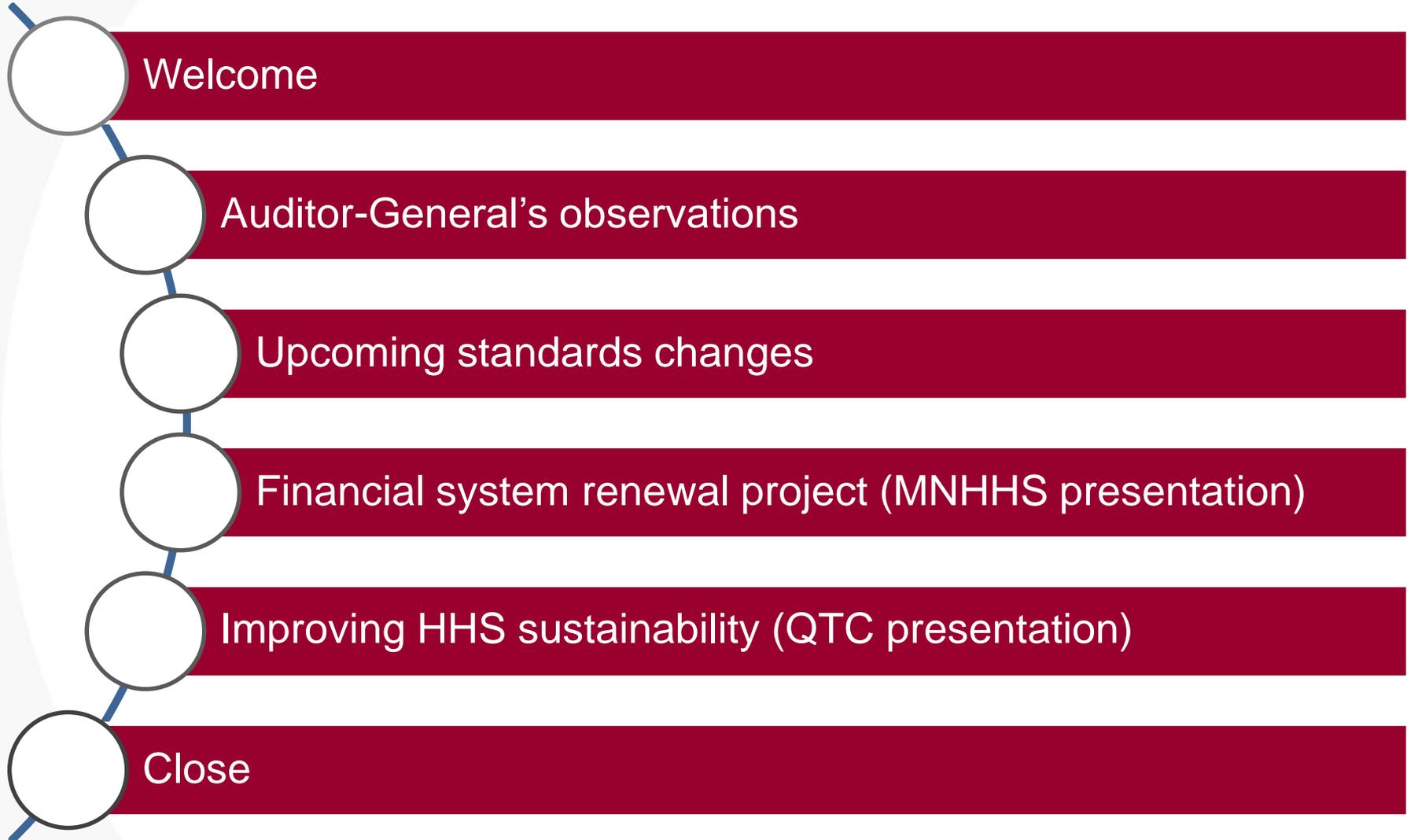


Health Sector Forum

ARC Chairs, CFOs and Heads of Internal Audit

22 March 2018

Better public services



Welcome

Damon Olive

Sector Director, QAO

Auditor-General's observations: Health sector

Brendan Worrall
Auditor-General

- ✓ Audit all or particular activities of a public sector entity
- ✓ Follow the dollar
- ✗ Not question the merits of policy objectives

The object of the performance audit includes deciding whether the objectives of the public sector entity are being achieved economically, efficiently and effectively and in compliance with all relevant laws.

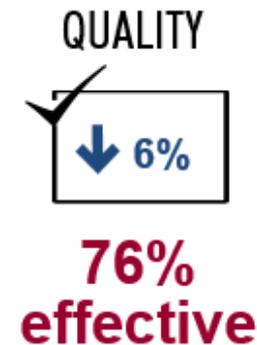
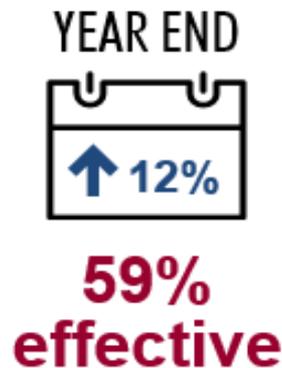
Auditor-General Act 2009, Section 37A(3)

- Outcomes not outputs
- Progress towards achieving strategies
- Sustainability
- Addressing areas of concern identified by stakeholders

Draft Strategic Audit Plan 2018-19 to 2020-21

Health, Communities, Disability Services and Domestic and Family Violence Prevention Committee	2018–19	2019–20	2020–21
	Audits	Selection from these audits	Selection from these audits
	Planning for sustainable health services in Queensland	Health care pathways (wait list management)	Preventing childhood obesity
		Integrated care approach to chronic disease	Mental health service delivery
		Preventing and responding to domestic and family violence	Health outcomes for Aboriginal and Torres Strait Islander people
	Delivering guardianship services		

- Financial statement preparation—HHSs + Dept of Health



- Financial performance—improved this year but challenges ahead
- Internal controls—prioritise resolution of legacy control weaknesses

- Audit committees are designed to provide you with assurance over internal control systems and risks are appropriately managed
 - Are they?
- Is the skill set of audit committee members (board and independent members) appropriate?
- Is the yearly workplan clear and thought-out?
- Are they holding management accountable for resolving internal and external audit issues

