 7.3 and 2.4 of the *GSF Act*, must prepare annual reporting information. A GSF agency is defined to include a separate GSF agency NSW Health entity, a state owned corporation, an entity with money held in an SDA account, and any other entity prescribed by the regulations as a GSF entity.

61. Section 7.11 of the *GSF Act* prescribes that a GSF agency's annual reporting information must include:

    a. annual GSF financial statements;

    b. the audit report concerning the annual GSF financial statements;

c. information concerning the performance of the GSF agency of a kind prescribed by the regulations or specified by the Treasurer's directions;

d. information that is required or permitted to be included in the annual reporting information for the GSF agency by other legislation, and

e. any other information of a kind prescribed by the regulations or specified by the Treasurer's directions.

62. Further, the *GSF Act* provides that regulations and Treasurer's Directions made under or pursuant to the Act may make provision regarding:

a. the preparation, content and presentation of annual reporting information (including when annual reporting information of 2 or more reporting GSF agencies is combined);

b. the distribution and cost to the public of annual reporting information;

c. without limiting paragraphs (a) and (b) — the preparation, content, presentation and distribution of annual reporting information of former reporting GSF agencies, and

d. the presentation of information that is required or permitted to be included by other legislation in annual reporting information.

63. Key policy directives from Treasury concerning the reporting required in NSW Health's annual reporting information include:

a. TPG23-10 *Annual Reporting Requirements Policy and Guidelines* defines certain information as mandatory to report on, as well as collating requirements of the *GSF Act* (and associated regulation) and Treasurer's Directions, and other legislation and policy, a copy of which is exhibited to this statement (Exhibit 120 NSW Health Tranche 4 Consolidated Exhibit List). It prescribes and summarises:

i. who prepares annual reports;

ii. preparation and content of annual reporting information, including the headings used and the mandatory reporting information, and

iii. when and how the prepare, submit and publish the annual report.

b. TPG23-03 *The Financial Reporting Code for NSW General Government Sector Entities*, which provides a framework for financial reporting across the NSW government sector. It is not mandatory in its entirety and NSW General Government entities can tailor the model to their individual circumstances. However, financial reports must be prepared in accordance with Australian Accounting Standards (**AAS**) and Treasury requirements, including annual Treasury Policy and Guidelines on Mandates of options and major policy decisions under AAS. A copy of the Code is exhibited to this statement (Exhibit 121 NSW Health Tranche 4 Consolidated Exhibit List).

Risk and Audit

64. *PD2022_022 Internal Audit* describes the internal audit procedures and governance practices that NSW Health organisations must implement and maintain to ensure objective oversight of the organisation's activities. A copy of the policy is exhibited to this statement (Exhibit 29 NSW Health Tranche 4 Consolidated Exhibit List). The *Internal Audit* policy requires all NSW Health organisations must have an effective and adequately resourced Internal Audit function, with clear separation from operational management. The Internal Audit function must be operationally independent from the activities it audits. The Internal Audit function must be appropriately positioned within the Organisation's governance framework to work with external audit and internal business units, and a Chief Audit Executive must be appointed. The Chief Audit Executive must ensure an Audit Charter is in place and consistent with the content of the Health Model Charter, and the Charter must be endorsed by the LHD Chief Executive.

65. The Policy requires the Chief Executive to appoint an Audit and Risk Committee. All Members (including the Chair) must be independent and sourced from NSW Treasury's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members, on the NSW Procurement website. I am invited to attend the MOH's Audit and Risk Committee, as are the Audit Office and the Secretary, NSW Health.

66. The Committee's Charter is consistent with the Model Charter, which sets out the common content for Audit and Risk Committee Charters. The Charter must be approved by the Board, and ensure it is distributed to all Committee members, including new members when induced. The Committee must ensure the Charter is reviewed at least annually, is sufficiently detailed and unambiguous, and has clear guidance on key aspects of the Committee's operations.