Q&A

Upcoming accounting standards

David Hardidge

Director, Technical and Treasury Products, QAO

Upcoming changes

2018–19

AASB 15 Revenue
For-profits

AASB 9 Financial
Instruments

2019

AASB 15 Revenue +
AASB 1058 Income
for NFPs

AASB 16 Leases

AASB 1059 Service
concessions

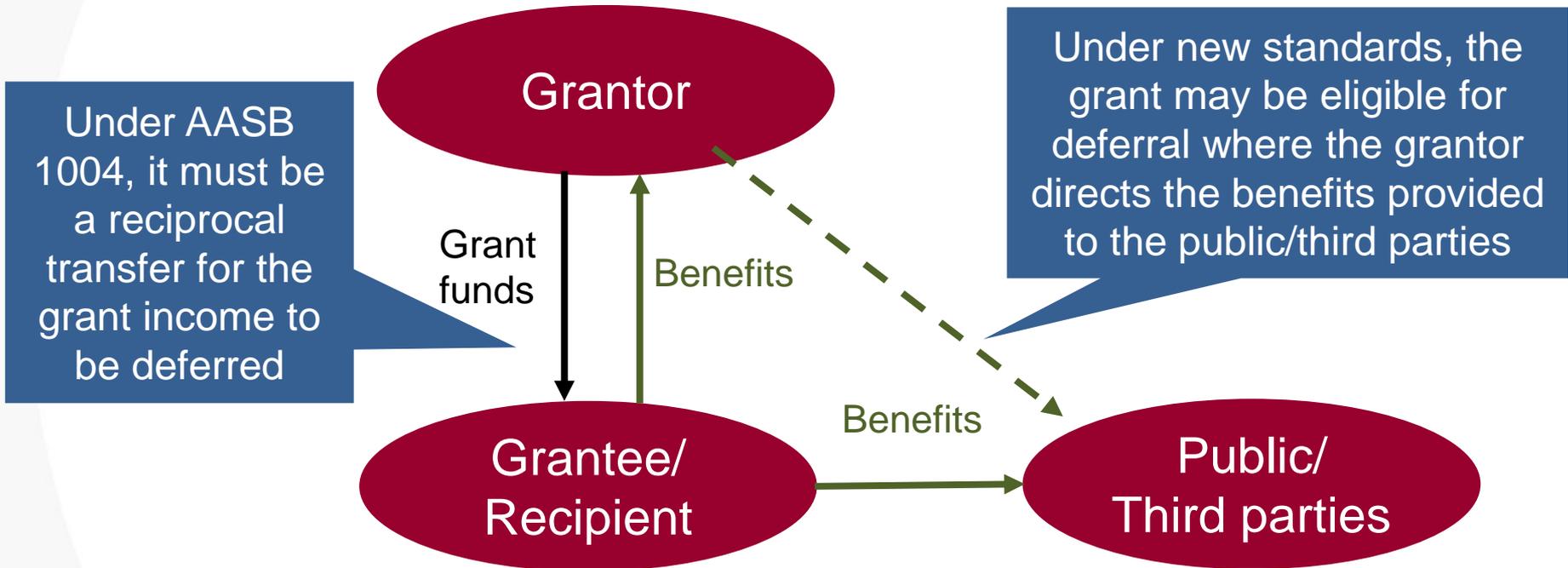
Beyond

AASB 17 Insurance
contracts

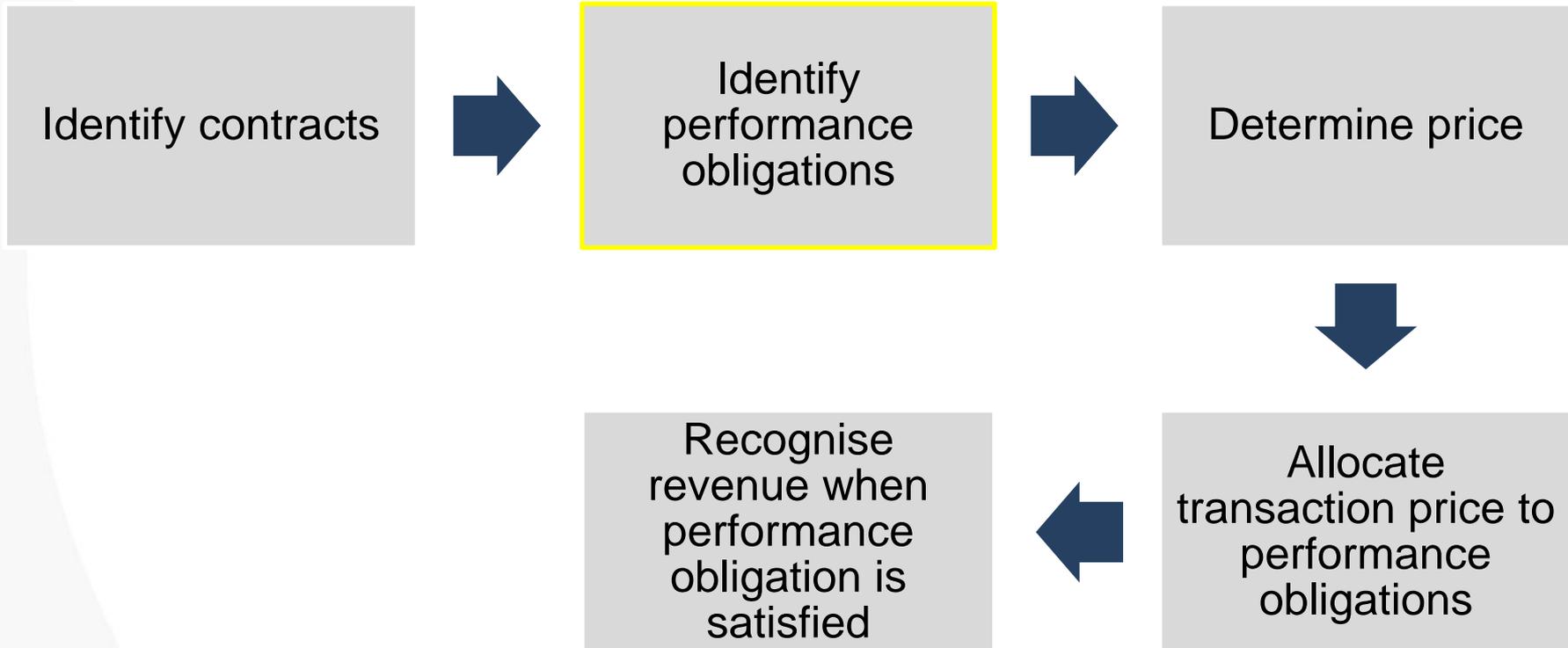
RDR

Reporting entities

Accounting for grant income Conceptual change from AASB 1004



Five steps:



Revenue and income sources

	Gold Coast
User charges and fees	
Hospital fees	33,022
Sales of goods and services	in above
Private practice revenue	13,854
Pharmaceutical benefit scheme reimbursements	37,435
Other	8,627
Funding for the provision of public health services	
Activity based funding	942,965
Block funding	212,626
Depreciation funding	79,165
Other	-
Australian Government grants	13,355
Grants and other contributions	6,084
Other revenue	3,625
Rental income	2,196
Total	1,352,954

Are you AASB 1058/AASB 15 ready?

- What are your revenue, income and grant sources?
- Which sources involve activities in a different financial year to when the money is received?
- How will your accounting change? E.g. from up-front to deferral?
- Do you have systems to determine how much to recognise and how much to defer?
- How will you work out how much to defer on transition date?
- Will you be preparing comparatives in the first year of application?



‘One of my great ambitions before I die is to fly in an aircraft that is on an airline’s balance sheet’

- Sir David Tweedie, Chairman of the International Accounting Standards Board (IASB), April 25, 2008

Same accounting treatment as for finance leases

- Determine term
- Determine rental payments (cash flows)
- Determine discount rate

Recognise

- Lease liability
 - lease interest
- Lease asset (right-to-use asset)
 - depreciation

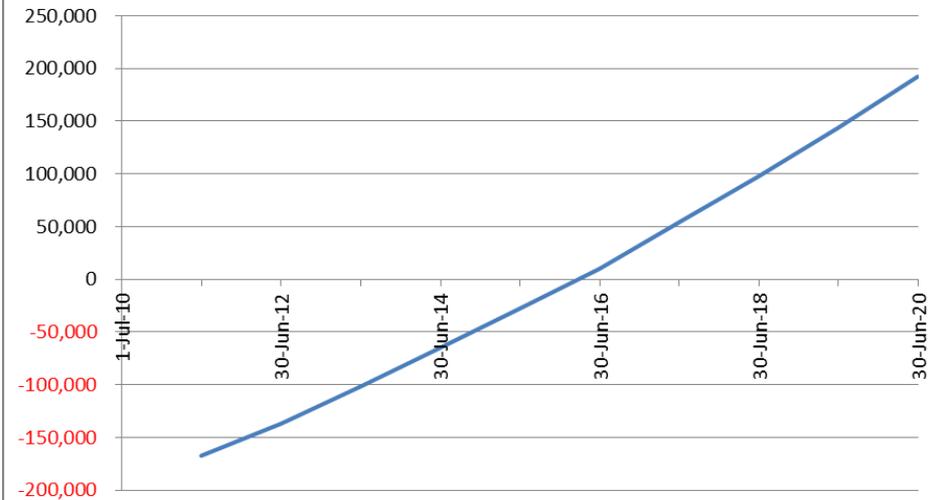
Parallel universe

Leases—profit or loss effect

Gross effect P&L Interest and dep'n c/f lease payment

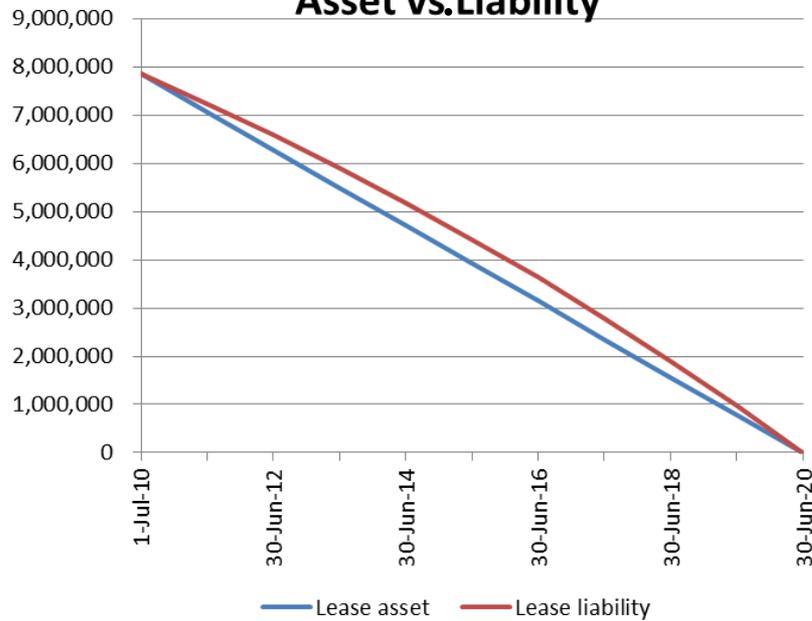


Net effect P&L

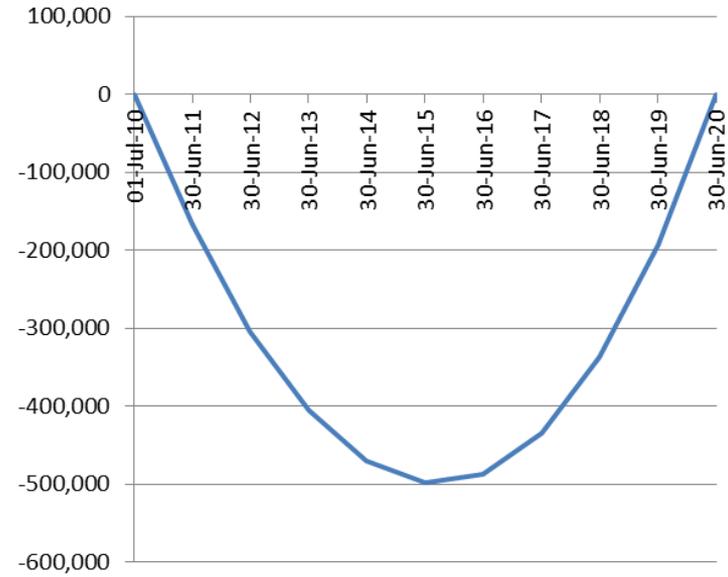


Lease—balance sheet effect

Asset vs. Liability



Cumm. P&L (R/E) effect



What operating leases go on balance sheet?

Lease—the right to use an asset. Exemptions—short-term, low value



- Building and office



- Storage and IT facilities



- Specialised equipment



- Embedded leases



- Cars



- Car parks



- Mobile phones



PCs



Software licences



Software as a service



Server capacity



Pot plants



Water coolers



Peppercorn leases

Are you AASB 16 ready?

- What operating leases do you have?
- Do any of them get excluded under the less than 12-month and low value exemptions?
- Are you reasonably certain of exercising any options—even if at market value?
- How do your lease rentals change (e.g. fixed, CPI, market reviews)?
- When do your lease rentals change?
- What lease incentive and lease straight-lining liabilities do you have?



Queensland

- Toll roads
 - Incl. land under roads, bridges, land under bridges, tunnels
- Gold Coast rapid transport
- Airport rail link
- Rail rolling stock
- Buildings — education
- Buildings — hospital
- Buildings — car parks
- Child care centre
- Student accommodation

Transition

- Valuation 1 July 2018
- Calculating the liability

Lifecycle payments

- Identifying from the Quarterly Service Payment
- Diversity in approaches
- What has been included in the valuation?