67. The *Internal Audit* policy also requires:

    a. ongoing monitoring, periodic assessment, and at least annual self-assessments against International Professional Practices Framework mandatory requirements, and

    b. an annual Internal Audit and Risk Management Attestation Statement to be completed which confirms compliance with the Policy and *PD2022_023 Enterprise-wide Risk Management*, which is submitted to the Ministry of Health, the LHD's Audit and Risk Committee and the Board

68. *PD2022-043 NSW Health Enterprise-Wide Risk Management*, a copy of which is exhibited to this statement (Exhibit B.23.165 MOH.0001.0272.0001), describes the requirements for NSW Health organisations to establish, maintain and monitor risk management practices. The Policy determines that:

    a. The entity's Board is responsible for approving an its risk management framework, including levels of risk appetite and tolerance, and for seeking appropriate assurance on the effectiveness of the framework.

    b. The Audit and Risk Committee provides independent advice to the Board and myself.

    c. A Chief Risk Officer supports the Chief Executive and is responsible for:

        i. the oversight and promotion of risk management within the organisation;

        ii. designing the organisation's enterprise-wide risk management framework;

        iii. the oversight of activities associated with coordinating, maintaining and embedding the framework in the organisation.

    d. Senior executives are responsible for managing specific strategic risks, managers and decision makers at all levels are accountable for managing risk in relation to the decisions they take and all staff are accountable for managing risk in their day-to-day roles including by carrying out their roles in accordance with policies and procedures, identifying risks and inefficient or ineffective controls and reporting these to the appropriate level of management.

e. All NSW Health organisations must ensure that risk management and reporting is a standing agenda item for senior executive team meetings, for audit and risk committee meetings, and for Board meetings.

f. The Chief Executive must submit an annual Attestation Statement, along with the Internal Audit and Risk Management compliance self-assessment for each financial year. The completed version of the Attestation Statement is provided to the Audit and Risk Committee and the Board.

g. Where an entity is not able to comply with any of the requirements of the Policy or with the *PD2022_022 Policy Directive Internal Audit*, the Chief Executive may apply in writing to the Secretary for an exception from the relevant policy requirement(s) prior to 31 March of the financial year for which the exemption is sought. The request must include an outline of why the entity has not been able to comply with the Policy requirements. A determination with respect to an exception will be for the reporting period only and, even if circumstances for the initial exception are ongoing, further exceptions must be renewed annually. Where an exception is granted, the exception must be indicated on the Attestation Statement. The organisation's Audit and Risk Committee and Board must be notified of the request for exception.

69. Both *PD2022_022 Internal Audit* and *PD2022-043 NSW Health Enterprise-Wide Risk Management* reflect the requirements of the Treasury policy *TTT20-08 Internal Audit and Risk Management Policy for the General Government Sector*, a copy of which is exhibited to this statement (Exhibit 122 NSW Health Tranche 4 Consolidated Exhibit List). That Policy is to assist agencies such as NSW Health in fulfilling their legislative obligations under the *Government Sector Finance Act 2018* by outlining minimum standards for risk management, internal audit and Audit and Risk Committees. The Policy requires:

a. compliance with the 'Core Requirements' of Policy, which require an agency to:

   i. have an effective risk management framework to increase positive events and mitigate negative events;

   ii. have an internal audit function to provide information to management on the adequacy and compliance of internal controls, whether Health results are consistent with objectives and whether operations or programs are being carried out as planned, and

iii. an independent Audit and Risk Committee with appropriate expertise should provide relevant and timely advice to the Accountable Authority on the agency's governance, risk and control frameworks and its external accountability obligations.

b. The publication of the agency's compliance with the Core Requirements in an Attestation Statement published in the agency's annual report, with a copy provided to Treasury on or before 31 October each year. The Policy sets a procedure where an agency identifies that it has not been compliant with the Policy and requires that the Secretary declare that the Attestation is made in respect of consolidated accounts and attestation statements submitted to the Ministry of Health by the Chief Executive of entities and include any departures from local internal audit and risk policy.

70. Additionally, each year the Audit Office completes a financial audit of NSW Health and its various entities. The Audit Office's roles and responsibilities are set out in the *Government Sector Audit Act 1983*. Following an 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 compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements. The audits report on:

a. financial reporting, including qualified and unqualified financial audit opinions;

b. financial performance, including supervening factors such as COVID-19

c. overtime payments;

d. internal control deficiencies, and

e. infrastructure deliveries.