Why revise the financial instruments standard?

- **Answer =**
- Complexity of the former standard (IAS 39 / AASB 139)

‘Those that tell me they understand IAS 39, clearly haven’t read it properly’

- — Sir David Tweedie, Chairman of the International Accounting Standards Board

AASB 139 is now replaced with AASB 9

AASB 9—what has changed?

- Classification and measurement
- Impairment (provision for doubtful debts)

Liabilities (at fair value through P&L)

Hedging

Reclassifications

Disclosures

Financial instrument definition

Derecognition

• Old

- Loans and receivables
- Held to maturity
- Available for sale
- Fair value through P&L

New

Amortised cost



Fair value through P&L



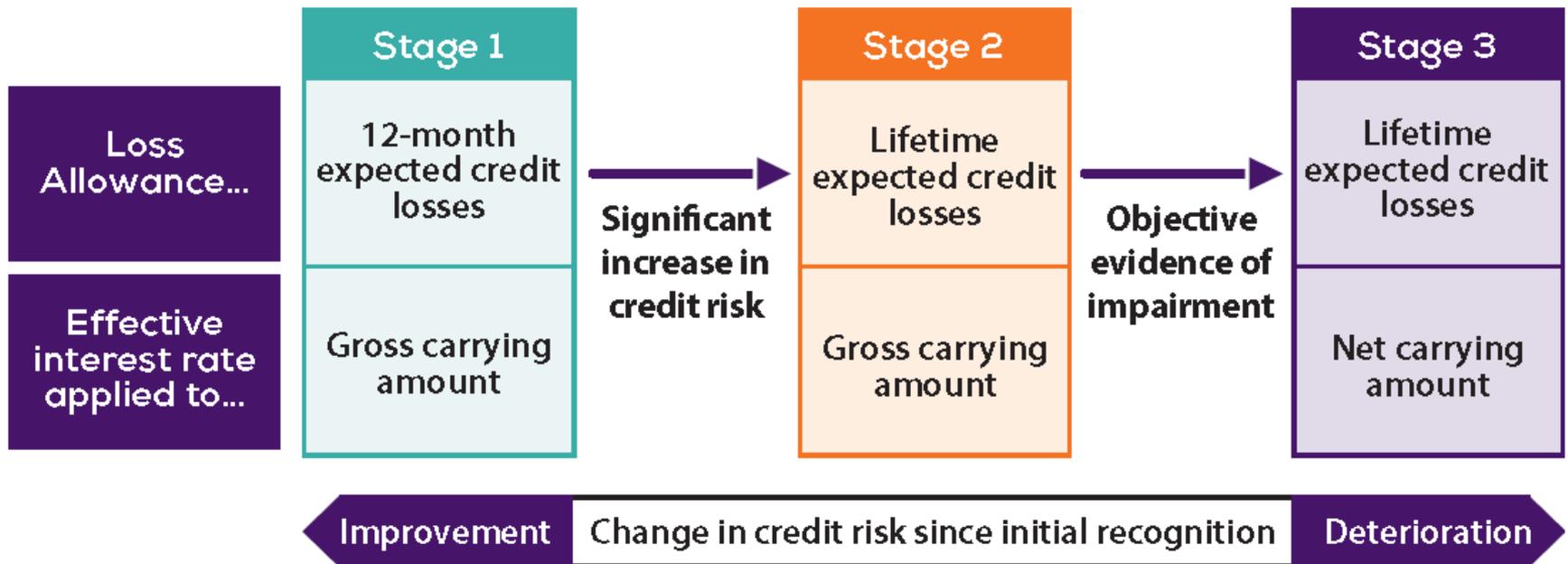
Fair value through OCI
(no recycling)

Tests

- SPPI
 - the odd ones
- Business model

Fair value through OCI
(recycling)

Three buckets:



Trade receivables will have provision matrix where:

- expected credit losses for each ageing bucket need to be estimated
- all ageing buckets cannot have same expected credit loss. Longer the term, higher the expected loss.

	Current	1–30	31–60	61–90	Over 90
Historical default rate %	0.30%	1.0%	3.5%	7.0%	12.0%
Forward-looking estimate adjustment	0.03%	0.1%	0.2%	0.3%	0.8%
Expected loss %	0.33%	1.1%	3.7%	7.3%	12.8%

Are you AASB 9 ready?

- What financial instruments (assets) do you have?
- Which classifications do they belong to?
 - what happens to your available for sale assets?
 - assess SPPI test from initial recognition
- Which impairment model—general or simple?
- Can you assess significant credit risk change from origination?
- Are there any hedging implications?



Queensland Treasury has released a draft version of the Financial Reporting Requirements (FRRs) for 2017/2018

www.treasury.qld.gov.au/resource/2017-18-draft-financial-reporting-requirements-queensland-government-agencies/

- Clients should focus on the following areas—mainly in Part 1A:
- Implementing AASB 9 Financial instruments
- Getting ready for the other new accounting standards.
- Drafting disclosures for the 30 June 2018 financials on the effect of the new accounting standards
- Giving feedback to Treasury of any issues or problems with the proposed mandatory transition policies.

Proposed policies that will have the most beneficial effect on clients:

- Not retrospectively restating 2017/2018 results on commencement of AASB 9.
- Not retrospectively restating 2018/2019 results on commencement of AASB 15, AASB 1058 and AASB 16.
- Permitting entities to measure, on a lease-by-lease basis, the right-of-use lease asset carrying value on transition as being either:
 - the lease liability, or
 - a recalculation from lease commencement.
- Using cost and not revaluing the right-to-use lease asset for existing operating leases (e.g. office accommodation).

The proposed policies that clients should focus on to assess whether they will have an adverse effect on them include:

- Removing the practical expedients on completed contracts (under AASB 15 or AASB 1058 definitions)
 - therefore clients having to determine the contract liability for those contracts on transition. An example is sufficiently specific grants.
- Deeming all equity investments not held for trading to be accounted for at fair value through OCI
 - some clients chose under AASB 139 to specifically designate investments at fair value through profit and loss
- Using cost and not revaluing the right-to-use lease asset for existing finance leases already on balance sheet (e.g. leases of land).

Q&A



FSR | Financial System
Renewal Project

QAO Health Sector Forum

22 March 2018

FSR | Financial System Renewal Project

Project status update

- ✓ December 2016 GiC approved \$105m, to replace the FAMMIS system by Dec 2018.
- ✓ **FSR Project is on track** to transition QH from FAMMIS to the integrated SAP S/4HANA (finance, assets, purchasing) and SAP Ariba (strategic sourcing) solutions by 31 December 2018.
- ✓ **Core finance solution will complete configuration in March** and begin prolonged period of multi-stage testing involving user acceptance and integration testing, etc before business go live.
- ✓ Connectivity between QH systems and the SAP system is now in place and **data cleansing in preparation for data migration has commenced**.
- ✓ On track for **technical go live on 30 July 2018** and, subject to all required sign-offs, a **business go live as early as 1 October 2018**. Improved HR/DSS interface a dependency but a big opportunity.
- ✓ **Period between technical go live and business go live is flexible**, can be adjusted to accommodate any emerging issues: navigating around other system go lives (eg. ieMR & payroll updates).
- ✓ **Transition leads throughout QH appointed and on-boarded**, embedded Subject Matter Experts continue to work on scenarios that will be used for testing.
- ✓ Extensive work being done on **detailed change impacts; comprehensive support and training** program a major focus.
- ✓ **Significant impacts and opportunities for HSQ** (eg catalogues, warehousing, procurement automation, market places), **governance and funding to mitigate risks and exploit opportunities currently being resolved**.

FSR Project – Status / Milestones

Activity	Date	Status
External Gateway Reviews completed	Sept 2016  and Sept 2017 	
Prototype stood up and used for fit-gap analysis	March – June 2017	
Licensing negotiated, significant benefits and caps	June 2017	
Implementation and deployment analysis completed	November 2017	
QGCIO engaged (DG ICT Council MfN lodged 9 Oct 17)	Next DG ICT pending	
Completed build of all DEV environments	31 December 2017	
Transition Model approved/Transition Leads inducted	January 2018	
FSR business scenarios complete	19 January 2018	
Strategic sourcing functional design	29 January 2018	

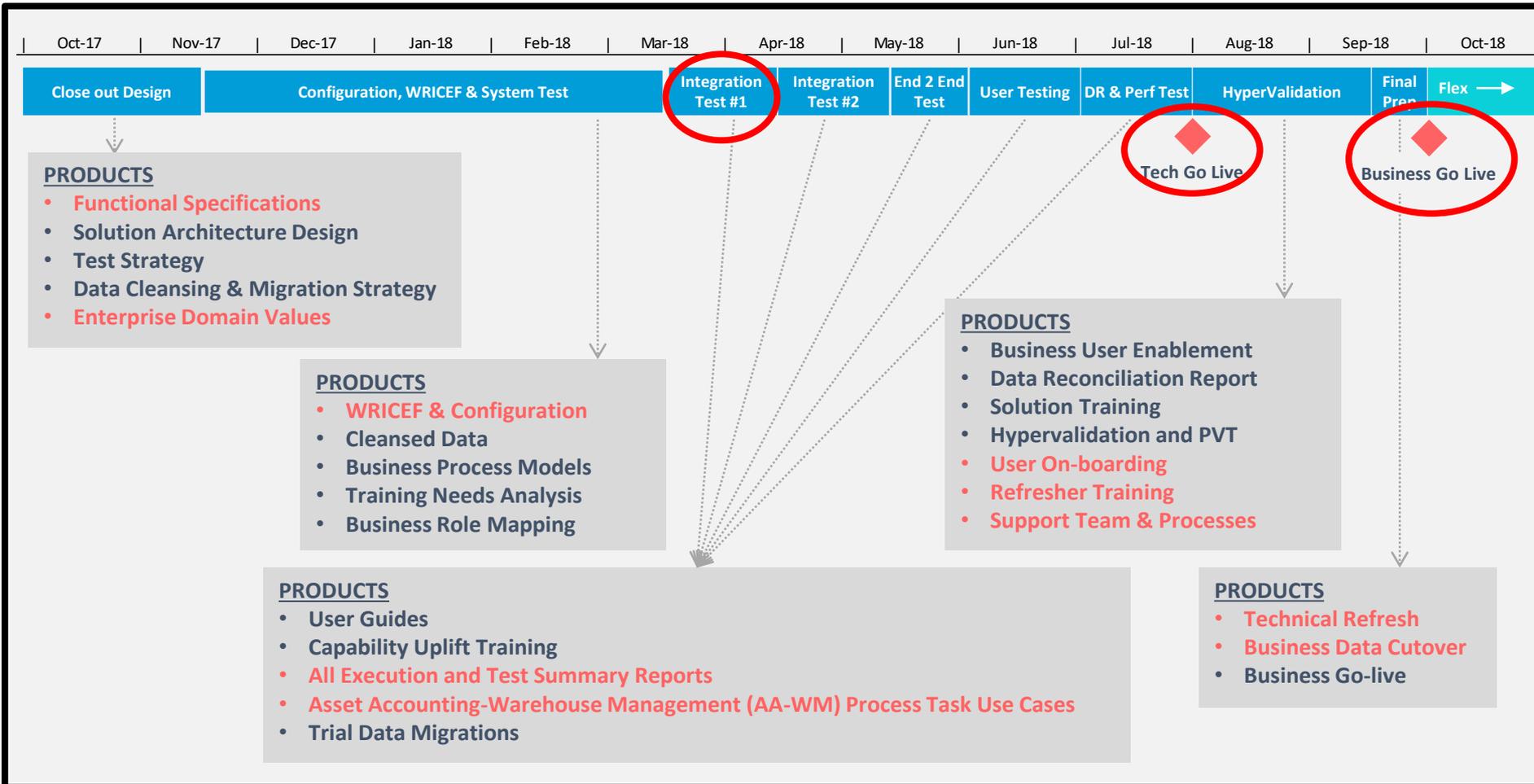
Activity nearing completion:

Activity	Due Date	Status
Detailed change impact analysis complete	20 February 2018	 Some flex avail.
Solution Architecture Design submission	22 February 2018	
S/4HANA configuration complete	30 March 2018	
Data migration planning complete	30 March 2018	 Some flex avail.
Training Needs Analysis complete	19 April 2018	 Some flex avail.

Schedule – Critical Path

Red=Critical Path items

Black=examples of major work packages



Risks and Opportunities

- There are **currently 8 HIGH risks**.
- The 8 high risks relate to either **project coordination or change management** challenges in the following 5 areas:
 - End to end **role mapping** could delay subsequent training activities.
 - **Proposed invoice scanning** solution could impact key schedule dates, including go live.
 - **HR and DSS (Payroll) integration sub-project** could adversely impact the business go live (potentially until November, but too early to say, could also finish earlier)
 - Resolution of **Data Stewardship and Data Migration decision-making** took longer than expected and may still impact the critical path
 - Ineffective **information dissemination and communication** could lead to user acceptance challenges and business go live delays.