71. An example of the Audit Office's report on NSW Health's 2022 Financial Performance is exhibited to this statement (Exhibit B.32 SCI.0003.0001.0341)

72. The Audit Office completes an independent audit of each health entity and also of the consolidated financial statements of the MOH and its controlled entities.

73. The Audit Office commences planning for the annual audit in January/February each year and outlines the main audit program for the year in an Audit Engagement Plan. Audit work generally starts in March and concludes around the middle of October.

74. The Audit Office performs some preliminary work and testing on balances as at 31 March which allows them to provide feedback on early close procedures as required under *TD19-02 Mandatory Early Close as at 31 March each year*. This process is designed to facilitate early identification and resolution of accounting issues and ensure the timely completion and quality of government sector reporting.

75. At the completion of the annual audit program, the Audit Office provides feedback to management and the Audit and Risk Committee on their findings throughout the audit process in an engagement closing report. A management letter is also provided to management by the Audit Office which discusses findings and recommendations for improvements in internal control and other issues (for example excess annual leave), that were identified during the audit and were not required to be included in the auditor's report.

76. An independent auditor report, including Key Audit Matters is also provided by the Audit Office which is published in the annual report before the financial statements.

77. Controlled health entities financial statements, including an independent audit report is also published on the same website as the NSW Health Annual Report.

78. The Ministry and its controlled entities work on resolving any management letter items between the end of the audit and the commencement of the audit in the following year. Updates on progress are made to the Audit and Risk Committee at the scheduled meetings.

NSW Health single statewide platform supporting delivery of finance and procurement functions

79. Oracle Corporation provides NSW Health with an enterprise resourcing planning software called Oracle which is a single statewide platform and database used by the MOH, LHDs, SHNs, Pillars and Shared Services. Its functionality includes:

    a. Accounts Payable;

    b. Accounts Receivable (excluding patient billing);

c. Procurement;

d. Fixed Assets, and

e. Reporting.

80. NSW Health uses Oracle applications to facilitate the delivery of the finance and procurement functions for NSW Health, for example:

a. AutoRec – a cloud-based tool used to automate account reconciliation of General Ledger accounts and workflow approvals. One of the benefits include increasing efficiency and accuracy by replacing high volume, high risk and labour intensive transaction matching with automation;

b. Financial Task Manager (FTM) tool – an automated task tracking tool that provides the ability to closely monitor and track the financial close process, automate notifications and replace the current manual email processes. For example, the tool is currently used to support the monthly management certification outlined in the Conditions of Subsidy as evidence of responsible financial management.

c. Enterprise Data Management – provides a single source of truth for Chart of Accounts maintenance for accurate and completeness of financial reporting, and

d. Enterprise Performance Management (EPM) Financial Reporting Module – supports NSW Health's financial reporting with one statewide application delivering greater alignment across the applications and more efficient business practices. For example, the FINRPT tool, which is a MS Excel Smart View reporting tool that enables users to build regular financial management reports as well as conduct any ad-hoc reporting analysis to inform the decision-making process. The underlying chart of accounts structure is embedded within this tool to improve data quality and reporting consistency across the system.

E. WASTE AND EFFICIENCY

Savings Leadership

81. The Strategic Procurement Branch works in partnership with NSW Health entities to ensure the strategic alignment of procurement category strategies across the NSW Health system.

82. The Shared Service entities provide implementation and operational procurement management of these category strategies, thereby ensuring maximum value, efficiency and reduction of waste and or duplication across the system.

83. The procurement category strategies are managed and implemented by the respective category teams for each respective category. These category teams are led by the Shared Service entities across the system: HealthShare is the category lead for all goods and services categories including Medical Equipment, Pharmaceuticals, Medical Consumables, Pathology, Contingent Labour, Professional Services, Service Delivery (Patient Transport Services, Linen and Food) and Other Support Services; eHealth for Information and Communication Technology (ICT) and Ministry of Health Asset Management Branch for assets and facilities management, including Fleet.