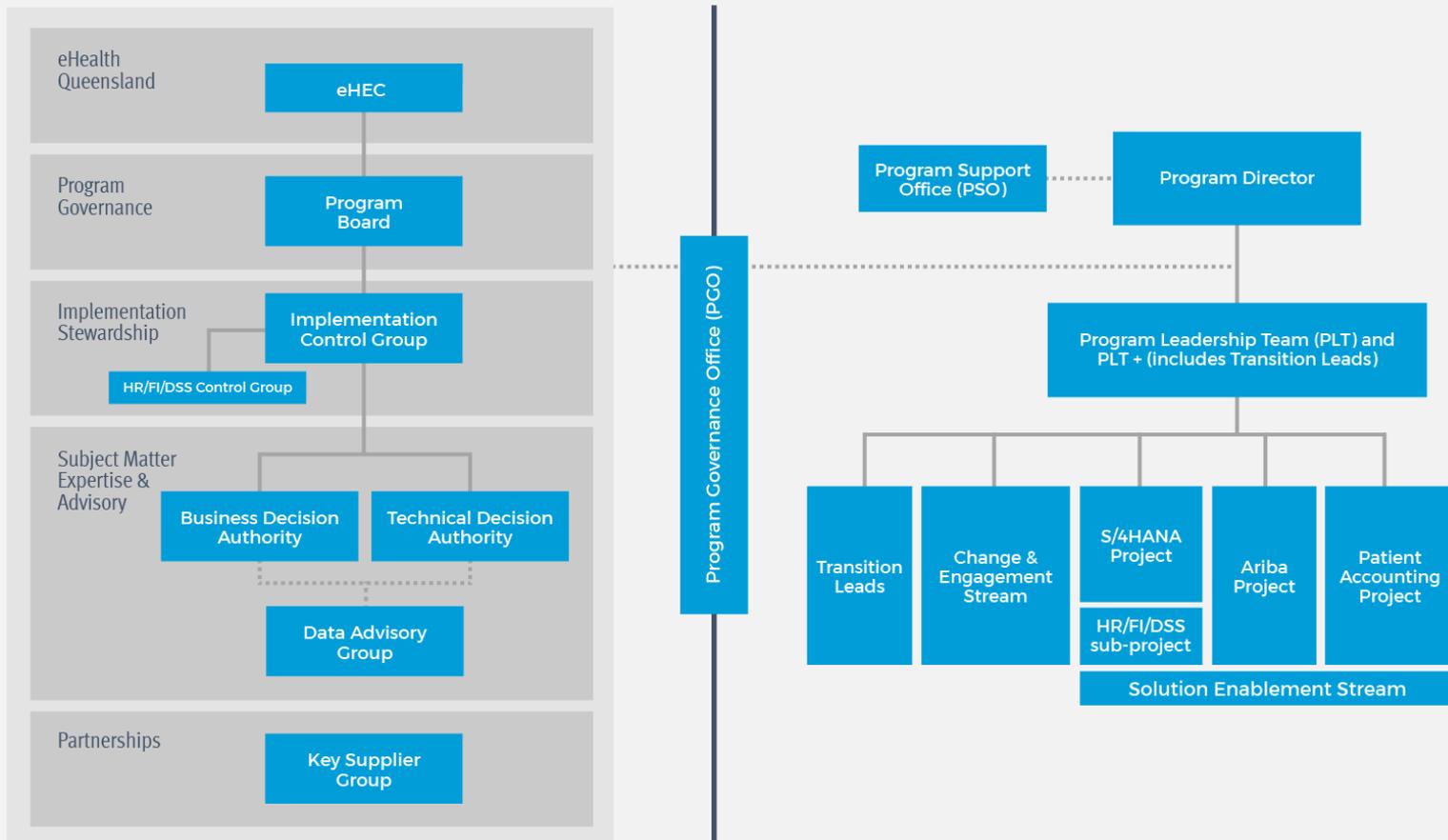


Note: HSQ is significantly impacted by the **introduction of procurement and inventory movement automation**. This is a challenge in itself, but an opportunity to capitalise on a one-off opportunity to make significant business improvements.

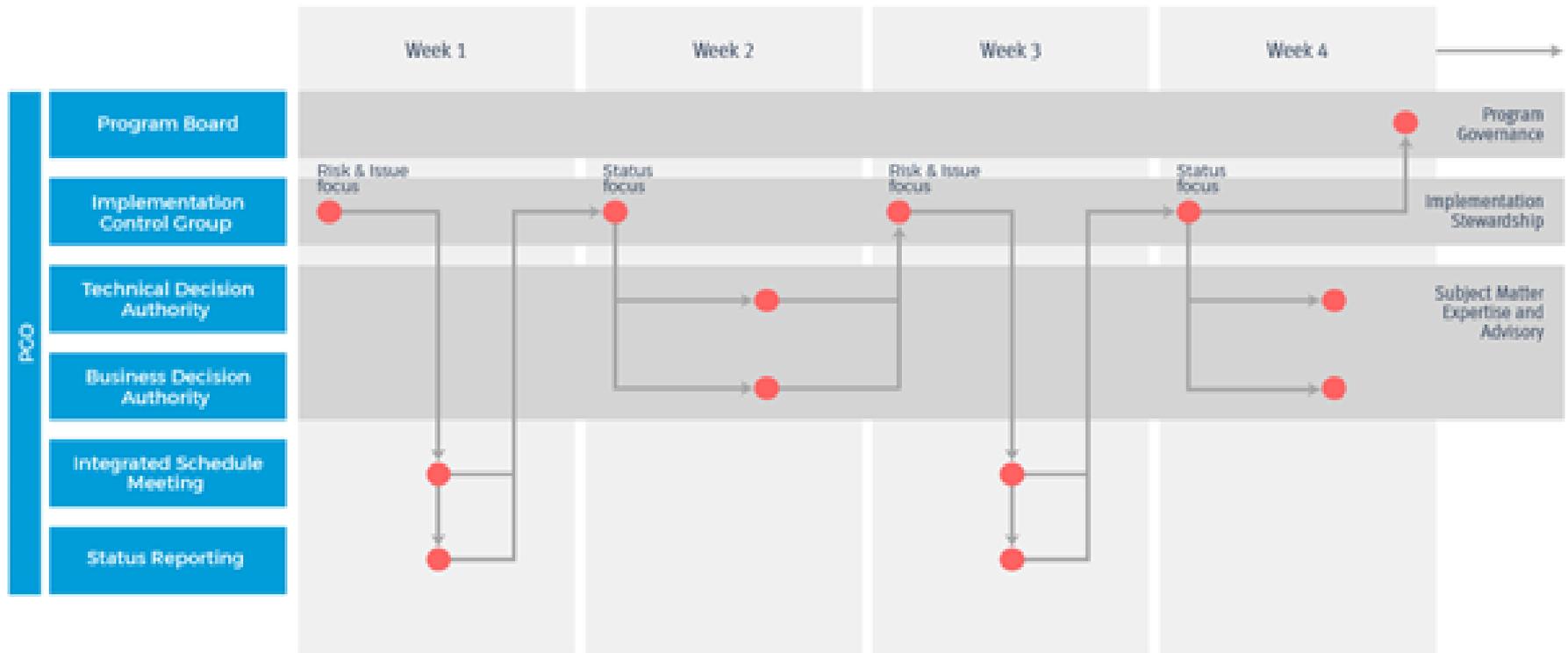
Governance Stewardship

Governance model for first stage of the project was agreed with IRC/QGCIO/Stakeholders and Gartner, and was focused largely on planning, preparation and engagement. Building momentum and confidence.

Stage 2 focus is on execution (specifically: scope, time, cost and risk):



FSR Program Governance Meeting Cycle



Key Engagement

- **Forums** (CFO; CIO; Financial Controllers'; Business Managers'; eHealth ICT)
- **FSR Symposium** Aug 2017 (120 attendees – all areas across State), next **Apr 2018**
- **FSR Roadshow** – an engaging Roadshow event in every HHS and DoH throughout October – December 2017

--- FSR ROADSHOW COMPLETED ---

49 sessions at **23** locations reaching nearly **2,500** staff and travelling **20,493** kilometres



- **Communication** – FSR engages directly with 13,000 staff through targeted communication activities. Communication plans have been developed for every HHS/DoH to guide FSR communication distribution across the state through local HHS/DoH communication channels.
- **Union engagement** – the project has engaged and presented to the Reform Consultative Group (RCG) every month since March 2017. Low key local DCF engagement is commencing this month.
- **Subject Matter Experts** – the project regularly engages with its SME network. The model is currently being reviewed to ensure adequate numbers and skill sets are available to work with the FSR team during this phase.
- **Assurance Partners** – ongoing engagement with QAO/QGCIO/External Gateway Assurance/Architectural Standards Committee. Next area of focus: Internal Audit teams.



FEEDBACK FROM ACROSS THE STATE

“

The project and new system looks very user friendly.

“

Bring it on – can't wait for the new system.

“

Best project communication/roadshow I've seen. Well communicated, clear and defined.

“

Approach takes into account lessons learned from the past which gives me confidence that I will be well trained in this system.

“

User on-boarding is a great innovation.

“

Actually wish I used the system more, your training and support approach looks incredible.



WANT TO KNOW MORE?

FSR PROJECT TEAM

 07 3131 1570

 FSRCommunications@health.qld.gov.au

 <https://qheps.health.qld.gov.au/fsr>

 Search FSR Project on **yammer**

 <https://sharepoint.health.qld.gov.au/mnhhs/fsr-project/>

FSR Project SharePoint



FSR Financial System Renewal Project

Welcome to the FSR Project SharePoint site

Log in using your Novell username and password



IMPROVING HHS SUSTAINABILITY: BEYOND THE “LOW HANGING FRUIT”

Health Sector Forum 2018

Mark Baseley and Sandip Kumar

22 MARCH 2018

Queensland Treasury Corporation

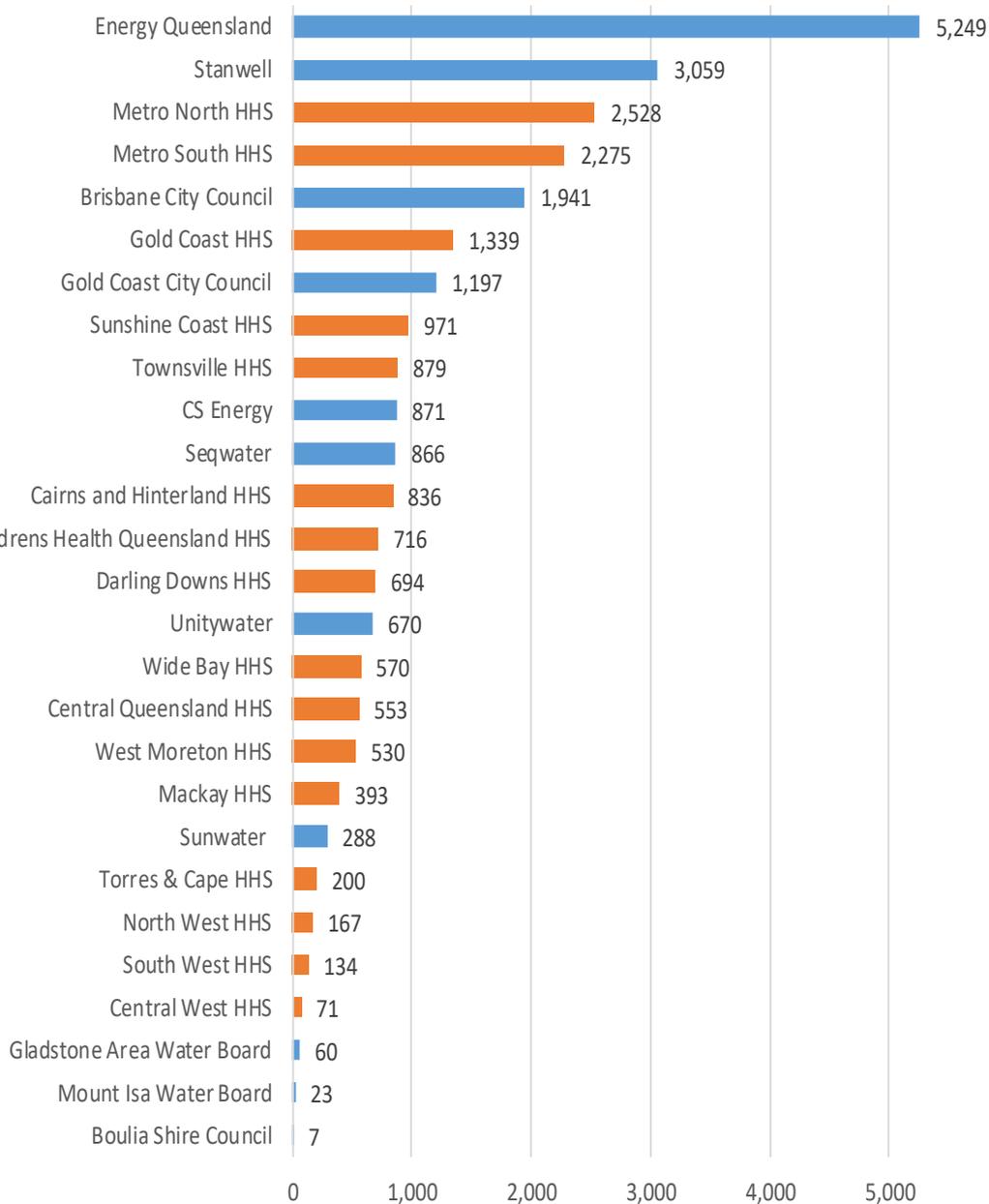
The Government's central financing authority

- Our mission: supporting the State's financial success
 - focused on whole-of-State outcomes
- Provides financial services to the State and its public sector entities, including local government
 - debt funding and management
 - surplus cash management facilities
 - financial risk management advisory services
 - specialist public finance education

We define financial sustainability as:

“... being able to maintain infrastructure and manage services through likely policy changes and unexpected financial shocks without the need for economically significant or socially destabilising revenue or expenditure adjustments.”