84. The Savings Leadership & CER Implementation Steering Committee has been established as part of the Comprehensive Expenditure Governance Structure. This is the primary governance group which is responsible for overall system alignment across the Savings Leadership and CER program of work. The Committee provides guidance to the various savings initiative owners and the monitoring of progress, risk escalation and decision making.

85. Analysis of statewide pricing across various Goods & Services spend has shown significant savings in moving from local arrangements to one fixed price for the whole of NSW Health, irrespective of geographical location of the LHD.

Efficiency Improvement Plans (EIPs)

86. The *Conditions of Subsidy* require that NSW Health entities, in partnership with the Ministry of Health Efficiency Improvement and Support team and MOH Finance, are required to develop EIPs. These plans ensure entities meet their annual savings targets.

87. The plan is broken down into individual strategies, each of which focuses on improvements or savings in one of the following three areas: productivity, revenue, and expenses.

88. The Efficiency Improvement and Support team and Ministry of Health Finance meet regularly to review Health Entity program performance and to identify opportunities to assist improvement.

89. Revenue targets are included in the Service Agreement Budget Schedule. Please also refer to Table 4 setting out the Annual Requirements Revenue of the *Conditions of Subsidy*.

Waste

90. The SmartChain and DeliverEASE program streams within the Procurement Reform have been introduced and are providing:

    a. Greater transparency of state and local demand, supply and inventory availability;

    b. Greater efficiency in procurement and supply chain practices and reduced waste, and

    c. A platform to analyse more accurately and effectively spend, monitor supplier performance, and identify savings opportunities across the supply chain.

Savings Leadership Dashboard

91. The Savings Leadership Dashboard is used by the HealthShare NSW (HSNSW) Procurement and Supply Chain (PSC) team to prepare a monthly savings report on how Local Health Districts (LHDs) are tracking against baseline savings for multiple categories. The information can also be used to compare how much a Health entity is paying compared to the best price in contracts.

92. There are currently 190 users of the Savings Leadership Dashboard across the entire cluster. Typical users are Heads of Finance, Heads of Procurement, Nurse Unit Managers and some teams in the Ministry of Health.

93. HealthShare also undertakes price benchmarking against other Australian jurisdictions and internationally. In 2022-23, HSNSW completed an international benchmarking study for pharmaceutical prices covering 100 high volume, state formulary medications.

Benchmarking occurred with the UK, Ireland, Germany, Canada and NZ. This study was used to negotiate prices during the tendering of the pharmaceutical contracts in 2023-24.

94. For Medical Equipment, benchmarking with other Australian entities has occurred with specific medical equipment such as CT scanners and Linacs.

F. OPPORTUNITIES

95. Reforms to streamline processes are currently being implemented with the benefits now beginning to flow.

Procurement Reform Program

96. The NSW Ministry of Health Strategic Procurement Branch is currently overseeing a Procurement Reform Program. The program seeks to improve procurement practices so that systems, processes and infrastructure are aligned to deliver the best quality patient care, promote positive patient and clinician experience and reduce financial burden.

97. Through a series of initiatives, the program will sustain and strengthen the core procurement and supply chain ecosystem within NSW Health. This shift signals an increasingly important role for a more integrated, wholistic, reliable and strategic procurement system. The four key program initiatives are:

    a. The Operating Model will expand and empower the procurement workforce statewide with additional resources, refined contract implementation process, improved governance and greater role clarity. The Operating Model included building more effective contract management and contract implementation capability in NSW Health. This included funding LHDs to recruit additional contract implementation staff (43 additional FTE) and HealthShare, eHealth and NSWHP to recruit additional contract management staff (33 additional FTE). Most of the additional staff had been recruited and were in place by December 2022 with the residual completed by September 2023;

    b. The NSW Medicines Formulary will develop a holistic framework governing the procurement and usage of pharmaceuticals to support optimum clinical governance and better value health care leading to improved patient outcomes. The clinical implementation (prescribing practice changes) of the NSW Medicines Formulary commenced in November 2022 and completed in

December 2023;

c. DeliverEASE will transform the medical consumable supply chain by enabling faster and easier ordering and optimising processes around inventory management and visibility to facilitate tracking of products from the point of receipt of goods at the hospital dock to the ward storeroom. DeliverEASE includes the StaffLink Requisitions and Receiving (STARR) Mobile Application which is a new inventory ordering and purchase order receipting system for NSW Health. The STARR system enables and simplifies ordering by scanning items at the shelf, receiving deliveries, provides inventory control and order backorder visibility improving stock management;

d. Implementation of DeliverEASE commenced in South Eastern Sydney (SES) LHD as a pilot implementation (at Prince of Wales Hospital) in August 2020. The pilot at Prince of Wales Hospital completed in February 2021, and completed in six SES LHD hospitals in December 2022. Further LHD rollouts commenced in August 2022 (in Northern Sydney LHD), The DeliverEASE program is planning to deploy to 48 hospitals across NSW Health, has been implemented in 33 hospitals (as at end December 2023) and is planned to be completed by June 2024, and

e. SmartChain is creating a single integrated system to simplify and optimise our processes. Procurement and supply chain will be transformed by improving how data is collected, used and managed by NSW Health, ensuring decision making is based on reliable and trusted information.

98. Data is crucial to having an optimum supply chain ecosystem. The program will transform the current supply chain and procurement processes by improving how data is collected, used and managed by NSW Health, ensuring decision making is based on reliable and trusted information.

99. SmartChain is a digital procurement solution that is focused on data and will provide a centralised hub for all procurement and supply chain activities. It will be a centralised supply chain platform from which supports the end-to-end procurement process, to monitor inventory, pricing and price changes and ordering, as well as ensuring that data is secure, accessible and can be meaningfully analysed to provide insights to drive service improvement. This is a statewide initiative and includes activity in five workstreams - Sourcing & Contracts, Dataflow, Traceability, Business Intelligence

& Analytics, and Procure to Pay.

100. Whilst significant progress has been achieved through the reform, there is still further opportunity and scope to optimise the future strategic direction of the procurement ecosystem across all NSW Health entities. This may be achieved through the potential of further centralisation across the various entities to ensure greater leverage and alignment across the various procurement categories under one single strategic procurement strategy and roadmap.

Cash Transformation Program

101. The Cash Transformation Program has shifted the NSW Health system from a complex, federated banking and payment structure where every Health entity had a range of bank accounts which they self-managed and used to make their own payments, to a central slim-lined banking and payment structure where HealthShare Financial Shared Services manage transactional processing on behalf of Health entities, centrally pay creditors and payroll and more recently, take payments on behalf of Health entities.

102. Through this work, many manual work steps have been eliminated or automated, rates of auto receipting and auto-reconciliation have soared to high rates (70% and 95% respectively) paving the way for the next phase of payment centralisation which is related to the complex and specialised patient billing business area. Efficiency via time and effort reductions have been realised and will continue to improve as functions and transaction processing move to the new standardised, automated and straight through methods, as well as significantly reducing cash and cheques from the payment methods, to more digital and identifiable payments.

103. The procure to pay space has also been a focus, where front end procurement actions, options and standardisation allow for faster raising of Purchase Orders to suppliers, through to ability to auto-match to invoices, and thereby pay suppliers quickly and efficiently. The work on Procurement Reform and Cash Transformation has come together to realise faster and accurate throughput of transactions across the wide range of Health transactions. The move from Westpac to ANZ has enabled this work to be tackled in an end to end manner.

Patient billing system opportunities

104. The current patient billing system is fragmented and relies upon accurately capturing multiple billable activities. There are opportunities to improve the system by creating a consistent approach and streamlining processes.

105. NSW Health is currently transitioning to a single patient billing system for the entire state (excluding NSW Ambulance and NSW Pathology) to ensure that all Health entities apply a consistent approach to patient billing/invoicing and revenue recognition. The single patient billing system also provides a significant enhancement of integration with clinical application activity. This will enable the system to determine all chargeable activity for invoicing and reduce risk of excluding billable activity. The transition to a single patient billing system will also improve compliance and reduce MBS compliance issues.

Alfa D'Amato

Steven Carr

Witness: [insert name of witness]

09/04/2024

Date

9/4/2024

Date