FY2017 Operating Revenue (excl. capital grants, abnormal items and non-recurring items), in \$m



Across the State,
Financial
Sustainability is
codified in:

- Acts
- Guidelines
- Regulations.

WHY WE CARE ABOUT HEALTH



16
HHS'



83,700
EMPLOYEES

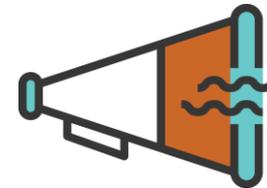


\$16.5bn
FY2018 BUDGET

OR **~30%**
OF QLD'S BUDGET



\$16.6bn
INFRASTRUCTURE
ASSET UARV



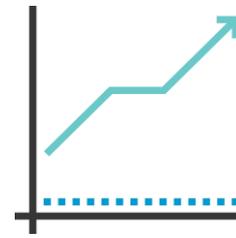
GROWING AT
8% PER
ANNUM

FY2017



10% ACTIVITY
GROWTH
COST
GROWTH **6%**

FY2016



11% ACTIVITY
GROWTH
COST
GROWTH **9%**

Supply Chain Re-Design

Issues

- Multiple supply chains, minimal alignment
- Organic cost growth not actively managed
- Centralised service, but HHS' incur >70% of costs
- Service provision and responsibilities not agreed

What it took

- System Leadership support
- Co-design with system
- Included key stakeholders
- Supported by global supply chain experts
- Realignment of roles and responsibilities
- Maintain focus on care and quality

Full data transparency

SAP4HANA

Centrally managed master catalogue, HSQ recommended improvements

Digital thread

End-to-end performance management



Suppliers
Automated POs on suppliers and minimised GPV use

HSQ forecasting & demand planning

HSQ Supply Chain



FIS vendor pricing renegotiated to rate card

HSQ managed 3PL consolidated inbound supplier deliveries in SYD/MLB



HSQ set network footprint and stocking policies

Collaboration and sharing of supply/demand plans

HSQ/HHS jointly set service levels in imprest, HSQ held accountable

HSQ recommended stocking policies in imprests

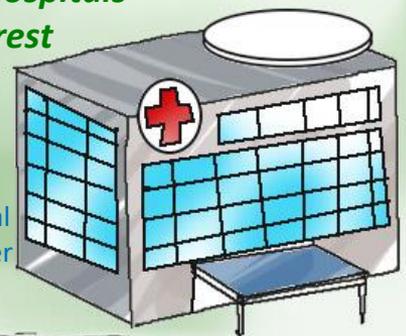
HSQ DCs



HSQ re-purposed warehouses with optimal products mix

Supply, pharma and linen shared capacities

HHS, Hospitals & Imprest



HHS managed imprest with HSQ as optional service provider

Consolidated supplier deliveries in FTL to DCs and renegotiated 3PL rate card

WMS driving lean warehouse operations

HSQ implemented TMS, optimised milk runs, scheduling and fill rates in outbound

Set of best practice tools in imprest with KPIs / targets

Procurement “Rules of Engagement”

Current state

- Increasingly fragmented and inefficient, amidst criticism of central procurement
- Structural deficiencies impeding system realising full potential
- No agreement between HSQ and HHS on roles and responsibilities
- High-level assessment indicates opportunity to realise \$180-\$330m per annum from getting it right

What are we looking at

- Design a future state POM, including realignment of roles and responsibilities between HSQ and HHS'
- Enable QH to benefit from all procurement levers and ensure the system operates from its highest point-of-leverage, taking benefit of its scale
- Establish system-wide policy instruments which oversee the integrity of the future state model.

Establish governance and plan for a co-design of the operating model commencing April 2018



Infrastructure Maintenance Fact Base

- A ~\$600m backlog maintenance liability has accrued
- Misalignment exists between Queensland Health's lifecycle asset philosophy and funding sources, process, overarching policy and governance.
- Fact Base will look at *root causes* of backlog liabilities
- Intended to start a policy discussion re: system options.

Our early lessons learnt

1. Very senior stakeholder support is needed to drive individual initiatives
2. Get support to implement the solution at the outset
3. Bring together the haters, innovators, clinicians and change agents
4. Over-engage
5. Co-designing works: people are excited to design the future

And lastly, some (rhetorical) questions for you

1. How can Queensland Health continually assess and act on systemic opportunities? What are the roles of HHS'?
2. What are HHS' willing to invest to improve the system?
3. As Audit & Risk Committee Chairs, what are the system design issues that you want resolved?
4. How useful would a Financial Sustainability Framework be for HHSs' financial stewards?

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First session close

Charles Strickland
Sector Director, QAO

Q&A

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on our website and emailed
to you when you subscribe
Next edition: 26 March



New fact sheets at www.qao.qld.gov.au/reports-resources

Join us on **LinkedIn** 'Queensland Audit Office'

Establishment of Queensland HHB Finance and Audit Committee (QFAC)

Steve Ralph
Office of Health Statutory Agencies,
Queensland Health

Overview

- HHB Chairs requested establishment of a forum for Chairs of audit and finance prescribed Committees (or equivalents)
- Complements:
 - quarterly HHB Chair Forum
 - biannual HHB Quality, Safety and Risk Committee
 - other HHB conference events
- Recognition several prescribed committees also have an interest in risk

Purpose

- Half day biannual event, supplementing annual QAO briefing
- Promote information sharing / best practice
- Enables prescribed Chairs to request further information on topics of shared interest
- HHB Chair Forum may request information / advice from the group
- Also a platform for stakeholders - QAO / QTC / department etc – to engage with prescribed Chairs on consistent basis

Next steps

- Short discussion paper to HHB Secretariats
- Respective prescribed Chairs invited to feedback thoughts by end April
- Date first meeting TBC, recognising end of year commitments
- Welcome further interest in co-designing first agenda
- Also welcome expressions of interest to Chair inaugural meeting

End of day close

Charles Strickland
Sector Director, QAO

Paul Cooper
ARC Chair, CHQ

ARC Chairs Closed Session
